Food, Inc.

Corporate concentration from farm to consumer

UK FOOD GROUP

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Bill Vorley

UK Food Group
The UK Food Group is a network of non-governmental organisations from a broad range of development, farming, consumer and environment organisations, who share a common concern for global food security. We represent a unique body of expertise and experience, with members drawn from the UK's leading national and international organisations working on food and agriculture issues.

Through raising awareness of global trends in food and agriculture the UK Food Group seeks to promote sustainable and equitable food security policies. The priority areas of action are trade policies, sustainable agriculture and the regulation of food and agriculture transnational corporations, through research, awareness raising, advocacy and facilitating South-North exchanges of experiences.

Also by the UK Food Group is *'Hungry For Power'*, published in 1999, which details the impact of food and agriculture transnationals on food security. It puts the spotlight on the activities of Nestle, Cargill, Monsanto, Chiquita, Zeneca and British American Tobacco – all being charged with undermining food security, revealing the huge control over every part of the food chain, from land to seeds, crops to chemicals, processing to marketing.

Cover images
Villagers cutting sugar cane
Christian Aid/Antonio Olmos

Selecting fair trade produce in the supermarket
Christian Aid/Elaine Duigenan

About the author
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About IIED
Founded in 1971, IIED is an independent, non-profit organisation promoting sustainable patterns of world development through collaborative research, policy studies, networking and knowledge dissemination. IIED works to address global issues such as mining, the paper industry and food systems. Over the last 30 years IIED has earned a worldwide reputation and was the first recipient of the Blue Planet Prize (1992) for outstanding contributions to environmental policy and action. Today IIED comprises a multicultural, multilingual staff of over 60 people from 18 countries and is headquartered in London.

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Glossary

Agrifood – Collection of markets that work to produce and distribute food and agricultural products to the final consumer and which involve production, processing and supply

Arbitrage – Simultaneous purchase of cash commodities or futures in one market against the sale of cash commodities or futures in a different market, to profit from a discrepancy in prices

Below cost selling – Retail price resulting in a negative gross margin

Brand – An identifying mark, image, name or concept which distinguishes a product or service

Category management – The reorganisation of relationships between retailers and manufacturers/suppliers based on closer understandings of the consumer. Often involves a supermarket outsourcing supply chain management to a key supplier – the 'category captain' – who takes responsibility for developing the category's profile to give maximum returns (Dolan and Humphrey, 2000)

Captive supply – A product that is committed to a specific buyer weeks or months prior to being delivered

Commodi – Usually a raw material or primary product that enters into international trade on an exchange or in the cash market

Concentration – A measure of market dominance by a few large firms. Increases in concentration generally reflect declines in the number of competing firms in a market

Corporate Social Responsibility (CSR) – A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis

Cost-price squeeze – The price of essential inputs increasing more rapidly than input productivity or output prices

Demand chain – Corollary to the supply chain, focusing not only on what the company can provide, but on what customers need and will purchase

'Developing' countries – Those nations or countries that have not achieved a significant degree of industrialisation relative to their populations, and which have a low standard of living

Due diligence – A requirement of those engaged in food handling in the food supply chain to be pro-active in their efforts to ensure that food in their possession is safe – that they have taken 'all reasonable precautions and exercised all due diligence' (UK Food Safety Act, 1990)

Fairtrade – An effort to help disadvantaged small producers, usually in the Third World, through better prices, credit at reasonable rates of interest, and longer term direct and stable trading relationships (Thompson, 1999)[1]

Family farm – Farm in which the household makes all the important operating and investment decisions, owns a significant portion of the productive assets and provides a significant amount of the labour required by the farm

Farm-retail spread – Also called marketing spread. The difference between the retail price of a product and the farm value of the ingredients in the product. Includes charges for assembling, storing, processing, transporting, and distributing the products (USDA)

Food security – Food security is achieved when 'All people at all times have both physical and economic access to the basic food they need' (FAO Committee on World Food Security)

Food service – Restaurants, pubs, bars, cafés, hotels, fast food restaurants, convenience food and contract catering for institutional, governmental, or commercial clients

Forward contracting – Agreement between a grower and a buyer – generally a food processing and/or marketing company – that sets a price and determines an outlet for later delivery of a specified quantity of commodity. Can be fixed-price, minimum-price, or reference-price in nature

Futures contract – An agreement between two people, one who sells and agrees to deliver and one who buys and agrees to receive a certain kind, quality, and quantity of product to be delivered at a specified price on a specified future date

Governance – The basic 'rules of the game' that determine behavioural conduct and action – who sets the rules, when, and how (after Mitlin, and UNDP)

Hedging – A strategy used by dealers in commodities to prevent loss due to price fluctuations. The price risk inherent in any cash market position is offset by taking an equal but opposite position in the futures market

Industrialisation – The process by which agriculture and commodity marketing channels become increasingly similar to the manufacturing and service sectors of the economy. In other words specialised large scale capital-intensive operations, state-of-the-art technology, geographic and stage separation of production stages, routinisation of programmable tasks, scheduling of flow to keep plants at full capacity, full integration into the market, and dependence on wage labour under a hierarchical management structure

International Commodity Agreements (ICAs) – Supply control programmes to raise commodity prices by taking crops out of production, or stabilise prices by using buffer stocks. Examples in agriculture include the International Coffee Agreement (1962-1989), the International Cocoa Agreement (1972-1988) and the International Natural Rubber Agreement (1987-1999)

Known Value Item (KVI) – A product which is high profile or well known, where price awareness among consumers may be higher than for most products (UK Competition Commission definition)

Listing fee (= slotting fee) – A lump sum paid by suppliers to retailers for introducing new products to supermarket shelves (USDA definition)

Market power – Ability to profitably set customer prices above competitive levels (seller power) and/or ability to set supplier prices below competitive levels (buyer power)

Monopoly – When a single firm has selling power, and can set prices

Monopsony – The buying side form of monopoly, when a single firm has buying power. Can result in monopsony price distortions, which are lower-than-competitive prices for produce purchased by processors or retailers

OECD – Organisation for Economic Co-operation and Development

Oligopoly – A market dominated by a few producers each of which has some control over the market. Sellers can influence price, and charge buyers a price above the competitive price.

Oligopsony – A market in which there are few buyers, i.e. when several firms have collective buying power

Own-label – Range of products carrying the retailer's label and produced to retailer's specification; typically, but not necessarily, sold at lower price than main brand competition (UK Competition Commission)

Over-riders – Discounts and/or rebates which a supplier pays to a supermarket on achieving certain sales levels

Power – The ability to make decisions and control resources

Predatory pricing – Cutting prices aggressively to force short run losses on existing competitors

Price discovery – The process of determination of market prices through the interactions of buyers and sellers in a free marketplace

Producer Subsidy Equivalent (PSE) – The value of gross transfers from consumers and taxpayers to agricultural producers

Profit – Earnings in excess of a firm's cost of production

Relationship marketing – A strategic orientation adopted by both buyer and seller organisations which represents a commitment to long-term mutual beneficial collaboration (Morris et al., 1998)[2]

Rents – Earnings in excess of a firm's cost of production which are not eroded in the long run by new market entrants (Cox et al., 2002)

Retrospective discount (also know as 'marketing allowance') – Annual lump-sum payment to a supermarket, rather than reduction of product price, to compensate for 'high' supplier profit margins

Spot market – A market in which commodities such as grain are bought and sold for cash and delivered immediately

Structural adjustment – Measures imposed, usually by the World Bank and the International Monetary Fund to try to stabilise a national economy, commonly comprising:
- Raising interest rates
- Increasing tax revenue
- Devaluating domestic currency
- Privatising public enterprises
- Reducing tariffs and promoting exports and free trade
- Reducing government expenditure, including social services

Supply chain – A network of facilities and distribution channels that includes the procurement of materials, production and assembly, and delivery of product or service to the customer (OECD definition)

Supply chain management – The integration of key business processes from end user through original suppliers that provides products, services and information that add value for customers and other stakeholders (Lambert and Cooper, 2000)[3]

Traceability – A framework to track a product between farmer, food producer, food retailer and consumer by means of recorded identifications. Traceability facilitates identity preservation, animal and plant health management, crisis management, specification of product attributes (including standards for 'sustainability), and product recall

Terms of trade – The relative prices of goods and services traded in international markets

Transaction costs – Costs other than the money price that are incurred in trading goods or services

Transnational corporation (TNC) – An enterprise with activities in two or more countries with an ability to influence others (UN definition)

Value added – Output value minus cost of purchased inputs from other industries

Value chain – Defined in this report as how revenues paid by the consumer at each are distributed along each stage of the chain from production through processing to sale (Cox et al., 2002)

Vertical coordination – Harmonisation of the vertical economic stages of production and marketing

Vertical integration – A single firm undertaking successive stages in the chain of a product's production. Activities are complementary when carrying out one activity reduces the cost of doing the other, e.g. by improving standardisation of production at each stage of the production process

Wet market – Fresh markets for produce in central squares or streets

Zero sum game – Situation or interaction in which one participant's gains result only from another's equivalent losses

Exchange rates

	EUR	US $	UK £
EUR	1	0.8518	1.419
US $	1.174	1	1.666
UK £	0.7047	0.6002	1

Foreword

A recent report on poverty in the American agricultural heartland began with a quote from the Bible: *'A poor man's field may produce abundant food, but injustice sweeps it away.'*[4] This is an enduring principle. Two and a half billion people worldwide, mostly in 'developing' countries, depend on agriculture, and most of them are poor. The food chain as a whole is very profitable. But *terms of trade* for primary producers have declined, the gap between producer prices and retail prices has grown, and family-scale farmers are finding themselves excluded from higher value markets, in both the industrialised and developing world.

Growing concentration in the industries that trade, process, manufacture and sell our food is implicated. But what impact is corporate concentration really having, relative to other distortions of global markets? And what can producers, governments, businesses and civil society do to address the issue and reverse the marginalisation of family farming?

This report aims to build a contemporary and rigorous picture of the links – theoretical and practical – between corporate concentration and the livelihoods of agricultural producers and workers in both 'developing' and industrialised nations. It also points to policies which can ensure more equitable trading relationships. It uses a commodity chain approach – a focus on production and marketing networks across national boundaries, and their governance by key economic agents – and builds on scoping research for the UK Food Group by Liz Orton.[5]

A twin report from Oxfam America – *Agriculture*, Inc: *Small Farmers Ploughed Under by Big Business* – written by Sophia Murphy of the Institute for Agriculture and Trade Policy, will be published shortly, and provides a complementary analysis from a North American as well as global perspective.

Much thinking on this issue has already been done, often at the margins of economics and social science. There are excellent 'observatories' of agribusiness news, mergers and acquisitions, especially in the United States, and I strongly encourage the reader to review the 'Resources and Further Reading' section in Chapter 12.

My job has been to bring these disparate elements together and to weigh the relative importance of private action and public policies for producer welfare, while understanding the linkages between the two.

For selected commodities, 'bottleneck' graphics[6] are used to illustrate concentration in chains between producers and consumers. These graphics should be interpreted with some caution; as explained in Chapter 2, extreme concentration at one link in the chain does not always mean power to extract large profits from the chain. References are listed in Chapter 12, unless spelled out in the endnotes. Technical terms used are defined in the glossary.

The report does not focus on industrial concentration 'upstream' of the farmer – among the manufacturers of pesticides, fertilisers and machinery, seed companies, lenders and landowners. I have left the issues of corporate patenting of biodiversity and genetics and concentration in farm inputs to other excellent analyses, such as those of the ETC Group (www.etcgroup.org), GRAIN (www.grain.org) and the Pesticide Action Network (e.g. www.pan-uk.org). Furthermore, I have focused on traded cash products, rather than on those produced for local consumption. In the case of bananas, for example, that means a focus on the 20% of bananas that are traded internationally. Cash crops are, of course, still highly important for food security. Lastly, the report is largely restricted to mainstream food chains rather than alternative trading networks.

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I welcome readers' comments.
Bill Vorley, October 2003

Summary

Over half of the population in the developing world is rural and 2.5 billion people worldwide depend on agriculture for their livelihoods. Although the food chain as a whole is very profitable, the terms of trade for primary producers have declined, the gap between producer prices and retail prices has grown, and family-scale farmers are finding themselves excluded from higher value markets and facing livelihood crisis.

The roots of low farm prices lie in oversupply. This is driven not just by subsidies and 'dumping' of surplus products on world markets, but also by a complex interplay of trade liberalisation and intense global competition; deregulation and the end of international commodity agreements; new technology; reduced transportation costs; debt; lack of alternatives; and, last but not least, market power concentrated in the hands of powerful buyers in the trading, processing and retailing industries. These combine to ensure that in many agricultural commodity markets, price no longer regulates production. Producers, whether of bananas or milk, coffee or pigs, are faced with 'immiserising growth', which means they must produce more but earn less. This is not only the trend in commodity exports from the developing world, such as coffee, but is also felt keenly by suppliers to domestic markets worldwide.

The marginalisation of agriculture is a profound threat to sustainable development. Many see agriculture as the means to reduce poverty and to deliver multiple benefits such as preserving a rich diversity of cultures, wildlife and landscapes. If the economic tide of the food system continues to slide away from farming, then those expectations will not be met.

Much attention has been focused on market distortions caused by protectionist trade policies. But even if unjust trade rules were to be reformed, disparities in bargaining power, scale, market access, information or access to credit may still entrench anti-poor and anti-rural bias in markets. Coffee growers continue to face a market in which three companies account for 45% of roasting activities. Four companies control 40% of cocoa grinding, while in soy and livestock the same three companies have the lion's share of crushing and feed production along the entire chain from South America to Europe. Most significantly, producers and processors face a global supermarket sector where the top 30 companies account for around one third of grocery sales. Nationally the top five supermarkets often account for 70% or more of grocery sales.

Why does it matter that so few companies control such a large proportion of the world's food production, processing and retailing chain? The key issue is the trend towards vertical coordination of agrifood chains, whereby key agents such as a food processor or retailer sets the 'rules of the game' for participating in the chains.

Vertical coordination gives great power to those firms coordinating the particular commodity chain. This power can override market-based transactions, with big implications for pricing and the wholesale market. Vertical coordination also creates 'insiders' and 'outsiders'. The suppliers who have deep enough pockets, low enough costs and the right kind of technology to meet rapidly changing requirements in volumes, standards and new product development can benefit as 'insiders'. Their environmental and social performance credentials may also be higher than average because they have the capital and economies of scale to invest in such practices. The majority of smaller and family-scale enterprises (the 'outsiders') are left as residual suppliers to bulk commodity or wholesale markets, at a time of reduced state support in the form of safety nets.

Supply chains are developing in such a way that a large number of competitive and relatively powerless suppliers face a few large buyers. Farmers are playing to the rules of perfect competition while their customers are part of a complex monopoly. The savings that food processors and retailers accrue from paying suppliers below competitive levels are often passed on to consumers to gain market share. Value is thus transferred (1) from producers and rural areas to consumers and urban areas, and (2) from commodity producing countries in the 'developing world' to consuming countries in the industrialised world.

Growth of supermarkets and the 'modernisation' of the retail sector often proceed under the radar of public policy, with very little government influence or support. And yet these developments can have profound impacts on the structure of domestic agriculture and food processing, and these patterns are moving into mid- and low income countries.

Some examples from selected commodities are as follows:

Cereals and oilseed have virtually no retail demand and are sold as inputs to industrial processes that yield livestock feed, bread and sweeteners. Trading and processing (crushing, milling) are highly concentrated, with Cargill and ADM alone reputed to control around three-quarters of global cereals trade, while Bunge, ADM, Cargill and Dreyfus dominate oilseed trading and crushing. The presence of all these Big Four companies in both North and South America allows them to balance their global presence to profit from whatever differences in price, demand, subsidy, tax breaks, labour or environmental standards exist between regions. Corporate concentration is now one of the main concerns of American farmers. Despite this level of concentration, the wheat-flour-bread chain in the UK has slim profit margins due to a tradition of below-cost or at-cost selling by supermarkets.

Sugar production and processing plays a key role in the economies of least developed countries such as Swaziland and Mozambique. World prices have been declining since peaks in the mid-70s and early 80s, fuelled by over-supply in part due to protectionist sugar regimes in the EU and US. As with soy, the major sugar traders are highly integrated, controlling both production and processing. The Big Three in global sugar trading and refining are Cargill, Dreyfus and Tate & Lyle.

Coffee and cocoa Coffee has stirred up the greatest controversy in the current round of concern about commodity prices. Roughly half of the world's coffee supply comes from small farms with less than five hectares in coffee production. Low prices are driving poverty, ill-health, unemployment, lack of education and forced migration, and a risk of increasing diversification into proscribed crops such as coca or illegal logging. The balance of power in the coffee chain has shifted dramatically in favour of commercial interests in the industrialised world, with only around 10% of retail value retained in producing countries. Trading is quite concentrated, with four companies controlling around 40% of global trade, but without countervailing power against the roasters in an oversupplied buyers' market. Coffee is a roaster-driven chain – the big coffee roasting companies, Nestlé, Kraft, Procter & Gamble and Sara Lee/Douwe Egberts, through their control of 45% of the global market, are big enough to provide price leadership. Speciality coffee (10% of worldwide production) represents a transition of part of the market from bulk commodity to a buyer-driven chain. Cocoa is also strongly linked to poverty – 14 million workers are involved in its production, over 10 million in Africa. As with coffee, the 'developing' country contribution to value-added in the cocoa sector has halved to around 28% over the past 30 years. Market liberalisation has provided opportunities for coffee and cocoa exporters to connect directly with world markets, but the withdrawal of governments from centralised price setting and marketing has caused finances for small operators to dry up, and exposed farmers directly to extreme market volatility and the hard bargaining power of commodity buyers.

Dairy is another market skewed by subsidies, but the relative importance of subsidised exports is declining, and non-subsidised exporters such as New Zealand, Australia, Argentina and Uruguay are becoming more important global players. Dairy giants such as Nestlé, Danone and Parmalat are moving to where growth in consumption provides growth opportunities; some dairy processors have got out of the commodity processing business and shifted into branded value added products. The case of Brazil is illustrative of the global trends in the sector. Deregulation of the dairy market in Brazil saw the large dairy cooperatives sold to multinationals, and the retailing of milk has shifted rapidly into supermarkets. As a result of higher price competition, dairy companies have consolidated their supply bases to reduce transaction costs. Nestlé alone shed 75% of its list of supplier farmers between 1997 and 2000. Standards instituted by leading processors, such as the adoption of refrigeration tanks at farm level, immediately pushed half of Brazilian milk producers out of the leading companies' supply system. Downward pressure on processors' margins from deregulatrion and increased supermarket purchasing power is also very apparent in the UK, exacerbated by a supermarket tradition of below-cost selling. Fragmentation at the farm level amidst consolidation in milk processing has placed dairy farmers in a weak and vulnerable position.

Poultry and pork production is rapidly industrialising, with 'developing' countries following the same trends as North America and Europe. A few vertically integrated agribusinesses such as the Charoen Pokphand and San Miguel groups in SE Asia combine breeding, feed supply, production on own farms and contracted production with independent growers, as well as processing and marketing for retail and food service sectors. Impacts on rural

Summary

livelihoods, the rural and peri-urban environment and the welfare of workers in meat processing.

Bananas are traded in a classic oligopoly. A small number of vertically integrated transnational corporations – Chiquita, Dole, Del Monte Fresh Produce, Noboa and Fyffes – dominate international banana marketing and trade, and these companies are able to exercise their market power at several or all the stages of the banana marketing chain. Although these multinationals are vertically integrated in sourcing, shipping, ripening, packing and distribution, they are moving away from direct ownership of production. As with other commodities, preferred-supplier arrangements are now the norm, with contracts specifying standards for quality, packaging etc. Only around 12% of revenues from banana retail sales remain in producing countries, despite the very limited amount of product transformation outside of the farm or plantation. The dominance of retailers has had an increasing influence over the structure and distribution of value along the banana chain. The shift of profits up the chain has been dramatic over the last decade, and the transnationals' margins on bananas are now very slim. Forty percent of retail value may stay with the supermarket even though this is the least demanding part of the chain. Lower prices for supermarket suppliers are felt keenly in exporting countries, making it impossible for growers and labourers to be paid legal minimum wages. International buyers are in effect obliging all banana-exporting countries to reproduce Ecuador's poor labour and environmental conditions

Fresh fruits and vegetables, like pork and poultry, have little state interference in production and markets, a prevalence of contract growing, and strong retail governance which has restructured supply chains and has had major impacts on horticulture export industries in the tropics. The sector is one area where 'developing' countries have been able to engage in global markets. However, returns are highly concentrated at the end of the chain in the importing countries.

Equity and fairness in trading relationships is required to create a 'level playing field' for the world's farmers, farm workers and rural communities and reverse the marginalisation of farming and rural areas. But agricultural trade reform alone is not enough. Changes are also needed in other areas, including public and private sector policy:

1. Re-evaluation of international supply management. Although international commodity agreements have not necessarily secured a balance between supply and demand at fair prices, it is time to refocus global commodity supply management on the concept of sustainable development. Considering the very different objectives of the chain actors, and the retreat of the state from commodity markets, this will require new thinking by producing and consuming states, farmers' associations and the private sector in both producing and consuming countries.

2. Global competition policy. Economic globalisation has made it necessary to improve world governance on questions of monopoly and competition, but no international competition standards exist to regulate corporate activity from one continent to another. The development of a WTO Competition Law Framework is headed in a very different direction: simplification of regulation across national boundaries to facilitate transnational commerce and market access for goods and services from the industrialised world. There is heated debate as to whether the WTO is the right forum to address global competition issues. ActionAid have proposed the establishment of an independent international body to manage anti-competitive behaviour by companies. Considering how much of agrifood trade, processing and retailing is in the hands of a small number of corporations, it would also be important to include a monitoring facility in such an agency. In this way it could take on some of the roles of the extinct UN Centre for Transnational Corporations, which has only partly been superseded by the UN 'Global Compact' and the OECD guidelines for multinational corporations.

3. New approaches to national competition policy which address buyer power. Buyer power undermines justice and fairness in the supply chain, and the traditional competition policy focusing on seller power and consumer welfare is inadequate. Buyer power needs to be examined in the development of national competition policy on its own terms. The concepts of distributive and procedural justice – how the costs and benefits are divided between trading partners, and procedures and policies in that trading relationship – are central to this process.

4. Corporate leadership in mainstreaming fair trade. Retailers need to think of themselves as gatekeepers to the food system, rather than simply as 'grocers'. They have not really woken up to the growing pressures on their businesses to deal with their supply chains with fairness and justice. Food manufacturers and retailers can lead the way by applying fair trade concepts to all of their trade with 'developing' countries, and expanding them to trade with industrialised world producers of fresh produce, meat, dairy etc. as a corporate standard. In this way consumers can be assured that their purchases have not contributed to the exploitation of producers and workers. A cornerstone of fairness in trading is improved access for small and family farmers to buyer-driven chains, achieved in part through the involvement of producers in the development of non-discriminatory standards.

5. Civil society and ethical investor activism. Corporate concentration has its advantages; the huge firms are large targets for concerted civil society and shareholder activism, or consumer boycotts. Sustainability – including fairness and justice for farmers, workers and suppliers – can be made a competitive issue. Options for activists include either drawing attention to best performers, or constructing league tables and 'naming and shaming' companies with a history of poor performance. Concerted civil society advocacy depends on reliable information, not only on ownership but on the food systems 'clusters' which can lead to non-competitive behaviour between transnational firms.

Chapter 1
Setting the scene: the crisis in primary production

Why are farmers being paid so little for what they produce? And why are low producer prices not being passed on to consumers? These questions are being asked in industrialised countries where farmers comprise only a few percent of the population, as well as in 'developing' countries, where agriculture is the main employer and export earner.

These questions are central to the quest for sustainable development. Agriculture as a sector is expected to provide a whole range of economic, social, and environmental services. If the economic tide of the food system continues to slide away from farming, then the expectations of agriculture as a means to reduce poverty and to deliver multiple benefits such as preserving a rich diversity of cultures, wildlife and landscapes, will not be met. Addressing the causes of economic marginalisation is key to building the resilience of agriculture and rural communities.

The first step is to understand what's happening in primary food production – on the farms, plantations and smallholdings around the world.

The dynamics of agricultural change: three rural worlds
More than half of the population in the developing world is rural. Globally 1.3 billion people work in agriculture and 2.5 billion people depend on the sector, and most of them are poor.

However, there is increasing differentiation among those involved in agriculture in both the industrialised and developing world (Box 1.1).[7]

The large farmers and entrepreneurs of **Rural World 1** are numerically a minority. Yet they are connected into the global food economy through contracts with a rapidly consolidating agricultural handling and processing industry, and even directly with food retailers. Consequently these farmers have become a vital part of agribusiness, and the lines between Rural World 1 and agribusiness are becoming increasingly blurred. Only the most capitalised and tightly managed enterprises can meet the strict standards imposed by importing nations or processing and retail sectors.

Rural World 2 comprises the family farmers and landed peasantry who have traditionally constituted the bedrock of the rural economy, from India to the American prairies. But it is characterised by low levels of capitalisation, poor integration with downstream food businesses and other factors, such as lack of information and assets. These factors leave this sector exposed when government withdraws from agriculture and when agricultural trade is liberalised, or when agribusiness concentrates market power (and hence profits) off the farm. Undermined by a cost-price squeeze, Rural World 2 faces declining returns and increased risks from agricultural commodity production. Juggling a number of agricultural and non-agricultural income-earning activities has become the norm as households 'attempt to compensate for the high risks associated with agricultural price decline, output fluctuations and lack of access to land or credit' (Bryceson et al., 2000). This is an ageing population whose children are unlikely to succeed them. Niche marketing such as agritourism, organics and local markets has provided viable alternatives to a minority of Rural World 2, mainly in industrialised countries.

Box 1.1
The Three 'Rural Worlds'

Rural 1 Globally competitive
- Part of consolidated supply chains – high level of collaboration with processors and retailers

Rural 2 Shrinking middle
- Local orientation, landowners
  Residual suppliers to wholesale or bulk commodity markets
- Undercapitalised, declining terms of trade

Rural 3 Fragile livelihoods
- Limited access to productive resources
- Multi-occupational migrants straddling rural and urban residencies
- Unskilled and uneducated, dependent on low-waged, casual family labour
- Not involved in global food and fibre production

(after work by Bill Reimer in Canada and David R. Davila Villers in Mexico)

Anyone who has spent some time working in rural areas in both developing and industrialised countries cannot help but be struck by the similar fates of Rural World 2, regardless of where they live. What peasants and family farmers have in common looks increasingly more consequential than what separates them (i.e., that developing country 'peasants' have a degree of subsistence, while farmers in industrialised countries market most or all of their production and are supported with heavy public investment) (Box 1.2).

Box 1.2
Common Features of Rural World 2 in Developing and Industrialised Countries

1. Declining terms of trade for primary producers
2. Low level of capitalisation
3. Economic subordination to (and mediation of production by) agribusiness
4. Political subordination in state and market relations
5. Exposure to risk and uncertainty through external market fluctuation and global competition (often of subsidised exports)
6. Reliance on income sources outside of farming; multiple, diversified livelihood strategies
7. Resilience of family- and community-centred ideologies

Rural World 3 is the struggling underclass that includes almost four-fifths of the world's hungry. The households of Rural World 3 focus mainly on survival, with livelihoods fractured into mixtures of off-farm work, farm labour (often for Rural World 1), temporary migration and subsistence agriculture. This group may be prevented from joining the formal urban economy by lack of education, training and access to regular employment opportunities. They are generally excluded from the key arenas of power and policy-making, despite the rhetoric in the World Bank and government agencies of 'pro-poor' development.

Immiserising growth
Exposure of these poorly capitalised farmers to wild fluctuations in market prices and to global competition (often in an unfair market awash with subsidised exports), especially surges of cheap imports, is pushing both peasants and family farmers into poverty, migration, and fractured livelihoods.

For the millions of farmers who produce agricultural commodities, the crisis is one of rock-bottom prices and oversupply. The price index of commodities declined by 47% between 1982 and 2001.[8] Real prices for key agricultural commodities are currently near 30-year lows after a long decline since the mid-70s. The World Bank predicts stagnating real prices for tea, coffee, cocoa, bananas and sugar at least until 2010, and gradual declines over the same period for coconut, palm and soybeans. Robbins (2003) calculates that had the prices for the top ten tropical commodities risen in line with inflation from 1980 to 2002, suppliers of these goods would have received US$243 billion more than their actual receipts – five times the total world aid budget. The downturn has been particularly severe for coffee (see Chapter 6). And in sugar alone, exporters to the global market lost US$1.8 billion due to falling prices in the period 1998-2002 (see Chapter 5). Prolonged commodity price depression is also having an adverse effect on the food security of some developing countries and communities.

The recent history of immiserising growth – producing more and earning less – is not just a problem for farmers and workers in the developing world. In the UK, farming has seen a massive slump in income since 1995 (Table 1.1), and is emerging from its lowest point for 60 years.[9] For the year ending June 2001, the average 200 ha UK farm made £2,500 from agriculture.[10] Farmers have been working an average 70-hour week,[11] and non-farm activities are increasingly subsidising food production.[12] UK farming is contracting, demoralised and ageing.[13] Mid-sized professional farmers (Rural World 2) are suffering the most, being tied to the land with reduced chances of taking off-farm work. The crisis has spread across all sectors – cereals, dairy, egg and poultry, livestock and horticulture. The knock-on effects of a crisis in farming, on rural employment, landscape, biodiversity, soil health and tourism – especially in marginal areas with high amenity value – are considerable. The National Farmers Union recently warned (June 02) of growing problems affecting Britain's farming industry which could force thousands to leave the land, with low incomes, job losses and poor prices leading to a new crisis in agriculture. Rural World 2 feels trapped by influences outside its control, facing a future of world prices with which they can just survive but rarely profit.

(Indices Av 1994/95–1996/97 = 100
(source: DEFRA)

Table 1.1.
Net farm income by type of farm, England and Wales in real terms

	1994/97	2000/01	2001/02
Dairy	100	30	59
Cattle & sheep (upland)	100	34	30
Cattle & sheep (lowland)	100	–	–
Cereals	100	13	10
General cropping	100	24	23
Pigs & poultry	100	65	36
Mixed	100	61	50
All types (ex horticulture)	100	22	29

France lost half of its farmers between three censuses (1982, 1990, 1999). In Germany, farmer numbers declined by a quarter in the past decade alone. In the United States (which lost 4.2 million farmers between 1935 and 1997) and Canada, there are also many indications of economic problems at the heart of agriculture. For example, a recent survey by the Centre for Rural Affairs of agriculturally based counties in the six-state region of Iowa, Kansas, Minnesota, Nebraska, North Dakota and South Dakota paints a picture of population decline, deeper and more widespread poverty, persistent low income and earnings and reliance on state benefits, relative to metropolitan counties (Bailey and Preston, 2003). In Canada, net farm income has fallen to 1930s levels for grain producers, an unprecedented situation in times of general economic prosperity and stability (NFU, 2000). In the Philippines, 1.2 million jobs in agriculture were lost between July 1999 and July 2000.[14] In Mexico, 4-5 million of the country's eight million farmers are 'deciding that their only option is to cross into the United States'.[15] And in China, more than half of the rural population has been uprooted in the past two decades.[16]

Farm labour: Rural World 3 and agribusiness
The economies of Rural Worlds 1 and 3 appear to be completely separate, but they do come face to face in the apple orchards of Washington State, the strawberry fields of California and the tomato fields of southern Spain.[17]

Agrifood from farm to supermarket depends on bargain basement labour, as described in the book *Women Working the NAFTA Food Chain* (Brandt, 1999). But much of this labour force is hidden from the consumer's view, until scandal or tragedy makes it briefly visible.[18] The agri-industrial heartlands of the industrialised world are harbouring a new rural underclass exposed to some of the most egregious human rights abuses, amid poor local communities struggling to deal with even poorer migrant labourers and their families. In the UK, agriculture employs some 64,000 casual workers a year, and food processing employs many more. The BBC programme *File On 4* recently reported[19] that Chinese 'Snakehead' gangsters have been bringing in large numbers of illegal labourers from rural China to the fields and packinghouses of eastern England. Some will have paid up to £20,000 for the promise of work in the UK, where they earn as little as £2 an hour.

In California about 800,000 people are employed as farm labourers during the course of an average year. Most are of foreign origin and half are estimated to be undocumented. Whilst the majority are Spanish-speaking Mexicans, there are increasing numbers of indigenous workers from southern Mexico and Central American countries who speak neither Spanish nor English and who are particularly vulnerable to racial discrimination at work and in local communities.[20] The composition of the current farm labour force is affected by two countervailing trends – the rapidly escalating cost of migration and the erosion of wages and working conditions in US farm work as labour surpluses continue.[21]

In meat processing, there are also social problems caused by the recruitment of migrant workers to fill jobs in an industry where real wages have fallen dramatically. Such problems occur from De Queen in southwest Arkansas,

which has become 50% Hispanic in the past five years, to Greeley Colorado, where ConAgra's meat packing plant was described by Eric Schlosser (2001) in his book *Fast Food Nation.*

Interpreting trends in agrifood
The decline in agriculture is such that there is now an emerging consensus in rural development circles that agriculture is an industry which can no longer be relied upon as an engine of the rural economy. Many feel that farmers need programmes to help them through the 'transition' out of agriculture. But before we give up on small- and medium-scale farming as a viable economic entity, we should re-examine the drivers of agricultural decline.

How is this decline in agriculture's role in the rural economy best explained?
1. As a crisis of *production*, which requires a new Green Revolution?
2. As a crisis in the *terms of trade* for commodity exports, which requires diversification, new International Commodity Agreements and risk-management strategies for smallholders?
3. As a crisis of *trade justice*, in which farmers in the developing world are held back by double standards in trade policy, requiring the opening of markets and an end to cheap subsidised commodities overflowing from the industrialised world?
4. As a crisis of *corporate concentration*, in which the excessive grip of a few transnational corporations (TNCs) on the food system must be weakened to reverse the widening divide between farm prices and consumer prices?

Let's look at these more closely.

The production crisis is of course locally important and is a mantra of input agribusiness. But undersupply is much less of a problem than those in the business-science lobby who see it as their role to 'feed the world' would have us believe. Complacency about global food supply would be dangerous. But the World Bank's latest World Development Report (2003) concedes 'food will continue to be abundant at a reasonable price for those people with the income to purchase it.' Even if the rapid increase in meat consumption in China continues and spreads to India, simulations show that the balance of world food supply and demand should not be significantly altered.

Trade justice is now central to development debates that swirl around Geneva, Brussels and Washington DC on the impact of market distortions caused by the industrialised world's agricultural and trade policy. The greatest concerns about markets from a developmental perspective include:

- market access (high tariffs, especially for processed products)
- non-tariff barriers to trade, such as sanitary standards
- producer subsidies, provided by industrialised countries to sectors in which the developing countries have comparative advantage (e.g. sugar and cotton)
- dumping of subsidised produce (e.g. milk powder, meat, sugar) onto world markets.

Also, declining terms of trade in commodity markets for developing countries dependent on their exports are drawing much attention, epitomised by the coffee crisis.

But globally, concern is emerging that concentration of economic power by industries along the chains between primary producers and consumers – the traders, processors, and retailers – is also affecting the profitability and livelihoods of primary producers and workers. This was underscored by a milestone statement on industrial concentration in the agrifood sector issued by the International Federation of Agricultural Producers (IFAP) in May 2002,[22] which starts:

Much attention has rightly been drawn to the distortions caused by certain types of government policies. However, relatively little attention has been paid to the market distortions caused by the high level of concentration in the input and distribution side of the agri-food system. Yet it is clear that the domination of a few large firms both upstream and downstream of the farming sector can significantly affect market conditions.

This is echoed in the report of the FAO Panel of Eminent Experts on Ethics in Food and Agriculture (2000)[23] which noted that *'there are serious power imbalances arising from the concentration of economic power in the hands of a few.'*

Corporate concentration as a driver of crisis in primary production is a resurgent and emotive issue. Realising that they have been left out of the enormous growth in the value of what they sell, US farmers now view concentration in agribusiness as their single largest problem (Levins, cited

in Murphy, 2002). The work of Heffernan and Hendrickson at the University of Missouri (see Chapter 12) has pointed to huge disparities in power between farmers and networks of downstream traders, processors and retailers. Farmer protests specifically directed at supermarkets have taken place in recent years in the UK, France, Ireland, Netherlands, Switzerland and Spain, in a marked departure from typical action aimed at the seats of public political power. A widening gap between farmgate price and prices on the supermarket shelves has often been the spark. The majority of beef producers across the US, for example, agrees that they continue to suffer from low market prices while packer-processor and retail margins have steadily increased to record levels.

Then there is the example of coffee in the 'developing' world. Retail prices for coffee have remained stable, despite producer prices dropping to less than one-third of their 1960 level. This has fuelled accusations of flagrant profiteering from the impoverishment of millions of smallholders. According to a recent UN Commission on Trade and Development (UNCTAD) round table, annual export earnings of coffee-producing countries in the early 1990s were US$10–12 billion and global retail sales about $30 billion. Now, retail sales exceed $70 billion, but coffee-producing countries receive only $5.5 billion.[24]

A World Bank report (Morisset, 1997) estimated that divergence between producer and consumer prices may have cost commodity-exporting countries more than $100 billion a year, and suggests that *imperfect competition* at

the intermediary level – the international trading companies – is a key factor. UNCTAD also points to a widening gap between world prices for agricultural goods and retail prices, which has accelerated since the 1980s. The margin is greater in countries with greater degrees of corporate concentration, and the higher retail price cannot be attributed to downstream business costs.[25]

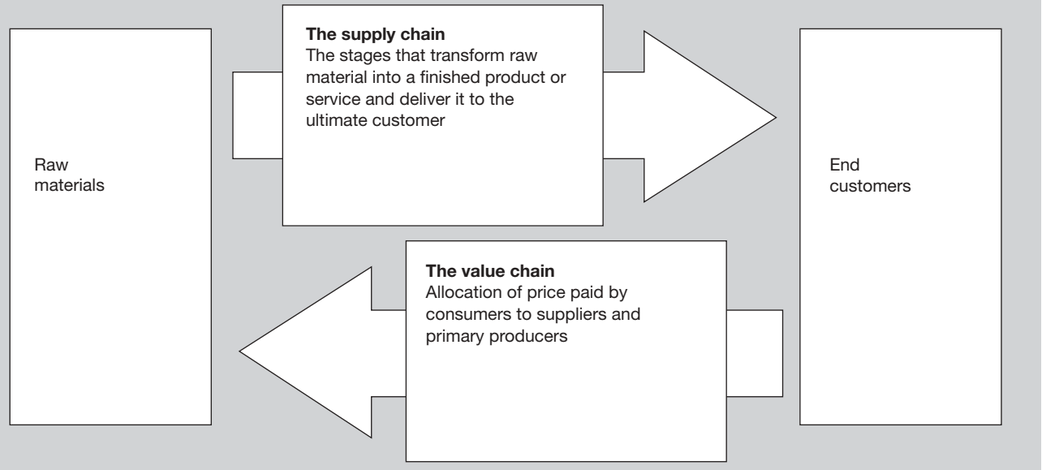
To answer the question posed above, all four crises are undermining the role of agriculture in promoting healthy and viable rural economies, but it is the fourth crisis, corporate concentration, which is underreported even though it can contribute to the other three crises, by driving a wedge between farmers and fair prices. The dominance of a handful of nothern-based agri-food firms is making it difficult for commodity dependent developing countries to enter global markets and move up the value-added ladder, reinforcing the cycle of dependency, economic stagnation and extreme poverty.

This report is an attempt to explore corporate concentration between the farmer and consumer. The characteristics of transnational commerce in agrifood mean that it is important to track the role of corporations across borders and across different stages of food production, processing and retailing. Commodity chain analysis (or *value chain* analysis – see Box 1.3) provides a useful organising tool. To understand farm livelihoods, we have to get inside the logic of other players along the chain – perhaps a supermarket on the other side of the world. The report studies a number of global commodity chains for characteristics of corporate concentration, imperfect competition, and new forms of organisation, with a view to identifying opportunities for small and family-scale agriculture.

Box 1.3.
The value chain

The concept of the value chain was used by Michael Porter [26]to describe the flow of value within a firm to help identify functions that add value or subtract value. In their analysis of supply chains and market power, Andrew Cox and colleagues at the Birmingham Business School, however, use the concept to describe the *'distribution of revenues from the ultimate consumer at each of the functional stages of the chain'* (Figure 1.2) and the *'nature of competition for the revenues at each stage of the chain.'* (Cox et al., 2002). This definition is helpful in analysing the interplay between power and profit along agrifood chains.

Supply chains and value chains (Adapted from Cox et al., 2002)



Chapter 2
Supply chains, power and price

I have sometimes thought that the shortest possible economic history of US agriculture would be this: non-farmers learning how to make money from farming.
Prof. Richard Levins, University of Minnesota.[27]

We saw in Chapter 1 that there is a growing gap between production price and retail price. So along agrifood chains there must be individuals or companies 'downstream' of farmers who are earning greater profits than would be expected from an open, competitive market. This expression of *buyer power* applies as much to coffee from Peru as to carrots from Lincolnshire. And the exercise of buyer power is not only a means of extracting value from the agrifood chain; it is also central to corporate strategies to manage risk, and even to implement *'corporate social responsibility'.*

In understanding the role of power and its influence on producers, it is important to distinguish between two diverging streams in the development of agrifood markets – bulk commodity chains and buyer-driven chains – with different forms of corporate influence on producers and different implications for Rural Worlds 1-3.[28]

Bulk commodity chains
Bulk commodity chains are the traditional agrifood chains, and deal in undifferentiated commodities, such as wheat, soy, coffee, cocoa, and sugar. Marketing is at arms-length at central *spot markets,* and price determines when and where the product moves. Commodity systems are based on anonymity and standardisation, which keep information flow between trading partners to an absolute minimum.

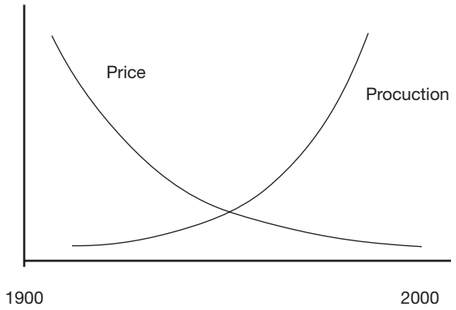
The advantage of bulk commodity chains has been the great flexibility they provide processors: commodities can be bought quickly and at low cost using supply chains that exhibit well established trade practices, and they can be substituted or mixed based on universal grades and standards.

However, signals cannot be sent from consumers (or more accurately, the processor or retailer) to producers. Bulk commodity markets are also characterised by instability, structural oversupply, stiff global competition, historic downward price trends and declining terms of trade for producing countries and regions. The prices of major commodities such as coffee, sugar, wheat, soy, processing tomatoes, milk and pork, as well as minerals and metals, are influenced by global interactions of supply and demand with underlying drivers of climate, global economic activity and national debt, as well as political force in the negotiation of trade agreements. Privatisation and liberalisation of commodity exports, such as cocoa, in producer countries, makes it more difficult for countries to control the flow of exports and thus influence world prices. Volatile markets encourage *futures* trading, which magnifies volatility. For instance, the volume of futures trade for cocoa is ten times greater than world cocoa production; for each bushel of wheat produced by US farmers in 2000, 16 bushels were traded on commodity exchanges; and for soybeans one bushel was produced for every 31 traded.[29] Some observers, however, argue that speculator-induced volatility in futures is an occasional occurrence, and not a systemic problem that prevails most of the time. This is because 40 to 70% of transactions are closed on the same day they are initiated, which has no impact on day-to-day prices.

Prices of upstream manufactured inputs such as fertiliser and the value of land adjust to the extent that producers usually don't benefit from commodity price booms (Qualman, 2001).

The Sustainability Institute (2003) has modelled the historical 'treadmill' which drives oversupply in primary bulk commodities such as maize, marked by growth in production and decline in price (Figure 2.1). When profits in an industry are high, reinvestment leads to increased production. As industry-wide production rises, prices fall, and producers receive lower profits because demand is relatively 'inelastic', i.e. does not increase as prices drop. Producers respond by (1) reducing costs and/or (2) expanding production to spread machinery and/or labour costs across a greater area or volume of commodity production, and/or (3) supplementing income with off-farm employment, where available. While rational at the individual farm scale or even at the national scale, expansion of production across the industry causes prices and profits to fall further, thus locking full-time producers into an 'expand or die' cycle.

Figure 2.1
Generic commodity behaviour



Source: Sustainability Institute (2003)

Associated public services and private industries in the industrialised world respond to the demand for greater productivity with advisory services, equipment, seeds and chemicals. The adoption of no-till cultivation practices is a classic example; this development alone is estimated to have liberated about 500 man-hours a year on a typical 1,000-acre US Corn Belt farm, or about 11 weeks of time for the farmer, which can be spent farming more land with the same amount of labour and equipment.

Even when a farm goes bust, the size of the agricultural industry is not reduced, unlike industries where the closure of factories reduces output. Except at the geographical margins of production, other farmers will rent the land which becomes available, to spread their labour and equipment costs over more hectares. The situation is confused, of course, by the tendency for wealthier governments to intervene with subsidies that underwrite production costs even when crop or livestock prices fall below the cost of production. But the end result is that, contrary to economic logic, lower prices do not lead to decreased output-agricultural markets tend to be unstable and do not to self-correct, because price does not regulate production (Rav et al, 2003).

Trade in bulk commodities is characterised by flexible sourcing from diverse locations. A small number of firms control key elements of production, trade, processing and marketing. Much trade is intra-firm (e.g. soy from Cargill in Argentina to Cargill in Europe, or cocoa from Barry Callebaut in Côte d'Ivoire to Barry Callebaut in the Netherlands) rather than inter-firm or inter-country trade. These companies can take advantage of economies of scale in transport, storage and finance. Profit margins on globally traded bulk commodities are usually slim; the global commodity traders seem to rely more on market instability for their profitability. Disruption and instability in trading patterns allow multinational traders[30] to use their superior market intelligence to capture the profit resulting from such instability.[31] Having diverse sources of supply to draw from also allows traders to exploit temporary opportunities for profit. And having interests in substitute products, such as Cargill's investments in both sugar and – since their purchase of Cerestar – in wheat and maize-based sweeteners, follows a similar logic.

Maize and soy farmers in the US Corn Belt are keenly aware of the competitive threat of low-cost production in South America. Maize and soybeans are being grown at very low cost in Brazil and Argentina, and there is great capacity to expand production in both countries. This competition promises to keep profit margins for US grain farmers razor thin for the foreseeable future – Corn Belt farmers are contemplating a future in which 4,000 ha farms will be needed to generate a middle-class income,[32] which would have profound effects on farm-dependent regions of rural America.

Corporate concentration in many bulk commodity markets is often very high, with a handful of often privately owned companies dominating each sector, such as grain and oilseed trading and processing (Chapter 4), banana trading and marketing (Chapter 7), and coffee and cocoa trading and processing (Chapter 6). Critiques of corporate concentration or cartels in agrifood have indeed generally focused on bulk commodities. The dominance of Cargill in grain trading, for example, has attracted widespread criticism in the US; the merger with the grain business of Continental, which gave the company a 25% share of US grain exports, meant that grain farmers were left feeling at the mercy of very few buyers who were in a position to ship from wherever they could obtain the cheapest sources.

But some businesses involved in agricultural commodities are pursuing strategies to escape the volatility and low margins of the commodity business. Integrated produce

companies such as Dole (fruits), Heinz (tomato products), ContiGroup (meat – formerly Continental Grain Company) and ConAgra (food processing), are focusing instead on distribution, brand management and marketing. Risk management and quality assurance and (where required) traceability are assured through contracts with 'preferred' or even dependent suppliers.

Other international trading companies have integrated backwards into the producing countries, either directly or via local partners, as demonstrated by Cargill and ADM's moves into cocoa supply and processing in Côte d'Ivoire. As Gilbert and Wengel (2001) note, these multinational companies' superior access to credit and risk markets '*gives them a competitive advantage over indigenous competitors*. *Producing countries benefit from the increases in productivity that result, but lose from the fact that the profit arising from these advances goes to multinational rather than local firms*…' Other losers in these situations of backwards integration are the traditional commodity trading houses and brokerages, which are being squeezed out of the industry. This reduces the number of commercial players on the futures markets.

Increasingly it is industrialised country companies who are capturing value added on developing country products through branding and re-exportation. The developing country contribution to value-added in the cocoa sector, for example (measured as value of exports of cocoa beans, cocoa products and chocolate), declined to around 28% in 1998-2000, down from around 60% in 1970-72.[33] This is only partly driven by tariff escalation which limited the ability of developing countries to compete in the markets for value-added products.

At the producer end, the withdrawal of the state from direct involvement in commodity markets exposes producers and labourers to price fluctuations without the traditional safety nets of credit and state trading institutions. The removal of State Trading Enterprises, often as part of structural adjustment agreements, does not create an open market, but replaces cartels with similarly one-sided markets, dominated by global agribusiness (Murphy, 1999). Relocation of risk from the state to the individual means that farmers now bear the opportunities and risks of direct exposure to volatile and unpredictable markets. As Ponte (2001) writes about coffee, '*As governments retreat from the regulation of domestic coffee markets, farmer organisations lose a political forum of negotiation. The weakness and inherent instability of the institutional framework falls straight on the shoulders of farmers.*'

Relocation of risk to the farmer while removing the safety nets (border measures, price supports, production subsidies and access to credit) has been described as a double manipulation (McDonald, 1999). The replacement of marketing boards with direct transactions may give producers a better share of export prices, but less opportunity as a lobby to influence the overall market, as the capability of producing countries to control exports and build up stocks has been greatly diminished. However, this withdrawal can also improve market efficiency and deliver producers a higher proportion of export price.

While corporate concentration and imperfect competition in bulk commodity markets may put downward pressure on farm prices, the undifferentiated nature of these markets means that it is easier for small and family-scale farms to participate. The downside may be national price penalties for poor quality, as seen in coffee exports from Bolivia and Indonesia.

By contrast, 'downstream' businesses in *buyer-driven* chains have a high degree of influence over production, which can profoundly affect farmers' access to markets.

Buyer-driven chains: vertical coordination and 'cooperative capitalism'

For some products, such as poultry, uniformity and high quality are necessary for further processing, branding and large-scale buying by food service and supermarket chains. To ensure this, ways of preserving traceability and identity are needed. For these sectors, *buyer-driven chains* (Gereffi, 1994) have evolved. These are more regulated, and characterised by high levels of *governance* by and long-term *vertical coordination* between producers, supplier-integrators, processors and retailers. The resulting chains have barriers to entry, such as 'voluntary' standards, codes and benchmarks. The high-value end of commodity markets is also now moving in this 'de-commodified' direction, with close cooperative relations between processors and suppliers. Examples include gourmet coffee and identity-preserved grains.

There has been an associated proliferation of private standards, often as part of Corporate Social Responsibility (CSR) or risk management initiatives. Voluntary standards and associated codes and certification schemes are

emblematic of globalisation, linked as they are to the growth of international supply chains, a reduced role for

state organisations and recasting of regulatory systems and voluntary self-regulation (Jenkins, 2001).

Value chain thinking brings the customer and the producer components of an agrifood system into a more direct relationship. It is thus described as representing a shift from producer-driven to consumer-driven governance of agrifood; a 'reversal of the marketing chain' from supply chain to '*demand chain*'. As one industry commentator put it, *'Commodity systems have no ears. Supply chains do'*[34]. The UK government has been encouraged by the Curry Commission[35] to apply value chain thinking to the way UK agriculture is managed, to drive greater levels of communication and cooperation 'so sorely needed by the entire food chain'.

Buyer-driven chains bring about market segmentation, which means that producers are contracting more actively with their customers – the retailers – in order to deliver *differentiated products.* Contracts cover such parameters as quality, quantity and price premium. Alliances and direct contracting between input suppliers (e.g. of feed, seed), industrial-scale processor-suppliers and retailers are shortening chains across the entire agrifood sector. This is driven by the need for traceability and '*due diligence*' (required in the UK by the 1990 Food Safety Act), consistency of product, and assurance of supply. Contamination of food by pathogens (e.g. BSE, E. *coli*), toxins (e.g. dioxins) and alien genes (e.g. Starlink™), is also driving this vertical coordination. Even complex chains in the UK such as beef, lamb and cereals are starting to resemble the highly industrialised poultry, pig and fresh produce chains. Livestock production companies such as Foyle and grain traders such as Nidera are catching this wave of *'relationship marketing'* and building traceability and assurance into their entire operations, including their associated producer clubs (see below).

Production contracts and supply chain management can improve coordination and efficiency, allowing a company to influence production, reduce procurement costs and price risks and maintain flexibility while avoiding the risks and capital associated with farming. Farmers have, in the perennial do-or-die drive to become lowest cost producers of agricultural commodities, been prepared to pay themselves and their workers less than industry wage rates. So outsourcing primary production rather than ownership of production makes economic sense for agribusiness. In fact, major processors have been engaged in vertical *dis*integration, outsourcing primary production and its associated costs and risks. The exception is industrial livestock production where *vertical integration* and ownership of agrifood chains from 'farm to fork' is quite common – Chapter 9.

The 'reversal of the marketing chain' can also benefit consumers; it is no coincidence that in the UK, where supermarket power is most ascendant, consumers' aversion to GM technology was translated into retailer-driven programmes to purge own-brand supply chains of GM ingredients.

Contract farming can also bring significant benefits to producers. A farmer is assured of a buyer, price risk is reduced, favourable credit terms may be available, and marketing costs are lower.[36] In fact, it has been observed that producers with these agreements often get more favourable terms than neighbouring farmers growing a product of the same quality but without a contract. Its worst form, however, such as some poultry production contracts, contract farming deserves its reputation of 'turning farmers into wage labourers on their own land'.

The high capital requirements for entering buyer-driven chains mean that the higher land and labour efficiency of smallholder production is no longer a comparative advantage; the connection between agriculture and poverty alleviation is thereby weakened.

Control without ownership

In the medium to long term, 'relationship marketing' and vertical coordination can lead to serious market dysfunctions. For all practical purposes, producers wind up with a single buyer even if there are several buyers who could theoretically compete to buy from them. The favoured farmers and suppliers are under 'unspoken economic pressure' to work with the retailer or processor without complaint. If there are problems, then the processor or retailer can simply refuse to buy. The buyers can control their costs under these conditions, and can ensure that they will have a docile group of suppliers.[37] Brewster Kneen (2002) describes how Cargill, through the creation of joint ventures and partnerships with farmers' cooperatives in the US, has in effect created captive suppliers of grains and oilseeds without having to increase

its investment in these sectors.[38] The cooperatives are 'effectively absorbed' into Cargill's business, in stark contrast to cooperatives' founding ethos of controlling farmers' economic future by controlling their 'merchant of grain'. The 'co-option of cooperatives' by agribusiness is widespread,[39] as is outright ownership as seen in the Brazilian diary sector following deregulation (Chapter 8).

Producer clubs in the UK and Ireland associated with beef and lamb processors are a classic example of how a 'dedicated producer partnership' can start to look like captive supply. The major processors St Merryn Meats (supplier to Tesco), ABP (supplier to Asda and Sainsbury's), Foyle (supplier to Tesco and Albert Heijn), Dawn Meats and Kepak all have producer clubs, set up '*with the aims of enhancing traceability, quality assurance and developing closer links from the farmer through to the consumer*'.[40] Producer club members are faced with both the 'chain-insider' benefits (such as being supported through hard times by a processor customer) and 'one buyer' risks of producer-processor partnerships. Farmers working outside these closed chains, such as those who do not have sufficient scale of production to be able to sell directly, can become relegated to the position of residual or top-up suppliers or suppliers to the shrinking wholesale market. Farmers who supply wholesale markets, especially in marginal areas, are the most economically endangered sector of UK agriculture.

With a large proportion of supply traded through non-cash methods of trade, including contracts and marketing agreements, traditional cash markets (with price determined at the time of trade) are disappearing and there is no opportunity for *'price discovery.'* As price competition declines in importance and market volume declines, cash and wholesale price data become increasingly suspect and represent the price of residual production surplus to supermarket quantity and quality requirements. Pricing becomes subject to manipulation, and its role in regulating the economy, by establishing equilibrium between supply and demand, is weakened. In other words vertical coordination can bring about *market closure* and becomes a barrier to pricing efficiency. 'Perfect competition' depends on a free flow of information among market participants, which does not correspond to the reality of buyer-driven chains. Online auctions are an extreme example of such chains, in which buyers conduct a blind auction with competing suppliers trying to offer the best price without knowing what rivals are bidding. The potential anti-competitive outcomes of supply chain management have only recently begun to be explored (Hildred and Pinto, 2002); Levins (2001) points to the risks of farmer access to markets becoming so restricted that processors and retailers can reduce farm product prices even further.

It should be noted that very close buyer-supplier linkages can also undermine efficiency (Sturgeon, 2000). Mutual dependence makes it more costly and difficult to switch suppliers or customers. When supermarkets, for instance, reduce their milk, beef or fresh produce supply base down to a few key suppliers, or even devolve management of an entire food category to a leading supplier as *'category captain'*, they are creating large intermediaries with countervailing power that cannot easily be pushed around. For example, ABP, Dawn Meats and Kepak handle around 25% of UK cattle and because of their close links with most of the major retailers (Sainsbury's, Asda, Safeway and Somerfield) they are in an influential supply position. For this reason, companies are also looking for greater flexibility through what Sturgeon calls virtual *production networks,* whereby buyers maintain a small but interchangeable pool of suppliers, switching competitively between them depending on price. The shift to online auctions takes this trend a step further.

Despite the rhetoric about 'relationship' marketing and cooperative capitalism, supply chain networks are characterised by a *'struggle for the appropriation and accumulation of value'* (Cox et al., 2002) in which the primary producer is usually the loser.

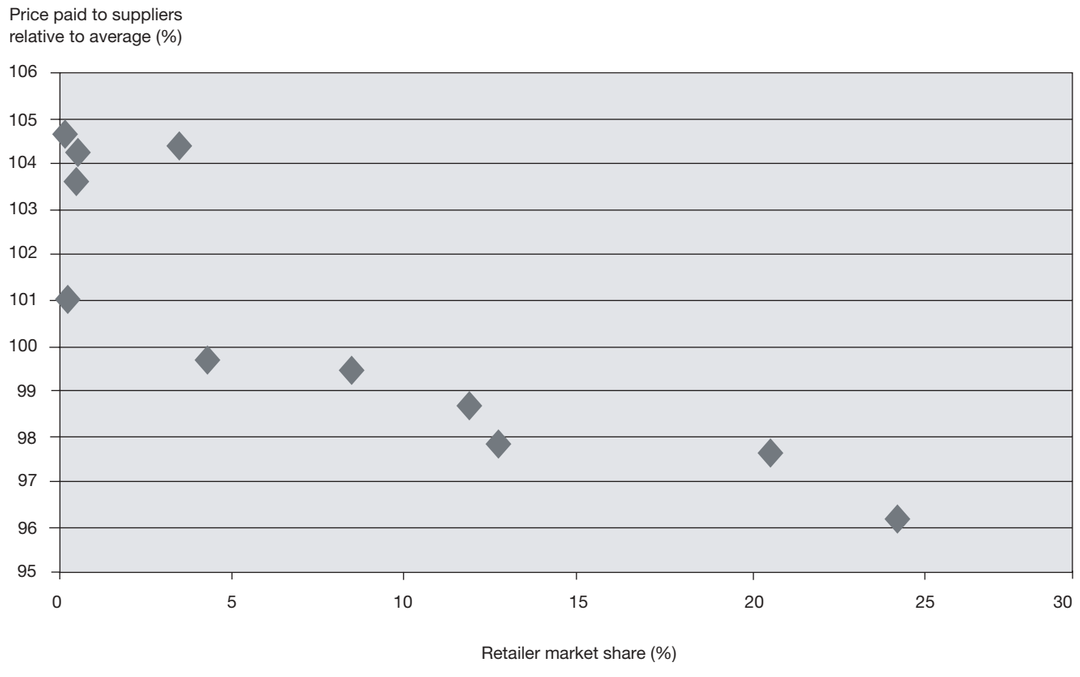
Agrifood trends interpreted as market power

Economic theory has traditionally omitted power from its purview; market economics tended to emphasise the two opposite extremes of *perfect competition* (i.e. profits go to the most efficient firms) and *monopoly* (where a firm can manipulate the price of its product through buying up competitors, or assigning property rights). The reality of the middle ground of imperfect markets may defy standard economic analysis and provides a big challenge to competition policy. Under conditions of a managed market with a complex monopoly of powerful buyers, industry concentration does not always result in higher prices or greater profits.[41] Profit alone, however measured, is an incomplete measure of power. Economies of scale may be passed on to consumers in order to capture larger market share.

And power can be more a reflection of *size* rather than monopoly. Size confers market power through acquisition, leading to logistical control, economies of scale, barriers to entry of competitors, and/or the ability to remould the social and political environment to a company's own benefit. Size also confers *'absolute cost advantage'* (Bain, 1956 [42]) – the ability to outbid smaller companies for resources and ideas, invest more heavily in research and development, set predatory prices, manipulate futures markets, raise external capital, or mount lavish promotional campaigns.

Evidence that large buyers can extract more favourable terms from suppliers – through bulk buying, through playing off suppliers against each other, or through threats of de-listing – is not hard to find. Using data from the UK Competition Commission's 2000 report on supermarkets, it is possible to plot prices paid to suppliers (relative to the industry average) against market share (Figure 2.2). The largest supermarket, in this case Tesco, can consistently obtain discounts from their suppliers at 4% below the industry average, while the smaller players pay above the odds. With retail margins often quite small, these differences in supplier prices have a profound impact on supermarket profitability, and are a frank demonstration of the link between size and buyer power.

Figure 2.2
Supermarket buyer power in action:
UK market share and prices paid to suppliers



Data from UK Competition Commission (2000) Appendix 7.2. Applies to suppliers' top 5 lines

In an open market with perfect competition, profits are eroded by new market entrants. That's the last thing a company wants. Andrew Cox and colleagues define a 'sustainable business' (i.e. a business which can prosper long-term) as one that can close the market to competitors, and thereby achieve leverage over customers and suppliers. Only then can 'rents' be appropriated from dependent suppliers and/or dependent customers. This is what it means to have market and supply chain power.

An ideal situation for a firm buying from suppliers is, according to Cox et al., *'a monopsonist (ie monopoly buyer) who is able to source from suppliers located in highly contested markets in which there are low switching costs and low barriers to market entry.'* This sounds remarkably like the relationship between suppliers of unprocessed agricultural produce (a highly competitive sector with very low barriers to entry) and supermarkets (concentrated buyers), within closed buyer-driven chains. As already stated, intermediaries have managed to claw back some market power from the retailers. Primary production, however, is the part of the chain where the exercise of market power and accumulation of value is most curtailed.

'The potential monopoly and monopsony power that results from high concentration is moderated by the fact that powerful intermediaries face powerful manufacturers, and, increasingly, the manufacturers themselves face powerful retail purchasing companies, particularly the supermarket chains. In general, therefore, firms have only limited ability to exploit monopoly power... On the other hand, possible exercise of monopsony power in commodity purchasing in producer countries is likely to become a major concern in the new century.' Gilbert and Wengel (2001)

One more important piece of information on buyer power is the observation that firms can have buyer power with a substantially lower market share than is usual in seller power cases. Professor Peter Carstensen of the University of Wisconsin's Law School points to recent challenges to buyer power upheld in court which emphasised that the abuse of such power is of equal concern to competition policy as the more traditional seller power problems.[43]

An expression of market power is the ability of those controlling the chain to impose the costs of traceability and quality improvement on producers and suppliers. Standards imposed by the chain drivers may be regressive instruments with relative higher costs and complexity falling on the smallest operation. At issue is the share of costs and benefits between the standard makers and standard 'takers' (Vorley et al., 2002).

Influence over public policy

Of course, another expression of market power is influence over local, national and multilateral policy. Examples include Cargill's role as one of the principal architects of the US proposal to the GATT agricultural negotiations in 1987; industry dominance of the Codex Alimentarius (an international food standard body authorised under the GATT to set international food safety standards) – see Box 2.1; and lobbying by the beet and cane sugar industries against the EU's Least Developed Country initiative.

Box 2.1
CODEX and the food industry

Several NGOs, most notably Consumers International and the International Baby Food Action Network (IBFAN), have followed the development of food standards at the *Codex Alimentarius Commission* – a body that has assumed much greater power since the establishment of the World Trade Organisation. Codex Standards will be used by the WTO as benchmarks in the event of trade disputes.

There is a huge imbalance within Codex in favour of food industries. At one key meeting in 2002, 71% of developed countries were represented, but only 18% of developing countries. There were 95 government delegates (43% of participants) and 90 industry delegates. The majority of industry delegates were on government delegations.

Concerned that all the progress made in legislation to protect infant health will be swept aside with the advent of weak Codex standards, IBFAN has been working since before 1996 to ensure the standards meet the World Health Assembly's requirements. It is also, with the International Association of Consumer Food Organisations, working to stop the newly formed Codex Trust Fund from accepting money from food and other industries. Source: IBFAN

A new report by Oxfam America (2003) lists three primary demands by agribusiness of public policy: (a) domestic farm policies that encourage high levels or oversupply of farm production; (b) competition policy that does not threaten levels of corporate concentration; and (c) protection of private property, secure private investment, and equal treatment of domestic and foreign firms.

Evidence for each is very clear; in the case of encouraging oversupply, industry lobbying over the course of the 20th century has derailed programmes to manage the supply of commodities, and to establish public buffer stocks and grain reserves (Box 2.2), risking greater market volatility and food insecurity.

Box 2.2
Agribusiness and the demise of supply management: examples from the US

Perhaps the most significant use of political power by agribusiness in the US has been to support production-maximising legislation and to block and derail attempts by farm groups to control the value of their produce through supply management or collective bargaining. Examples include:

- The grain trade's undermining of the International Grains Agreement, an international trading regime established at the 1933 Monetary and Economic Conference in London to maintain minimum world prices for commodities like wheat.
- The defeat of US supply control policies by Cargill and the Grain Terminal Association in the early 1960s.
- The defeat of the Harkin-Gephardt Save the Family Farm Act in 1987 – a bill which would have limited crop production and raised commodity prices to reflect the cost of production – by a consortium of agribusiness companies (fertiliser and pesticide manufacturers, food processors and grain traders, including Cargill). The companies enlisted a consulting firm run by two former USDA officials to lobby against the measure.
- The challenge to Canadian supply-management agencies by Cargill Canada.

Chapter 3
Retail driven chains

Traditionally those most criticised for exploiting monopoly positions in agrifood have been the grain traders (Morgan, 1979; Kneen, 2002) and meat production and processing companies.[44] But perhaps greater attention is needed on the role of the retail sector as a buyer-driver of many chains, and as a key element in the transition to buyer-driven chains as described in Chapter 2. This in turn requires some understanding of retail dynamics and strategy, and the battle for retention of value within retail-driven chains.

Supermarkets are where the vast majority of OECD consumers meet the produce of the world's farmers. Supermarkets' 'gatekeeper' role at the narrowest point of the 'hourglass' or 'bottleneck' between farmers and consumers (Figure 3.1) has led to a wave of civil society and regulatory scrutiny of this sector in recent years. This is partly driven by the farm-retail price gap, and very different levels of profitability between the farming and retail industries. In the UK, the total profit of all 230,000 farms has been roughly equivalent to the profit of just six supermarket chains in the past years. The top five retailers have around 70% of the grocery market in the UK, a figure which is likely to increase to 80% following the sale of Safeway. Gross margins in the industry are quite healthy, from around 25% in the UK and US to 16% in France.[45]

In the UK, average return to capital[46] is of around 10-15% in supermarkets compared with 0.5% in UK agriculture – figures which are on par with those in the US[47] and Canada (Qualmam, 2001).

The sector has concentrated rapidly, with the top 30 grocers accounting for 33% of *global* sales in 2002,[48] compared with 29% in 1999 (Table 3.1). The buying power of those companies which own supermarkets in a number of countries, especially Carrefour, Ahold, Wal-Mart and hard discounters such as Aldi, is threatening even high ranking national supermarket players with extinction. Wal-Mart rose to be top ranking grocery retailer in the US only 14 years after entering the food business, and regional supermarket chains have felt the pressure; in the past decade, 29 chains have sought bankruptcy court protection, with Wal-Mart as a catalyst in 25 of those cases.[49] The discount chains such as Aldi are among the most rapidly growing retail formats, and are a force for intense competition (Dobson et al., 2001). European retailers also pool their buying power together into large buyer alliances such as EMD, which raises buyer concentration to an even higher level – the narrowest part of Figure 3.1 (Dobson Consulting, 1999; Dobson et al., 2003).

Figure 3.1
The Supply Chain 'Bottleneck' in Europe
Source: Grievink (2003)

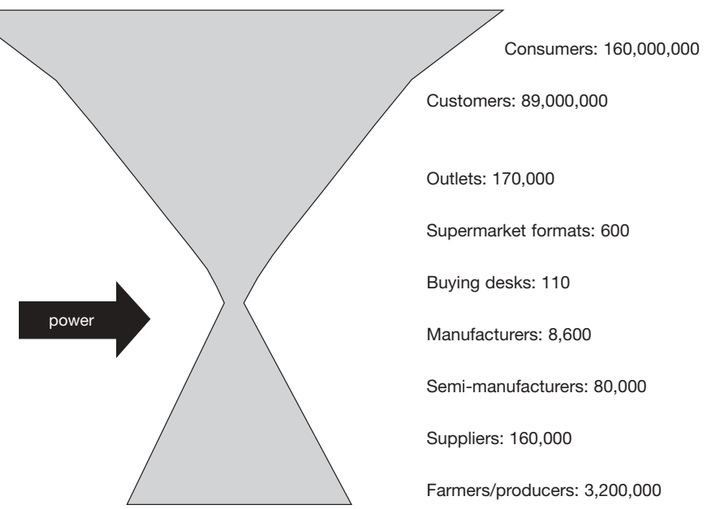


Table 3.1
Global Top 30 Grocery Retailers, 2002
Source: M&M PlanetRetail

	Group	Country of Origin	Net Sales 2002 ($m)	Grocery Sales (% of total)	Domestic Sales (% of total)	Foreign Sales (% of total)
1	Wal-Mart	USA	244,524	34	84	16
2	Carrefour	France	64,774	70	51	49
3	Ahold	Netherlands	59,267	84	15	85
4	Kroger	USA	51,760	84	100	0
5	Metro Group	Germany	48,561	50	54	46
6	Target	USA	43,917	17	100	0
7	Tesco	UK	39,521	72	82	18
8	Costco	USA	37,993	61	84	16
9	Albertsons	USA	35,626	84	100	0
10	Rewe	Germany	35,276	74	77	23
11	Aldi	Germany	33,713 (e)	85	62	38
12	JCPenney	USA	32,347	17	100	0
13	Safeway (USA)	USA	32,100	89	90	10
14	ITM	France	31,572 (e)	77	71	29
15	Kmart	USA	30,762	10	100	0
16	Walgreens	USA	28,681	41	100	0
17	Ito-Yokado	Japan	27,238 (e)	71	59	41
18	Edeka	Germany	27,082 (e)	85	92	8
19	Auchan	France	25,976	57	60	40
20	Sainsbury's	UK	25,964 (e)	73	83	17
21	Aeon	Japan	24,677 (e)	63	83	17
22	Tengelmann	Germany	24,412 (e)	72	44	56
23	CVS	USA	24,182	32	100	0
24	Leclerc	France	22,148 (e)	60	96	4
25	Schwarz Group	Germany	21,649 (e)	83	69	31
26	Casino	France	21,542 (p)	73	77	23
27	Delhaize Group	Belgium	19,497	77	17	23
28	Daiei	Japan	17,717 (e)	53	99	1
29	Publix	USA	15,931	80	100	0
30	Rite Aid	USA	15,778	37	100	0
	Total TOP 30		1,164,187			
	Others		2,320,027			
	Total World		3,484,214			

e = estimate; p = provisional

The impact of supermarkets' buying power in industrialised countries on export agriculture in 'developing' countries has been quite well researched, especially for horticulture (Chapter 10). Buyer power has turned out to be a double-edged sword for poor countries, both creating export markets, employment opportunities, and positive spin-offs for quality in local markets, but also building barriers to enter supply chains and exercising extreme downward pressure on prices.

Market restructuring into closed 'value chains' was considered of interest only to industrialised world farmers and exporters to the industrialised world. But supermarket dominance of agrifood is no longer an industrialised world phenomenon. Ground-breaking work in Latin America has shown that penetration of transnational retail firms is proceeding at a rapid pace even in rural areas of the 'developing' world, and this is having a marked impact on market structure (Reardon and Berdegué, 2002). Just about all population growth over the next 25 years is predicted to take place in urban centres in low-mid income countries, and global retailers are structuring their organisations to follow this location of demand (Figure 3.2). More than 50% of growth in global food retail markets is expected to come from emerging markets. China and India are among the five most attractive countries for expansion of 'modern' food systems (Table 3.2). The growth of supermarkets is considered to be *'an entry point to economic development'* as it *'improves market efficiency'* and thereby frees up wealth for spending on non-food items (Hagen, 2003). But it also means that primary producers and processors face domestic markets that start to take on the characteristics of export markets.

Table 3.2
Global market attractiveness for modern food retail

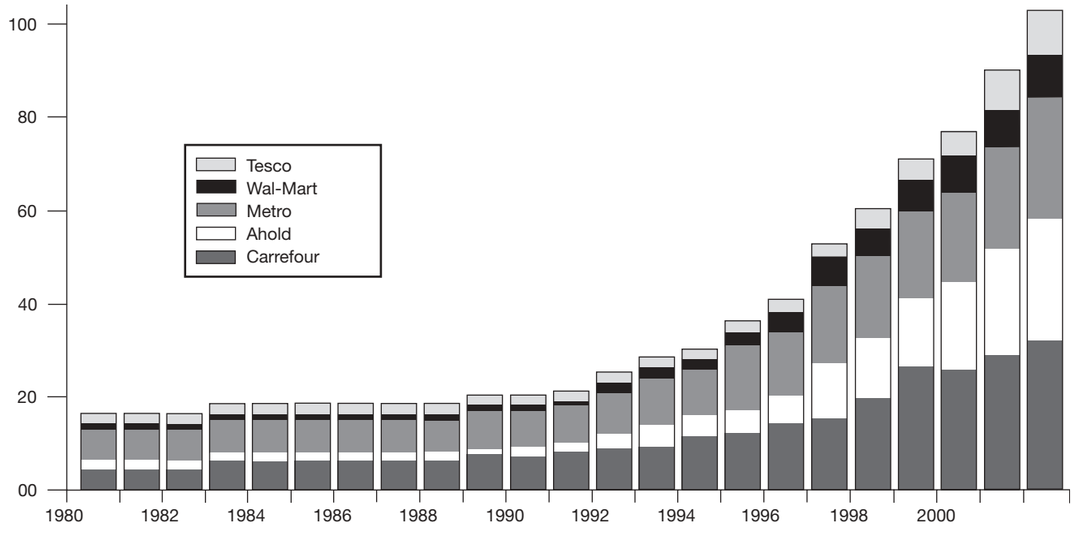
IGD's Market Index (2002) – Top 12 of 75 markets

Country	Rank	% Score	Status
China	1	70%	Priority 1 Markets
Italy	1	70%	
Russia	1	70%	
Japan	4	68%	Priority 2 Markets
Hungary	5	66%	
India	5	66%	
US	5	66%	
Poland	8	65%	
Canada	9	62%	
France	9	62%	
UK	9	62%	
Germany	12	61%	

Latin America
Supermarkets now control 50-60% of the food retail sector in Latin America – a phenomenal increase from 10-20% in only 10 years. This trend is also visible in the small economies of Central America; in **Guatemala**, a leading supermarket chain has concluded that only 17% of the population is out of supermarket reach because of low income or geographic isolation. Supermarkets are looking for a limited number of suppliers that can provide necessary volume and quality. The expansion of new retailers with highly integrated operations and new rules of participation is pulling the market out from under the feet of thousands of small and medium rural enterprises which have played a fundamental role in job creation and rural income diversification. In **Brazil**, the new private rules of the supermarkets in the red meat sector have pushed dozens of small slaughterhouses, traders and truckers out of business.

East Asia
Supermarkets in any form were almost unknown in **China** prior to 1990. With a population of 1.25 billion, mainland China has more consumers than Europe and the US combined. The middle class in urban areas of China is now estimated to total 350 million people, and could reach 575 million by 2005. In the coming ten years, China will be the largest market and scene of the hottest international business competition. Two-thirds of the country's population is rural, and the majority of retail business still comprises small, individually-owned stores and large state-owned stores. But the decade since 1992, when foreign direct investment in China has been permitted, has seen a migration of consumers – especially younger shoppers – from traditional *wet market* shopping into supermarkets for fresh foods. These consumers are attracted by lower prices, larger assortments, more hygienic conditions, and ease of shopping.[50] By the end of 2000, when the retail market was worth US$412 billion, the sales volume of chain supermarkets all over China amounted to 7% of the total turnover of the whole country. In response to increasing competition from foreign retailers, the parent companies of the country's two largest retailers – *Lianhua* and *Hualian* – plan to merge under the Lianhua brand, with assets reorganised into hypermarket, supermarket, convenience store, and department store units. Most of the major players (Table 3.3) are located in eastern China.

Figure 3.2
Global expansion of the Big Five global retailers, 1980-2001



Source: Retail Census 2001, AC Nielsen, company information

Table 3.3
Top food retailers in China, 2001

	Store	Turnover $m	Number of stores
1	Lianhua	1,698	1,225 (1,921 as of 12/02)
2	Hualian	1,027	818 (1,200 as of 12/02)
3	Beijing Hualian	966	42
4	Shanghai Nong Gong Shang	903	325
5	Carrefour	823	28 (36 as of 6/03)
6	Suguo	638	663
7	Trustmart	607	43
8	Metro	598	15
9	China Resources Vanguard	561	343
10	Wal-Mart	422	22

Hypermarkets have been the leading format in China, but supermarkets are the current growth area (Box 3.1), keeping prices low through efficient supply chain management, and in doing so subverting the traditional distribution system. This is beginning to affect the way food is produced. The US Department of Agriculture[51]reports that:

Foreign-invested retailers, processors and chain restaurants have sourced most of their produce, meat, and other raw materials in China, but they have had had difficulty obtaining reliable supplies of standardised quality products from China's traditional system of small household farms geared towards producing food for home consumption. To keep pace with the demand of buyers, farms will have to adjust by specialising in a particular commodity, consolidating fragmented land holdings to achieve scale economies, and forging stronger links with processors and retailers. Closer relationships between firms at different stages of production and marketing are emerging as larger commercialised farm operations grow produce and animals under contract for processors, retailers or exporters. This trend is likely to continue and may profoundly alter the way food is produced in China.

Box 3.1
Carrefour in China

Since its entry into China in 1995, French retail giant Carrefour has opened 35 hypermarkets, and the company has bold plans for further expansion. Dia, Carrefour's discount store subsidiary, opened its first stores in China in July 2003 and expects a further 250 there by 2006. With floor spaces ranging from 300 to 500 square metres, the outlets will focus on food, especially fresh food. Dia says the stores will undercut hypermarket prices by around 5-10%.

Opening of new Carrefour, Guangzhou, China (Taipei Times)

Southeast Asia

Superstores on the Wal-Mart format, with sizes of 15-20,000 m2 and prices 20-30% lower than supermarkets, are growing rapidly across Southeast Asia. In Thailand, supermarkets, superstores and convenience stores have been cannibalising traditional outlets, with share rising from 31.6% in 1998 to an estimated 50% in 2003. Global retailers are strongly represented (Table 3.4).

Source: Siam Future Development and company information

Table 3.4
Retail-driven chains

Company	Parent	Outlets			Revenue 2003 (estimate) (£ million)
		2001	2002	2003	
Tesco Lotus	Tesco (UK)	34	42	48	737
Big C	jv Casino (Fr) and Central (Th)	29	33	37	487
Carrefour	Carrefour (Fr) and SSCP (Th)	15	17	19	265
Makro	Makro Asia, SHV Holdings (NL)	20	21	23	560
Tops	jv Central (Th) and Ahold (NL)	41	49	55-57	n/a
Food Lion	Delhaize (Bel)	28	38	48	n/a
7-Eleven	CP Group (Th)	1,800	2,050	2,300	354
FamilyMart	FamilyMart (Jap)	150	250	n/a	n/a

Modernisation of food retailing in **Vietnam** is only about six years old. Supermarkets' share of food products is expected to increase from around 0.5% in 2000 (Hagen, 2003) to around 40% in 2006.[52] There remains a great gap between big cities and rural provinces, which account for about 85% of the population and where traditional retail outlets and markets still predominate. Drastic changes are taking place in wealthier areas, especially Ho Chi Minh City, where in 2002 there were ten locally owned supermarkets, ten branches of consumer cooperative supermarkets, 35 convenience stores, three hypermarket branches of a French retailer, and one cash and carry outlet of German food retailer Metro Group. Metro has since launched its third branch in Vietnam, and has plans to extend the network to eight stores in the country by 2007. Metro claims that it can sell products at lower prices than traditional markets in Vietnam because of its *'know-how in packaging, labelling, product specifications and logistics infrastructure.'* The company has announced programmes of assistance and consulting to 4,000 farmers and suppliers in *'upgrading the quality, marketability, and competitiveness of their products.'*[53] In **Indonesia,** the no-frills local retail chain Ramayana, which positions itself to sell to people earning US$40 a month, is growing at 25% a year. Carrefour has opened its eleventh store in Indonesia and is the leading hypermarket operator in the country.

South Asia

In **India**, liberalisation and changes in the structure of the domestic food retail sector have been slower than in China. There has been a ban on foreign direct investment (FDI) in retail, and 'modern' food outlets are restricted to urban centres and account for only around 2% of the US$180bn annually spent on food. Modern retail is, however, expected to grow by 30% per year in response to the consumer muscle of India's 440 million-strong middle class. The retail sector, with 12 million small neighbourhood 'kirana' shops, is dispersed (about two-thirds in rural areas) and labour intensive, and 96% are less than 50 m2. There is a very large gap between farmgate and retail price. India has achieved a 5.5% rate of annual growth, leading to a huge expansion in urban purchasing power and associated expectations in food hygiene and packaging. Producer organisations are emerging in India which are linking into new marketing systems by focusing on technology, quality, scale of production, contract farming, collective negotiation of price and compliance with export market requirements for due diligence.[55] Foodworld is India's largest grocery retailer with 81 stores, and the only retailer with FDI, prior to the closure of the sector. According to Jardines, Foodworld is buying 250 tonnes per month of fresh vegetables direct from a group of farmers, eliminating seven layers of middlemen in the traditional wholesale system. Reports in the German press, cite senior officials at Metro's Indian subsidiary, as predicting revenues of US$1 billion from its fledgling Indian operation within five years. The German retailer is to open its first Indian cash and carry outlet in Bangalore in 2003.

Central and Eastern Europe

Agriculture in Central and Eastern Europe (CEE), characterised by very small family run units, can also be marginalised by the sourcing strategies of foreign retailers. The retail sector in **Poland** has been privatised faster than any other sector of the Polish economy. The top 10 retailers in Poland are all foreign-owned, and include such chains as Geant Casino, Auchan, Carrefour and Tesco. By 2005, large retail chains are expected to account for 45-50% of Poland's total food sales. There is talk of hypermarket saturation in Poland, with the number standing at 418, up from 266 two years ago. Supermarket companies are having a strong influence on the production and distribution structures within CEE countries, especially through their 'own brand' policies, setting up close relationships with local agricultural producers and closely monitoring suppliers to keep a check on a variety of aspects, including hygiene and safety.

Africa

Even in Sub-Saharan Africa there are reports of incursion of franchised convenience store chains anywhere with reasonable road connections, for example in rural **Zambia**. The South African company Shoprite reports that *'greatest opportunities for expansion lie outside our borders'*[56] , and the company is now doing business in ten African countries. The 'South African invasion' has advanced to the extent that concerns about local sourcing have been raised in Zambia and **Malawi**. Supermarkets have a 50-60% market share in **South Africa**, with Woolworths, PicknPay and Shoprite-Checkers the dominant companies, using different formats for different segments of the population.[57] For more information on retail in Africa, see Weatherspoon and Reardon (2003).

Supermarket power over suppliers

In the last few years competition between supermarket chains has eliminated most operational inefficiencies and thus limited the potential for further cost reduction inside the business. Chapter 2 described how long-term business prosperity along supply chains depends on an ability to close the market to competitors, and thereby achieve leverage over customers and suppliers.

There is consequently severe pressure applied to supermarkets' suppliers and farmers, either in terms of aggressive negotiations on price, or via requests for payments from suppliers in exchange for retaining the privilege of preferred supplier status.

'Many farmers around the world are suffering from prices for their products which do not cover the cost of production, and this is certainly true in the UK. People talk about the food chain in the food industry but in reality it's a fear chain. Everyone involved is frightened of losing out – the buyer of not meeting his profit margin, the packer of being de-listed by the supermarkets, the grower of rejects or being priced out of business.'
Patrick Holden, Director of the UK Soil Association[58]

An analysis of the Australian market[59] suggests that retailers have gross margins in the range of 22%–25%, but at store level the margins are 11%–14%. This means that over half the gross margin may be earned outside of direct sales to consumers, especially by direct contributions taken at head offices from suppliers. These include rebates and retrospective discounts (also known as marketing allowances), promotional expenses, enforced acceptance of late payment on invoices, charges for shelf space during price promotions, and charges made for listing new products in the store (*'listing'* or *'slotting fees'*). These payments help supermarkets cover the cost of loss-leaders (such as milk and bread) or losses made in error on other products (Robbins, 2003). Such fees seem to be a particular feature of mid-sized supermarkets which do not have the buying clout to obtain the same volume discounts as the market leaders.

The impact on suppliers' profitability is severe. To be a preferred supplier requires deep pockets as well as the ability to act as a warehouse, just-in-time shipper and full-risk product developer (Dobson et al., 2001). But suppliers are partly responsible for these payments, as, in a market with tradition of low barriers to entry, it is in their interests to close the market to competitors by out-competing other suppliers with payments for access to store shelf space and service.[60] Coffee suppliers are commonly understood to offer generous marketing allowances (Robbins, 2003).

Nevertheless, use and misuse of buying power in retailer-supplier relations is rightly a burning issue, as discovered by the UK Competition Commission in their recent investigation of the supermarket sector (Box 3.2).

Box 3.2
The UK Competition Commission investigation into supermarkets

An inquiry into supermarkets was initiated by the UK's Office of Fair Trading in July 1998, and referred to the Competition Commission in April 1999. The inquiry's mandate was primarily consumerist, around accusations that supermarket prices in the UK were unjustifiably higher than in continental Europe. The large supermarket chains spent about £20m defending themselves between the launch of the enquiry and the final report, and the Big Six all developed their own codes of conduct to pre-empt the findings of the report.

The Commission's report published in October 2000 concluded that the industry is broadly competitive. But as a 'secondary concern' the Commission unearthed 52 ways in which supermarkets are said to have misused market power against suppliers. These included 'requests' for *over-riders* and retrospective discounts, 'requests' for promotion expenses, making changes to contractual arrangements without adequate notice, and unreasonably transferring risks to the supplier. The Commission also found a 'climate of apprehension' among many suppliers in their relationship with the main supermarkets.

The Commission did not impose any sanctions, but recommended that supermarkets be made to abide by a legally binding *Code of Practice* in their dealings with suppliers. The final Code was released by the Department of Trade and Industry in March 2002, amid widespread accusations of retail industry influence in emasculating the Code.

If retail is the point of tightest concentration in national food systems, then regulation of market share of retail can influence the structure and competitiveness of the entire sector. A market share of 25% is supposed to trigger competition authority scrutiny in the UK based on the familiar measure of seller power and its relation to consumer welfare.[61] In Chapter 2 it was pointed out that buyer power may affect farmers and suppliers at lower market shares than seller power. Therefore, regulatory intervention on behalf of suppliers should be triggered at a threshold well below the 25% figure. It is noteworthy that Tesco has already passed this threshold in the UK, with a market share of 27.2% in August 2003.[62] This figure increases to above 31% when analysed by share of the 'one-stop shopping' sector.[63]

Own brands give supermarkets increased leverage when negotiating with suppliers[64] – it is these suppliers who fare worst when price wars break out between supermarkets. Own brands return the highest contribution to retail margins. They now account for 22% of total European grocery sales – with the highest share in the UK – and were worth $172 billion at the end of 1997. The nature of the market is becoming increasingly sophisticated as mainstream retailers wake up to the full potential of the private label. It is not only a huge revenue generator, but also key to enhancing corporate image and customer loyalty. Retailers' brands now compete head on with manufacturers' brands through shelf placement and packaging. Forty percent of Sainsbury's range of over 23,000 products in a large supermarket is its own brand.

Modifying the policy environment

Supermarkets have been adept at modifying the policy environment, including having a hand on the 'revolving door' between government and industry, as exemplified by Tesco.[65]

Control of information

Retailers are closer to end-consumers and many have developed sophisticated information systems which can facilitate supply chain management. Information on consumers from point-of-sale scanners (EPOS data) is a source of competitive advantage to retailers and the chain 'insiders' – the category managers – with whom it is shared.

What happens when supermarket buyer power meets 'sustainable' products?

The move to more 'sustainable' food has largely occurred within concentrated chain structures. Processors and retailers have welcomed the chance to de-commodify fresh produce with 'organic', *'Fairtrade'*, 'free range' and 'local' branding. But the 'pro-farmer' elements of many of these 'sustainable' niches may be threatened by buyer power in the same way as conventional produce.

Fairtrade – The Fairtrade scheme is designed to ensure that farmers are paid a fair price for their goods. Consumers are increasingly willing to pay the higher prices charged by supermarkets for such goods, on the understanding that the premium is passed back to farmers and their communities.

However, if supermarkets were interested in developing this niche to its full potential and maximising the sales of sustainable produce, they would accept an equal or lower margin on Fairtrade labelled products. But a recent report[66] suggests that most of Britain's supermarkets are instead pursuing an expanded retail margin for these products. For bananas, it found a much higher slice of the £0.78-0.90/kg Fairtrade premium was going to supermarkets (£0.35-0.65) than to farmers (£0.24) – a clear example of the appropriation of rents, even taking the higher costs associated with stocking and developing niche products. As Renard (2003) notes, the trend towards retailers creating their own Fairtrade labels will simply replicate conventional trading relationships.

Organics and animal welfare – In the UK organic market, supermarkets account for 82% of sales. And it is the industrial-scale producers in the UK, such as MBM and Greenvale (potatoes), and Langmead Farms (salad crops), who are leading the race for organics. The same is found with eggs; Deans, with a massive 35% market share, claims to have been at the forefront of the development of free-range and barn production and, more recently, organic systems. In France, SBS – part of Smithfield Foods, the world's biggest pork producer – is active in producing *'organic products and products that carry certificates that specify the origin of their raw materials... These products allow SBS to differentiate itself from the competition and grow market share and margins.'* [67] The dominance of organics by the big producers is positive for the environment and market development, but it underlines the growing realisation that organic and high-welfare production is not a refuge for smaller scale producers in modern agrifood systems.

The reality of supply chain management and the consolidation of supermarkets' supply bases mean that major suppliers to the UK multiple retailers, with preferential market access, are extremely well placed to meet retailers' demands for organics, by establishing parallel conventional and organic production systems within unified chain elements of logistics, quality control and traceability. Major suppliers are also attracted to the higher margins. Organic food is a non-KVI (known value item) product – the price can be set to what the market will bear, rather than what the market expects. Dole's 2002 Annual Report makes no bones about this:

Consistent with our strategy to focus on value-added products, we have continued to expand our focus on *higher margin, niche bananas.* While the traditional "green" bananas still comprise the majority of our banana sales, we have successfully introduced niche bananas such as organic, low chemical and sweet bananas. We have found that organic produce is a growing category in North America and Europe and there is a strong demand for low chemical and sweet bananas in Asia. [emphasis added][68]

But the move of the organic sector into mainstream retail has been accompanied by an erosion of farmgate organic price premiums, which is seen as a grave threat to the sustainability of organic farming, and has prompted calls for integrating Fairtrade pricing structures into organic standards.[69]

Another development is the purchase of natural food retail chains by the supermarket giants, such as the rumoured imminent takeover of Wild Oats by Kroger in the US.[70] Examples from food and beverage manufacturing are also numerous, including General Mills' purchase of Small Planet Foods, makers of Cascadian Farm and Muir Glen; Dean Foods and Horizon Organic/Rachel's Organic[71] and Coca-Cola's ownership of Odwalla.[72]

Ethical trade – The Ethical Trading Initiative was set up in the wake of a campaign by Christian Aid to improve labour standards of 'developing' country suppliers to UK supermarkets. It has evolved into a collaboration between supermarkets, NGOs and trade unions to implement a code of conduct for good labour standards – a very positive development. But an interesting example of the interplay between ethical trade and retailer power over suppliers occurred recently (May 2003), when Tesco was anonymously accused of demanding a payment of £278 per year per site from *all* primary suppliers to cover the costs of its compliance with the ETI code. The letter to *The Grocer* said that suppliers would be wary of approaching the Office of Fair Trading with complaints because of the risk to their business. A more systematic critique comes from du Toit (2001) who is concerned that, by reducing the issues to ethical sourcing, the ETI can help retailers *'avoid addressing the broader ways in which they create inequitable power relations in trade and agrofood networks between North and South.'* [73]

Food service – the sector to watch

The food service sector – restaurants, pubs, bars, cafés, hotels, fast food restaurants, convenience food and contract catering – is a huge part of 'modern' agrifood, but its impacts on global farming and chain structure are almost completely overlooked. Food service is subject to far less scrutiny over the sustainability and welfare characteristics of its food ingredients, though some food service operators, such as MacDonald's, are building traceability into their supplies in the same way as the supermarket sector. The food service market in Western Europe alone is valued at US$321 billion, or 33% of total expenditure on food, and is expected to grow by 20% over the next six years.[74] And in the US, about 49% of US food expenditure is currently on meals away from home; the market there was valued at US$ 358 billion in 2000.[75] The Dutch supermarket chain Ahold tried to capitalise on this trend with its purchase of US Foodservice in 2000. Food service is also big business in mid-income countries; in 1998, the size of the food service market in Southeast Asia was conservatively estimated at US$14.7 billion.[76]

Food service is not as concentrated as food retail, though in the UK there is a comparatively high level of consolidation, with wholesale operators such as Brakes becoming powerful players in the supply chain. The contract catering sector is, however, highly consolidated, with shares in the food service sector by multinational contractors at 51% in North America and 22% in Europe. The French company Sodexho is the global market leader in food and management services, positioned ahead of British company Compass and US-based Aramark. In North America, Sodexho bought Marriott International's food service and facilities management business and renamed the firm Sodexho, Inc. Sodexho has sales in food and management services of € 11.6 billion, and 315,000 employees at 24,700 sites in 74 countries. Compass operates in more than 90 countries, employing over

375,000 people and has annual foodservice revenues in excess of £10bn. The big catering players have established centralised purchasing and category management systems.

To summarise, the advent of 'modern' food retail, with formidable buyer power associated with highly concentrated patterns of ownership in supermarket and food service sectors, has profound implications for farmers and enterprises, especially for Rural Worlds 2 and 3. Producers and processors face a global supermarket sector where the top 30 companies account for around a third of grocery sales. Nationally the top five supermarkets often account for 70% or more of grocery sales. These supermarket chains are rapidly penetrating mid- and lower income countries, influencing the way food is produced and the way that profits accrue along agrifood chains.

In the following chapters, corporate concentration and its effects on primary producers for some specific commodities are examined in more detail, starting with bulk commodities (wheat, soy, coffee, cocoa, bananas, sugar) and then moving to products more commonly traded through buyer-driven chains (pork, poultry, vegetables, and milk).

Chapter 4
Cereals and oilseeds

Cereals
Globally, grains are produced for three principal reasons: direct human consumption (41%), animal feed (45%) and other uses, including industrial consumption. The fact that cereals and oilseeds have virtually no retail demand, but are sold as inputs to industrial processes that yield livestock, bread and sweeteners, has a major bearing on the way in which these commodity chains are governed.

Wheat is the most important cereal traded on international markets. Major wheat producing countries such as China and India are not the most important traders; the US is the world's largest wheat exporter, contributing around one-third of world export volume, followed by Canada and Australia. Among the 'developing' countries, the only major exporter is Argentina. Developing countries, however, account for nearly 80% of all wheat imports.

By contrast, the international **rice** market is 'thin', accounting for only 5-6% of global output, though trade is expanding. And unlike other bulk commodities, the rice market is segmented into a number of different varieties and qualities, each with strong consumer loyalty. If adjusted for inflation, calculated at constant 1998 prices, world rice prices averaged $860 per tonne from 1950 to 1964, dropping to under $300 by the late 1990s and now hovering slightly under $200. Higher-quality basmati from Pakistan is sold at close to $370 per tonne. Key rice exporters are Thailand, Vietnam, China, USA, India and Pakistan. Thailand and Vietnam face intense competition from India in low quality markets. Since June 2001, India has been the lowest-priced source for rice, and more recently, for higher quality regular milled white rice. Competition among rice producers and exporters through undercutting prices to get orders in a situation of suppressed demand and low prices has affected rice farmers and the resilience of rural economies in Thailand, Vietnam and China. These three countries, plus India and Pakistan, are investigating mechanisms to achieve export price stability, through the possible formation of a Council on Rice Trade Cooperation. This follows a failed attempt by Thailand in 2001 to create a 'rice pool', in effect a rice cartel to stabilise world rice prices.

Corporate control of the global grain trade
Corporate control of the grain trade was high on the political agenda even in the 1970s, and further consolidation in the intervening period is again fuelling farmers' frustration.

Cargill is the largest privately owned corporation in the US, with nearly US$60 billion in annual company-wide sales in 2003 and reported net earnings of $ 1.3 billion. According to Leland Swenson, President of the National Farmers Union, Cargill's controversial acquisition of Continental's grain business in 1999 gave the company 45% *of the global grain trade*.77 It controls 42% of all US maize exports, a third of all soybean exports, and approximately 20% of wheat exports. The company operates in 61 countries. Other businesses include meat processing, cotton, sugar, and petroleum trading; financial trading; food processing; futures brokering; feed and fertilizer production; and steelmaking. The combined Cargill and MacMillan families own 90% of the company's stock; the rest is owned by company executives.

Paris-based *Louis Dreyfus* is 'one of the world's largest merchandisers of grains and oilseeds'. The company has a major presence in all of the important grain and oilseed production regions in the world. Aggregate annual gross sales in recent years have exceeded US$18 billion. Other activities include trading in energy commodities, forestry management, telecommunications and real estate. Although privately owned, is also a cooperative under French law. It owns 49% of the shares of the cooperative Union Française des Céréales (UFC, better known as La Cooperative Lafayette).

Archer Daniels Midland (ADM) controls about 30% of the global grain trade, with sales in 2002 of US$22.6 billion. ADM also ranks second in flour milling in the US, first in Canada and has a leading position in Mexico, as well as in the Caribbean.

When these transnational cereal traders are part of national export cartels, there are issues of rent-seeking and import prices in developing countries to consider. During the Reagan presidency, Cargill, Dreyfus, Continental and Artfer collected US$1.38 billion from the US government, much of it bonuses under the Export Enhancement Programme (EEP) in the period 1985-89. This programme to grow US market share and expand export competitiveness did little to improve the lot of American grain farmers (Kneen, 2002).

An increasing role of transnational agribusiness firms is discernible in the **rice** market. The UN Commission on Trade and Development's (UNCTAD) rice commodity information[78] traces the shift in rice trading patterns. This shows that since the 1970s, the trade has moved from

exclusive control by governments (public contracts) and/or by private Chinese family exporters conducting mainly intra-Asian trade, to penetration by Dreyfus, Rustal, Novel, Nidera, ADM and The Rice Corporation (TRC). The importance of private exporters in Asia has also grown; in Thailand the share of private trade exportation of rice has risen over the past ten years from 20% to 80%. In Vietnam private negotiators have also stepped in following national economic reforms that took place in the 1990s. Rice marketing in Vietnam has rapidly developed into a complex system without the central management that policy-makers once thought was necessary.[79] Similarly in Pakistan, the public sector monopoly in the export of rice and cotton has been ended.

Consolidation in the UK grains sector

To understand the impact of corporate concentration in the cereals chain, the wheat-flour-bread chain in the UK is very illuminating. The sector has a high level of concentration and vertical integration, but little of the chain is very profitable due in large part to the strategy of retailers.

The UK is the third largest producer of cereals in the EU, after France and Germany. Cereals comprise by far the largest proportion of the UK cropped area (3.25 million ha of a total of 4.57 million ha in 2002, with a value of £2.19 billion) and therefore cereal production has broad implications for the environmental and economic performance of UK agriculture. The UK is a net exporter of cereals; higher quality milling wheat is imported and feed barley and feed wheat exported. Exporters must compete with domestic users (milling and feed industries) and this 'elasticity' limits market power of traders. Domestic wheat is divided roughly equally between animal feed and flour milling. Barley is divided between brewing/distilling (34%) and animal feed (61%).

Box 4.1
Associated British Foods (ABF) – the giant of UK agrifood

ABF is UK agriculture's biggest customer, and buys more primary products from UK farmers than any other company. It has annual sales of over £4.5 billion, operating profits of £395 million, and 35,000 employees. It operates in four segments: grocery, primary food and agriculture, ingredients, and retail.

The Agricultural Division of ABF (ABNA) is the UK's biggest agribusiness, with a £1 billion turnover. It has contract supply agreements with the UK's leading manufacturers of food and drink. ABNA produces 25% of UK animal feeds, and handles a significant share of fertiliser and cereal seed sales to farmers and ex-farm grain purchases. ABNA is the second major player in the rapidly concentrating UK compound feed industry, behind BOCM PAULS. Allied Livestock Marketing (ALM) markets in excess of 1.75 million head of stock annually.

Primary food businesses within ABF include British Sugar, which buys the entire sugar beet crop each year and supplies about a half of the UK's total annual requirement for sugar and sells through the Silver Spoon brand. The company has also moved into low calorie sugar and artificial sweeteners. A sister company of British Sugar, Germain's, is the sole provider of pelleted seed in the UK, from varieties from six British Sugar-approved seed companies. The company has a significant market presence in Poland (SugarPol) and China; British Sugar (Overseas) Limited (BSO) now has majority control in four cane sugar factories in Guangxi Province. BSO's production in China is planned to rise to 400,000 tonnes of sugar following a two-year agricultural investment programme, and the company is seeking further acquisitions.

Other subsidiaries within ABF plc include Allied Mills (now integrated within Allied Bakeries), Ryvita, Bibby's, Twinings Teas, British Sugar, Kingsmill bread and many others. In late 2002, ABF sold part of its Allied Mills business to ADM, having decided that it should limit its milling to supplying its own flour needs after a long period as a leader and aggressive competitor with third-party baking customers. Allied Bakeries is one of the two UK giants of 'plant bread' production (large factory baking industry).

Family trusts and charitable trusts of founder Garfield Weston own about 55% of ABF.

Annual net farm incomes for UK cereal farmers fell sharply from a peak in 1995/96 (average £44,700) dropping to £3,300 in 2001/02. The figure rose to £7,000 in 2002/03, and a temporary recovery occurred in 2003.

The grains sector in the UK is consolidating rapidly. A feature of the UK cereals trading sector is the dominance of farmer-owned enterprises, which now account for 7 million tonnes, or 40%, of ex-farm trade in combinable crops.[80] Grainfarmers (formerly SCATS) is the UK's largest farmer-owned arable and grain marketing business and supplies grain to most of the UK's major flour millers, feed compounders, maltsters, crushers and processors. It has export facilities close to every major grain-producing region in the UK. An International Marketing Alliance with Dreyfus *'provides the business with worldwide market access and market intelligence'*. In 2001, Grainfarmers established a joint venture, the Organic Arable Marketing Group (OAMG), which now markets over 25% of the UK's organic combinable crop. Of the private grain traders, Allied Grain (part of ABF – see Box 4.1) is the second biggest collector of ex farm grain in the UK.

The UK bread and flour industry

The UK market for bread and bakery snacks is worth over £2.2 billion annually in retail sales value. The milling industry has been contracting rapidly over the years, with the number of mills having fallen from 252 in 1950 to just 68 in 2000.[81] The UK flour milling companies have a total turnover from all sources of nearly £1 billion. The two largest companies Rank Hovis (part of RHM) and Allied Mills (part of the giant Associated British Foods – see Box 4.1) accounted for around 50% of flour produced in the UK, though ADM Milling (a wholly-owned subsidiary of ADM), recently acquired six of Allied's flour mills in the UK, which promotes them to second rank behind Rank Hovis in British milling. There are around 30 other milling companies in the UK, such as Smiths Flour Mills, part of Northern Foods.

The large factory baking industry ('plant bread') in the UK produces around three-quarters of bread consumed in the UK, and the market is valued at around £1.5 billion. Two companies – Allied Bakeries (also part of ABF) and British Bakeries (RHM) – account for around 55% of the market by value.[82] Profitability in the UK milling and baking industries has not been high, with persistent pressure on margins.[83]

Influence of supermarkets

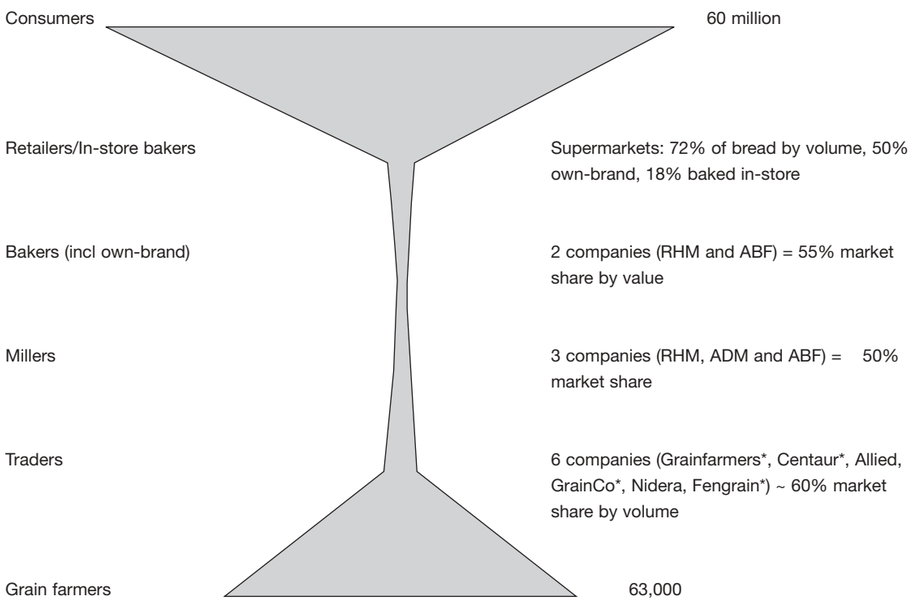
Most of the largest plant bakeries produce their own branded breads and also own-brand products for the multiple retailers. For example, British Bakeries' customers include Tesco, Sainsbury, Asda, Somerfield, Safeway and Co-op. The big supermarkets account for around 72% of bread volume sales. *Own-label* bread accounts for around 50% of the bread now sold in supermarkets, though this is declining. Supermarkets themselves have moved into in-store bakeries, which now have a market share of 18%. The master/craft baker is in decline, with a market share of around 7%. Since 1994, retail sales value of bread has declined by 9%, and consumption has been declining since 1996. Prices of economy bread (e.g.Tesco Value) have fallen by 28% since 1995. Value lines of bread, as a *'known value item'* (KVI) have been sold by multiple retailers below cost for at least the last five years, and this has been accused of devaluing the whole sector.

In summary, although the level of concentration in the wheat-flour-bread chain is extremely high (Figure 4.1) nobody is making large profits from the chain, due to the maturity of the market, and the influence of retail buying power combined with below-cost or at-cost selling, which suppresses the value of the entire sector. The Common Agricultural Policy ensures that cereal farmers are partially insulated from the influence of downstream concentration.

This sentiment is not echoed in Canada, where the National Farmers Union has pointed to the growing divergence between farmgate wheat prices and retail bread prices:

'Higher prices to farmers need not mean higher prices for consumers. Twenty years ago, the farmer got 7¢ out of a 74¢ loaf of bread. Today, that farmer gets 5¢ out of a $1.33 loaf. Bread went up 59¢ while the farmers' share went down. Millers and retailers raise prices to consumers, and lower prices to farmers – profiting handsomely while exploiting both. The farmers need another 5¢ per loaf, but this need not come out of consumers' pockets. We think it can come out of the 59¢ increase that millers and retailers are pocketing.'
Canadian NFU Vice-President Fred Tait, 15 August 2000

Figure 4.1
The UK bread wheat 'bottleneck' (flour milling and baking)



Soya – the invisible commodity
After cereals, oilseeds, oilpalm and their products are the second largest group of agricultural commodities traded internationally (in value terms), averaging over US$51 billion annually during the period 1995-2000 (FAO, 2003). World oilseed production increased to 323 million tonnes in 2001/02,[84] with most growth attributed to an expansion in global soybean production, which rose to 184 million tonnes, making it by far the most important oilseed. Global soybean exports expanded to 55 million tonnes in 2001/02, while soybean meal exports grew to 45 million tonnes. Soybean output and exports from Brazil and Argentina have grown phenomenally; both countries share approximately 30% of the soybean export market. Brazilian soybean output in 2001/02 reached a record 43.5 million tonnes and Argentina's output increased to 29.5 million tonnes. South America recently overtook the US in soybean acreage.

Only a small fraction of soy is consumed directly as human food; the bulk is processed, with oil extracted (mainly for the food industry) and the remaining meal pelleted for high-protein animal feed. Farmers are affected at two levels by industrial concentration in soy trading and processing – as primary producers of soybeans and as livestock or dairy producers who depend on soy-based feed.

Major importers of soybeans and meal are the EU, China (also a major soybean producer), Mexico and Japan. In 2000, the EU imported nearly 20 million tonnes of beans and 18 million tonnes of soy meal.[85] The EU is self-sufficient in vegetable oil production, but its protein deficit still makes it the world's largest importer of soybeans and soybean meal.[86] EU imports of soybeans have grown since the 1960s because of rapid growth in livestock production and duty-free concessions. But in the 1970s and 1980s, soybean consumption slowed as EU agricultural policies subsidised a large expansion in domestically produced rapeseed and sunflowerseed, eroding the market for oilseed imports. CAP reforms have included area limits on the planting of oilseeds, incremental reductions in oilseed subsidies and lower prices, leading EU farmers to scale back oilseeds planting; imports of soybeans have consequently risen again since 2000. The UK alone imported 3.6 million tonnes of meal and 0.9 million tonnes of beans in 1999/00.

In Brazil, the Worldwide Fund for Nature estimates that one million people are employed in soybean production and 5 million in the overall soybean complex, which contributes US$32 billion per year. Trends in soy production in Brazil show a classic erosion of the prospects of Rural World 2. During the 1980s production expanded out of the small-medium sized farms (average 30 ha) of the south and south-eastern states to the centre-west (Matto Grosso and Goias), including the cerrado (savannah) where production units over 1,000 ha are the norm. One company, Andre Maggi, farms 150,000 ha and produces 1 million tonnes of soybeans annually. This capital-intensive but labour-extensive production has caused a reduction in rural employment and an exodus of rural workers, concentration of land holdings, and food insecurity. Thus although around half of traded oilseeds originate from 'developing' countries, much of that production is now in the hands of the Rural World 1 agribusiness network.

Giants of soy trading and processing
Soy trading is characterised by a high degree of integration, with the major companies controlling production and processing both in exporting and importing countries. (Figure 4.2) Processing has become concentrated and denationalised, both in South America and Europe. The Big Four soy traders (described below) are all involved in the crushing business.

Bunge Limited is *the* oilseed giant. The recent acquisition of Cereol (see below) made Bunge the largest oilseed processor in the world with nearly 34 million tonnes of oilseed processing capacity. Founded in 1818, Bunge was held mostly by families descended from founder Johann Bunge until it went public in August 2001. Today, Bunge describes itself as an *'integrated, international agribusiness and food company operating in the farm-to-consumer food chain with worldwide distribution capabilities and primary operations in North America, South America and Europe.'* Bunge has sold all of its consumer food processing firms, except Bunge Alimentos (margarine and soybeans) to focus on soybean and grain trading, and fertiliser. Headquartered in White Plains, New York, Bunge has over 25,000 employees and locations in 28 countries, and net sales in 2001 of over US$14 billion. In October 2002, Bunge acquired Cereol S.A., which was already the world leader in bottled vegetable oils and further processed oilseed ingredients essential for food (processed proteins and lecithins). It was also co-leader in Western Europe and leader in Central and Eastern Europe for oilseed processing with sales of € 5.1 billion, having purchased Central Soya in the 1980s and CanAmera in 2002. The Cereol buyout gives Bunge control of 25% or more of the US processing capacity; Bunge, ADM and Cargill direct nearly 75% of the market. These three American trading companies also control 80% of the European soybean crushing industry (van Gelder and Dros, 2002).

ADM is 'one of the world's largest processors of oilseeds'. Almost half of the company's sales and a third of its profits come from its oilseed products, including vegetable oils, animal feeds and emulsifiers. ADM has ten oilseed processing plants in China, as joint ventures.

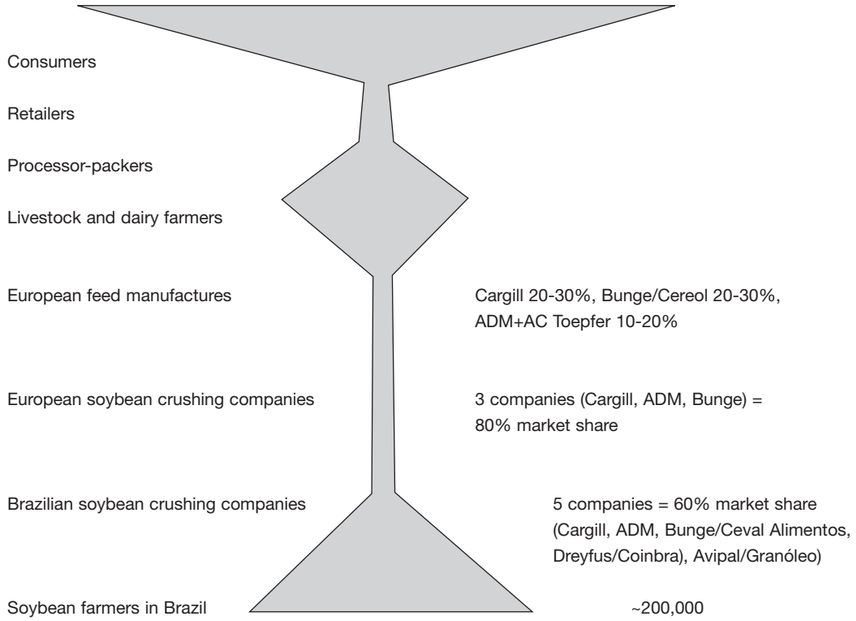
Cargill claims to be 'largest worldwide oilseed crusher' and is ranked as the leading Argentine exporter of vegetable oils and protein meals. The company has oilseed processing plants across Western Europe, and Cargill has built feed mills in China, Korea, Vietnam, Indonesia, Thailand and the Philippines. In Europe, Cargill bought the oilseed processing and refining activities from the Vandemoortele Group, who moved into value-added soy consumer foods.

Dreyfus is the third largest oilseed processor in South America. It owns and operates the huge General Lagos crushing plant and port facility on the Parana River in Argentina.

What impact does such tight consolidation in soy trade and processing have on the livelihoods of primary producers? Apart from the usual features of concentrated buyer power, which allows a company to push down the price and drive the market, there are also arguments about 'national loyalty'. The acquisition of Cereol by Bunge raised concerns about the high level of concentration in soybean processing, with complaints in the US that *'the very companies controlling US commodity supplies, processing, futures trading, cash market pricing and shipping are also doing the same thing in the countries that American farmers are supposedly competing with. They seem to have no loyalty to America or American farmers.'* [87] But flexible sourcing rather than loyalty to one country is to be expected from any transnational trader seeking arbitrage,[88]

irrespective of where their headquarters are located. The presence of all the Big Four soy processors in both North and South America is a clear signal that they are balancing their global presence to profit from whatever differences in price, demand, subsidy, tax breaks, labour or environmental standards exist between regions. ADM calls this a '*totally integrated global origination, transportation and marketing network.'* [89]

Figure 4.2
Soybean feed 'Bottleneck' from Brazil to Europe
(figures based on Gelder and Dros, 2002; Schnepf et al., 2001)



Chapter 5
Sugar

Nearly 83% of the world's sugar comes from cane, and the remainder from beet. Global sugar production is forecast to be 145 million tonnes in 2002/03. Major producers are India, the EU, Brazil, China and the US, but the big exporters are Brazil, the EU, Australia and Thailand. Almost 30% of total sugar production is traded internationally. Sugar production plays a key role in the economies of least developed countries, but is sold on the global market at prices barely covering the variable costs of growing and processing. In 1995-6, sugarcane accounted for 53% of agricultural output of Swaziland and 34% of agricultural wage labour, while sugar milling constituted 37% of manufacturing output and 22% of manufacturing wage labour. The sugar sector is Mozambique´s single largest source of employment, employing 23,000 workers in 2001, one third permanently.

Real prices of raw sugar traded on the world market have been declining since peaks in the mid-70s and early 80s, fuelled by over-supply in world sugar production. This is fed by record sugar output in 2002/03 from Brazil, China, India and Thailand; protectionist sugar regimes in the EU and US;[90] and a direct result of the investments and technology developments in alternative grain-based sweeteners.

Sugar is one of the most heavily subsidised agricultural commodities in the world. The controversial EU sugar regime[91] currently pays European farmers three times the world price. It stabilises the market for sugar through a system of quotas and price supports on producing and marketing beet and cane sugar from certain ACP[92] and least developed countries. The US Government also supports domestic sugar prices through loans to sugar processors. Beet sugar competes with the more labour-intensive and pro-poor cane sugar crop. Countries such as Mozambique, which have comparative advantage in sugarcane production, have been excluded from the preferential terms of the EU Sugar Protocol[93] and have suffered from very low prices and poor labour conditions on the plantations. The EU has become the world's second largest sugar exporter; it produces one and a half times more sugar than Europe can actually consume. The rest – 6 million tonnes a year – is exported, depressing the world price. Under the EU's Everything but Arms (EBA) initiative[94] the EU is phasing in duty and quota free market access for sugar from the 49 poorest countries in the world between 2006 and 2009. But sugar was not part of the recent midterm reform of the EU's Common Agricultural Policy, so dumping of European sugar will continue to depress world markets.

Sugar refining and trading
As with soy, the major sugar traders are highly integrated, controlling both production and processing. The Big Three in global sugar trading and refining are Cargill, Louis Dreyfus and Tate & Lyle. *Cargill* trades and ships over 6.5 million metric tonnes of sugar annually, and is the largest shipper of raw sugar from Brazil. Cargill's recent purchase of a controlling interest in the huge French sweetener and starch company Cerestar expands the company's interests in corn and wheat-based sweeteners such as high-fructose maize syrup. *Tate and Lyle's* trade house TLI handles 4-5 million tonnes of raw and white sugar a year. It has a share in a bulk sugar terminal in Santos, Brazil and has opened sugar distribution centres in Egypt, Israel, Algeria and Indonesia. *Dreyfus* also trades both raw and white sugar and handles more than 4 million tons of sugar annually. The Dreyfus Group is the largest supplier of sugar to US cane refiners, handling approximately 1.1 million tonnes a year, a third of total cane refiner utilisation. Dreyfus owns two Brazilian plants that produce 250,000 tonnes of sugar and ethyl alcohol annually.

Because of the regulatory protection provided by the sugar regime, the sugar processors in the EU enjoy a privileged position. EU exporters receive export refunds on sugar based on the difference between the world market and EU sugar price; export refunds for sugar in 2001 were € 1.5 billion.[95] The European sugar industry has a very effective lobby, and has managed to water down the EBA reforms.[96]

The UK sugar sector
In common with the EU as a whole, the UK is producer, importer, consumer and exporter of sugar. In 2000/01 production was 1.44 million tonnes (from sugar beet), consumption 2.34 million,[97] imports (mainly from ACP cane sugar) were 1.34 million tonnes, and exports 631,000 tonnes. The UK is a relatively minor player in the world sugar market. Taken over a five-year period, the UK accounted for just over 1% of world production, 3.5% of imports and 1.5% of exports.

Source: Cox et al., 2002[98]

Table 5.1
The industrial sugar value chain: approximate gross profit margins

Grocery retailing	Food and drink manufacturing	Sugar processing and distribution	Sugar beet farming	Beet seed production
25%	Without own-label competition: 6-10% With effective own-label competition: 3-5%	Processors: 25% Merchants: <25%	25%	5-10%

Sugar beet is an important crop in the UK, with 9 million tonnes of sugar beet produced from approximately 150,000 hectares on 9,000 farms as part of an arable rotation. Sugar beet has in recent years been the only really profitable part of the rotation during the continuing crisis in UK agriculture.

Three-quarters of UK sugar production is sold direct to industrial users such as soft drinks and confectionery manufacturers. Consumption remains more or less constant, with small seasonal variations, e.g. increases in ice cream and soft drink consumption in summer; and in chocolate and confectionery at Christmas and Easter.

The system of sugar production in the UK is a legally sanctioned quasi-duopoly (Cox et al, 2002) with high levels of profitability and an unusually privileged position in terms of power in the chain. The two manufacturers granted a quota to produce sugar in the UK are British Sugar (Associated British Foods – Box 4.1), who produce sugar from home-grown sugar beet; and Tate and Lyle, who import and refine raw cane sugar. British Sugar is one of four corporations that between them control more than 50% of the entire European crop. In 2002 it made a profit of £153 million.

Tate and Lyle and the Silver Spoon brand from British Sugar dominate the pure sugar sector, with nearly 80% of value sales between them in 2002. Tate and Lyle imports and refines cane sugar at a rate of over 1 million tonnes per year at the company's London refinery plant. Much of the production supplies the food industry for products such as soft drinks and confectionery, as well as going direct to retail. Tate and Lyle's organic range amounts to roughly 20% of the UK organic sugar market.

The UK sugar supply chain (beet-processing-manufacturing-retail) has been investigated by Andrew Cox et al. (2002) from the perspective of buyer and supplier power (Table 5.1). The study reveals how supermarket buyer power is not as marked as for products such as meat, milk and fresh produce; sugar is not a retail-driven chain. The largest markets for sugar are the confectionary, bakery and soft drinks markets. By the early 1990s, three companies (Cadbury Schweppes, Nestlé Rowntree and Mars) produced nearly 70% of all the confectionary consumed in the UK. The ice cream and soft drinks markets are also highly concentrated.

Chapter 6
Coffee and Cocoa

Coffee – an overview
Coffee is one of the world's most valuable agricultural commodities. Global green (unroasted) coffee production reached 7 million tonnes in 2002/03, up 5.6% over the previous year. This growth is chiefly attributable to Brazil, the world's largest coffee producer. Of global production in 2002, the main producing countries were Brazil (2.8 million tonnes), Colombia (675,000 tonnes), Vietnam (534,000 tonnes), Indonesia (350,000) and India (280,000). The highest national dependence on coffee exports is found in Burundi, Ethiopia, Uganda, Rwanda and Honduras. Within countries, regions may be highly dependent on coffee, even when the country is not a major player, such as Chiapas in Mexico. Roughly half of the world's coffee supply comes from small farms with less than five hectares in coffee production, making it an important commodity in terms of rural livelihoods. Coffee is currently grown in 13 of the world's 25 biodiversity 'hotspots'.

The market is mature, with global consumption at 6.4 million tonnes and consumption stagnant in the OECD (which comprises 70% of the market). Main importers are the US, Germany (from where much is re-exported), Japan and the rest of the EU. Global retail sales of fair trade coffee in 2001 were a small fraction of sales, at 14,400 tonnes.[99]

During 2002 there was a global oversupply of nearly a million tonnes of coffee. This drove New York "C" arabica commodity prices to their lowest level since 1973, at US$0.88-1.10 per kg (and see Figure 6.1). The expansion in Vietnam from minor player to global number two in ten years, the devaluation of the Brazilian real, and new varieties and technologies have been prime causal factors in oversupply. World coffee prices have since started a modest and fragile recovery, but the stagnation is far from over. Coffee producing countries are together currently earning around US$ 5.5 billion, down from $12 billion in the 90s. Low prices are driving poverty, ill-health, unemployment, lack of education and forced migration, and a risk of increasing diversification into proscribed crops such as coca[100] or illegal logging.

Multilateral market mechanisms to regulate coffee production have broken down. The International Coffee Agreement (ICA, 1962-1989) successfully raised and stabilised coffee prices, but was eventually *'undermined by free-riding and squabbling over quotas'* as well as concern from roasters about inflexibility in the system (Ponte, 2001). Another scheme has been introduced by the International Coffee Organization (ICO) which aims to remove low quality coffee from the world market, though the overall effect of this programme may well be an oversupply in higher grade coffee beans (Robbins, 2003).

The coffee value chain
What is clear is that since the end of the ICA regime, the balance of power in the coffee chain has shifted dramatically in favour of commercial interests in the industrialised world, reflected in a higher proportion of value being added in consuming countries. Between 1989/90 and 1994/95, Ponte (2001) reports that the proportion of total income gained by producers dropped by 13%, while the proportion retained by consuming countries surged to 78%. Other analyses report a reduction in the share of coffee retail prices retained in producing countries from 30% to 10% in the past decade. This is starkly demonstrated in research commissioned by Oxfam, in which Karen St Jean-Kufuor analysed the mainstream coffee value chain.[101] For coffee which left the farm/plantation as 'fresh cherry' (ie wet processed) valued at $0.06/kg and retailed at $3.57/kg, the margins per kg along the chain were calculated as follows:

Wet processor incl. costs	$0.04
Trader	$0.005
Processor (hulling) incl. costs	$0.04
Dealer	$0.02
Roaster incl. costs	£1.217
Retailer incl. admin	$1.10

The coffee industry comprises two distinct markets – commodity and speciality. **Commodity** grade coffee, which comprises *robusta* and commercial quality *arabica* beans, is traded in a highly competitive market as an *undifferentiated* product. The **speciality** coffee market represents a transition of part of the market from bulk commodity to a buyer-driven chain. Speciality coffee currently represents approximately 10% of total worldwide green coffee purchases, and primarily comprises high-quality ***arabica*** beans. Prices for speciality coffee are determined by the quality and flavour of the beans and are almost always higher than the prevailing price for commodity-grade coffee. For example, the café chain Starbucks (which uses around 1% of global production) deals almost entirely with the market through *'negotiated outright prices independent of the commodity market'* either through direct relationships at negotiated prices

(32%) or long-term contracts with farmers (36%). Starbucks paid an average price of US$2.64 per kilogram in 2002 excluding freight, which is close to the Fairtrade price of US$2.77 per kilogram.[102]

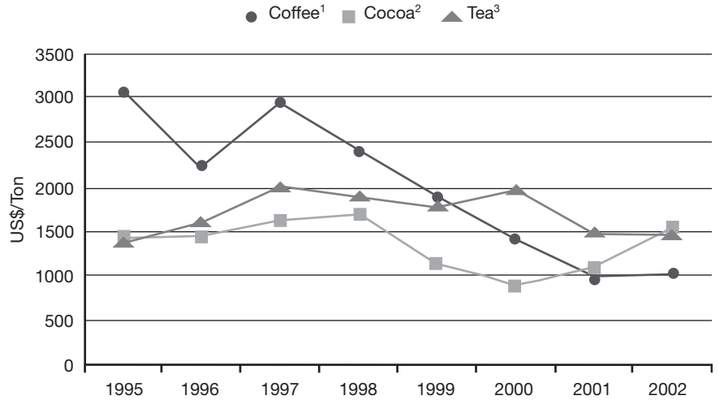
Trading

Traders who acquire the raw coffee and sell it to roasters are integrated back into exporting countries and even (in the case of Neumann) into estate production, in response to roasters' demands for supply chain management (see below), but there is very little forward integration to roasting. Trading is quite concentrated (Figure 6.2), with Neumann (14% of coffee imports), Volcafé (around 13%), Ecom (8%) and Dreyfus (4%) controlling around 40% of global trade but without countervailing power against the roasters in an oversupplied buyers' market.

Roasters

Clearly coffee is extraordinarily profitable to both roasters and retailers, but coffee is a roaster-driven chain. Oxfam (2002) considers that the big coffee roasting companies, Nestlé, Philip Morris-Kraft Foods, Procter & Gamble and Sara Lee/Douwe Egberts, through their control of 45% of the global market, are big enough to provide price leadership and will usually increase their margins rather than pass on international coffee price reductions to consumers. They report that Nestlé makes £0.26 profit for every £1 of instant coffee sold.

Figure 6.1
Export prices of coffee, cocoa and tea, 1996-2002



_ = ICO - Daily price, Average of week
_ = ICCO - Daily price, Average of week
_ = Total tea, Mombassa Auction Prices, Monday
* Average of six months

Source: FAO State of Food and Agriculture 2002

Cocoa

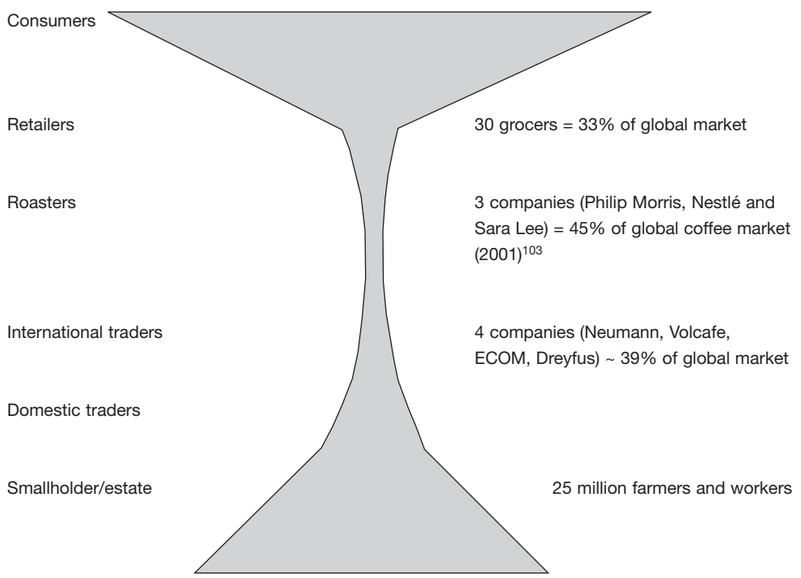
Global consumption of cocoa is around 3 million tonnes per year. The eight largest cocoa-producing countries are Côte d'Ivoire, Ghana, Indonesia, Nigeria, Brazil, Cameroon, Ecuador and Malaysia, which together represent 90% of world production. 14 million workers are involved in production, over 10 million of whom are in Africa. Latin American countries mainly export to the United States, while Africa sells most of its cocoa to Europe. Asia mostly imports from Indonesia or Malaysia or from Ecuador and other South American countries. Almost 90% of production comes from smallholdings of under 5 hectares. In all but eight of the last 30 years there has been a surplus of production. Two-thirds of all cocoa is ground in the consuming countries of the industrialised world. As already mentioned in Chapter 2, the 'developing' country contribution to value-added in the cocoa sector has declined from around 60% to around 28% over the past 30 years.

The cocoa and the coffee industries differ in that the cocoa industry produces intermediate products (cocoa butter and powder) which are used elsewhere in the food industries, most notably by chocolate manufacturers. The cocoa content of a typical bar of milk chocolate accounts for only 8-10% of retail price.

Cocoa prices declined dramatically between 1978 and 2000, but a price recovery is underway; prices averaged US$1,778 per tonne in 2002, almost 63% higher than in 2001 and double the average in 2000.

Cocoa and coffee farmers in Côte d'Ivoire, the world's leader in cocoa production, are among the most poverty striken groups in the country. A study in 1998 showed that 45 % of the households producing export crops – mainly cocoa and coffee – were among the poorest sections of society. In the cocoa sector, tariff escalation was reduced in the post Uruguay Round period, having some impact on

Figure 6.2
The global coffee bottleneck



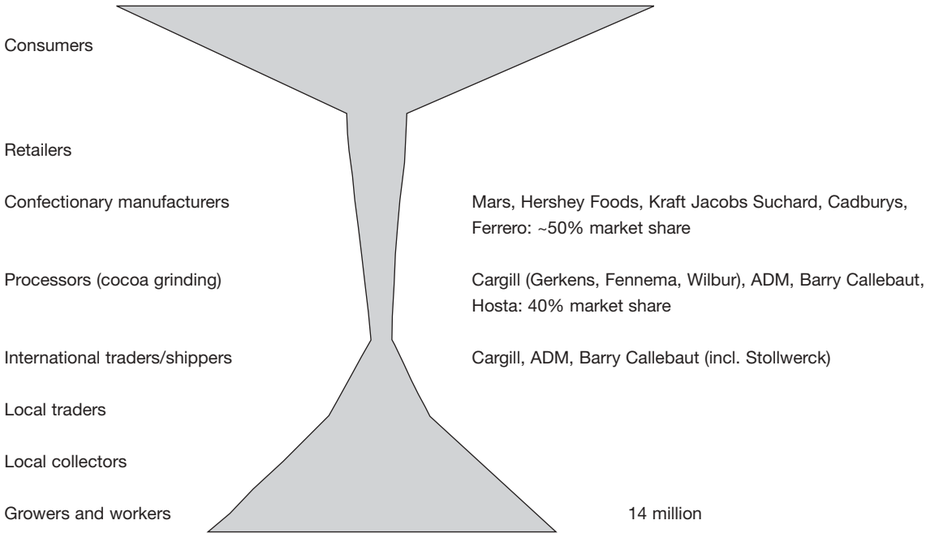
trade. Market liberalisation has provided pro-poor opportunities for cocoa exporters, such as the case in Ghana as reported by Oxfam,[104] but the withdrawal of governments from centralised price setting and marketing has caused finances for small operators to dry up, and exposed farmers directly to extreme market volatility and the hard bargaining power of commodity buyers.

Cocoa processing is fairly concentrated, with four companies (Cargill, ADM, Barry Callebaut – the world's top supplier of industrial chocolate to the confectionery industry – and Hosta) controlling around 40% of cocoa grinding (Figure 6.3). Processors have become vertically integrated backwards to trading, so that exports from countries such as Côte d'Ivoire are effectively intra-firm trade.[105] Events in Côte d'Ivoire following the dramatic liberalisation in of the sector in 1999 provide a fascinating example of the role of the multinational processors which now dominate the Ivorian market: ADM, Cargill, and Barry Callebaut. The local exporters' share of the Côte d'Ivoire cocoa export market declined from 43% in 1997-1998 to less than 10% in 1999-2000.[106]

Apart from price volatility, key issues are forced labour and child slavery in cocoa plantations. But producer countries, led by the Côte d'Ivoire Coast, are pressing for manufacturers to pay more, saying that is the only way to prevent poverty-stricken cocoa farmers from using forced labour.

The cocoa industry is attempting to improve quality and stabilize the market, in part through the Sustainable Tree Crops Programme.[107] The multinational chocolate manufacturer Mars has entered into a public-private partnership programme in Côte d'Ivoire with the German Agency for *international cooperation*. The partnership aims to promote the cultivation of top-quality cocoa using methods that are profitable, sustainable, and conserve the environment. Farmer training and support is offered on quality control, post harvest technologies, and the marketing of cocoa.

Figure 6.3
The global cocoa bottleneck



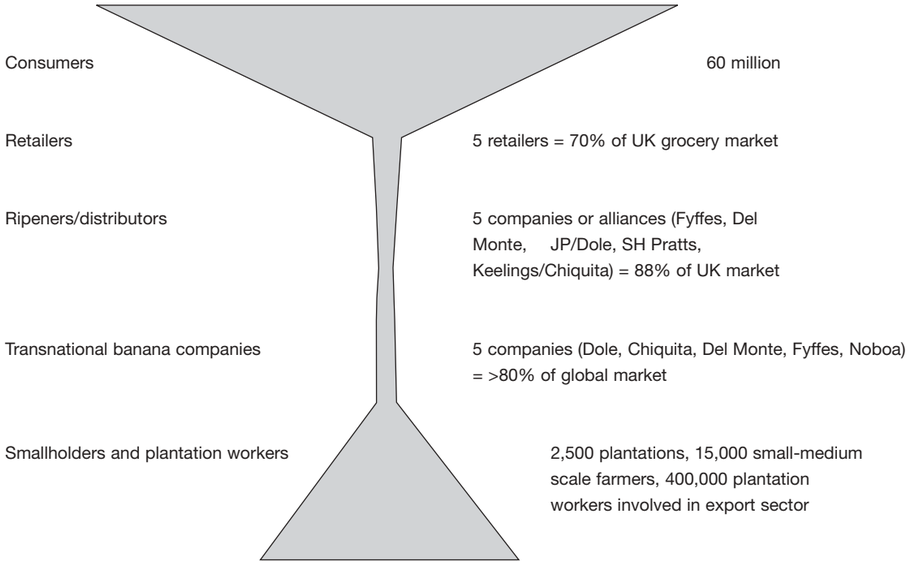
Chapter 7
Bananas

Bananas – an overview
Global banana production was estimated at 65 million tonnes in 1999/2001, a doubling since 1970 through increased planted area and higher yields. Bananas are a major staple commodity, and the biggest global producer – India – is not a major player in international banana trade.[108] World exports have also increased steadily, to 11.6 million tonnes in 1998/2000. Major exporters are Ecuador, Costa Rica, the Philippines and Colombia – these countries accounted for more than three-quarters of world exports in 2000.

The UK has traditionally sourced bananas from the Caribbean, where small farms and difficult terrain mean that production costs are much higher than the plantations and farms of Latin America. Banana multinationals in Latin America stand out in the history of agribusiness as targets for criticism for their suppression of labour unions, occupation of national territory and natural resources, undermining of alternative structures of cooperative production, and overuse and misuse of harmful pesticides.[109] EU trade with its former colonies, including the Caribbean (the ACP countries) has been protected through preferential access, a source of major trading friction. All protection for the ACP will be removed after 2005, except for a yet-to-be-negotiated tariff preference until 2008, agreed at the Doha Ministerial. Since the 1990s the market in bananas has been characterised by oversupply, weak prices and increased competition between distribution companies

The global trade in bananas is a classic *oligopoly.* While a portion of trade is in the hands of independent national growers' companies, traders, importers and ripeners, a small number of vertically integrated transnational corporations dominate international banana marketing and trade (Figure 7.1). According to UNCTAD[110] these players *'are able to exercise their market power at several or all the stages of the banana marketing chain'.* Only around 12%

Figure 7.1
The global banana bottleneck – from Latin America/Caribbean to the UK
Data: UNCTAD, Banana Link

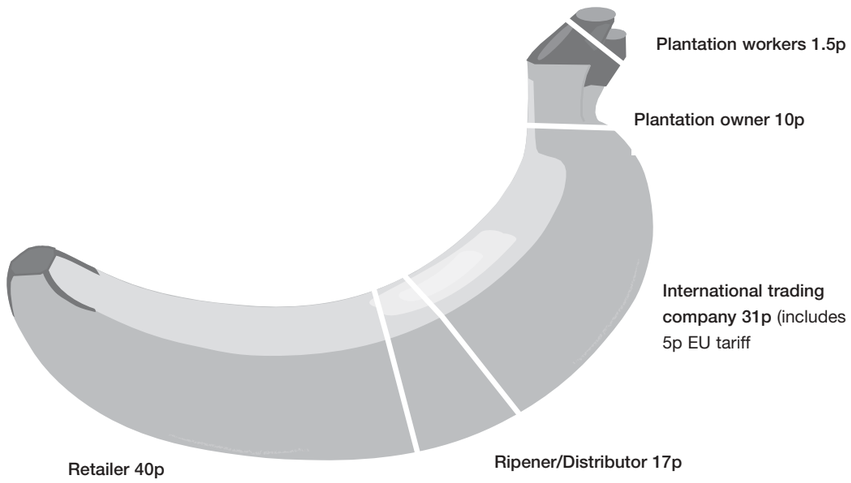


of revenues from banana retail sales remain in producing countries, despite the very limited amount of product transformation outside of the farm or plantation. Forty percent of retail value may stay with the supermarket even though this is the least demanding part of the chain. (Figure 7.2). The dominance of retailers has had an increasing influence over the structure and distribution of value along the banana chain. The shift of profits up the chain has been dramatic over the last decade, and the transnationals' margins on bananas are now very slim.

An FAO Inter-governmental Group on Bananas in Costa Rica meeting in 2001 expressed concern about the long term price decline and the widening gap between prices received by growers and paid by consumers.[111]

Source: Banana Link. Based on June 2003 prices

Figure 7.2
The 'Banana Split' – how much of £1.00 retail value of loose Ecuadorian bananas stays with each chain actor to cover costs and margin



The banana value chain

The transnational banana companies

Chiquita controls 25% of the global banana market. Bananas generate 67% of Chiquita's revenues; other interests are in fresh fruit, juices and canned vegetables. The company owns or part-owns banana activities in Costa Rica, Guatemala, Honduras, Panama, Colombia, Ivory Coast, Martinique and the Philippines. Chiquita also buys from Ecuador through Favorita. Chiquita's action plan for improving shareholder value speaks of 'owning production only in locations with lowest delivered cost and consistently high quality.' They seek to 'expand globally with large retailers'. In 2001, Chiquita broke ranks with the other multinationals and signed an agreement with the Latin American Banana Workers' Union Coordination (COLSIBA) and the International Union of Food Workers (IUF), committing the company to respect core ILO conventions and to work with the unions to promote a better working environment.

Dole claims to be the world's largest producer of bananas, growing and selling more than 120 million boxes of bananas annually to markets primarily in North America, Europe and Asia. Fully integrated operations include sourcing, growing, processing, distributing and marketing products. The company sources fresh fruits, vegetables and fresh-cut flowers in 28 countries and distributes products in more than 90 countries. Not being dependent on any one source is an explicit strategy to minimise risk from exposure in any one particular country. Dole is shifting its corporate strategy away from being *'primarily a commodity company'* to a produce company in order to *'escape the volatility of a commodity-driven market.'* The company sources 30% of its bananas from Ecuador under contract with 600 plus 'associate producers', and owns or part-owns banana activities in Costa Rica, Colombia, Guatemala, Honduras, Cameroon, Ivory Coast, Jamaica and the Philippines. It has over 50 processing, ripening and distribution centres, and the largest dedicated refrigerated containerised shipping fleet in the world. Dole has been 100% owned by CEO, David Murdock and family since late 2002. Revenues in 2002 were $4.4 billion.

Del Monte Fresh Produce (completely separate from Del Monte Foods since the break up of RJR Nabisco in 1989) has around 15% of the banana market, and also sells pineapples, melons and other tropical fruit and speciality vegetables. It owns or part-owns banana activities in Costa Rica, Brazil, Guatemala and Cameroon, and buys in Ecuador via Bandecua. The company has around 20,000 employees and has been a publicly listed company since 1997. Del Monte's main shareholders are IAT a holding company registered in the Cayman Islands and owned by the Abu-Ghazaleh family.

Exportadora Bananera Noboa is part of a conglomerate of 110 companies (Grupo Noboa) privately owned by Alvaro Noboa, Ecuador's richest man and twice presidential candidate. It has 9% of the global banana market and 30% of Ecuador's exports, and owns a large banana shipping fleet. Apart from over 7,000 hectares of its own banana production, Noboa also buys from some 600 'associated producers'. Noboa markets under the Bonita brand. One of the companies in Grupo Noboa (Indrizo) owns 9% of Chiquita Brands International.

Fyffes is the largest fresh produce distributor in Europe and among the three largest globally. Headquartered in Ireland, it has a turnover of €1.8 billion, and 3600 employees. Bananas make up 22% of the company's business; it has 8% of the global banana market (20% share in Europe) and is market leader in the UK. Fyffes is the sole exporter from Belize and Surinam, and has part-owned activities in Belize, Windward Islands (Geest bananas) and Jamaica. It also buys in Colombia, Honduras, Costa Rica and recently in Ecuador.

Although these multinationals are vertically integrated in sourcing, shipping, ripening, packing and distribution, they are moving away from direct ownership of production. As with other commodities, preferred-supplier arrangements are now the norm, with contracts specifying standards for quality, packaging etc. (Fajarnes-Garces and Matringe, 2002). For instance in Ecuador, the largest banana multinationals own very little of Ecuador's 180,000 ha of banana producing land. Chiquita and Del Monte source all their Ecuadorian bananas from third-party suppliers, Dole approximately 98%, Noboa 70-80%, and Favorita around 56%. Closely affiliated primary suppliers provide the bulk of requirements, while top-up suppliers fill shipment orders not fully met by the regular suppliers (Human Rights Watch, 2002). This distance from primary production has profound implications as to where responsibility for compliance with legal norms, minimum wages, and corporate codes of conduct lies in the chain, even for Chiquita's widely-hailed agreement with the unions.

Supermarket buyer power: UK 'banana wars' and the race to the bottom

Bananas are Britain's most popular fruit, overtaking apples in 1998. Bananas are a 'Known Value Item' – that is price awareness among consumers is high. When one leading supermarket drops the price of bananas, the rest are obliged to follow. Until mid-2002, loose bananas in the UK had been priced at £1.08 per kilo for around six years. Then in August that year, Asda Wal-Mart cut the cost to £0.94, thanks to huge volume discounts which Wal-Mart had exclusively negotiated with Del Monte Fresh Produce. Tesco, Sainsbury's and Safeway were compelled to follow. Morrison's took the next step, cutting the price to £0.85, and again all the major retailers followed suit. At the time of writing, Asda's price was £0.79/kg.

The data in Table 7.1 show that the major retailers are fighting banana price wars both by accepting lower margins themselves (Sainsbury's claim to be losing £22 million a year on bananas to keep up with Asda Wal-Mart[112]) and by demanding deep cuts at the supplier side. Lower supplier prices are felt keenly in exporting countries; Table 7.2 explains that with a retail value of £0.81/kg it is impossible for a grower in Costa Rica to be paid a legally minimum price for a box of bananas (equivalent at the time to £3.42), and in turn, impossible for that grower to pay labour a legal minimum wage. In Costa Rica plantation workers' daily wages have fallen from around $12-15 in 2000 to around $7-8 in 2003.

International buyers are in effect obliging all banana-exporting countries to reproduce Ecuador's poor labour and environmental conditions. During a century of struggle, workers in the Central American banana industry achieved decent wages, benefits and working standards. These wages and benefits are threatened by the dominance of non-union, low-wage labour from Ecuador, a country that has regained its global position as the leading and lowest cost banana exporter, which it held in the 1950s and early 1960s. Costa Rica plantation owners adopted a strategy of eliminating independent trade unions from the early 1980s and, as a result of the competitive pressure from Ecuador, remain virulently hostile to attempts to organise 20 years later. Ecuador's drive for increased exports is encouraged by the IMF under a *structural adjustment* programme to overcome a crippling debt burden. In the search for the cheapest bananas, Ecuador is the favoured source for the North American and European multinational banana companies. This is not necessarily good news for small Ecuadorian banana producers. Hellin and Higman (2003) reported that producers may sell their harvest for US$1.70 a box even though they signed forms saying that they have been paid the legal minimum price of $2.18 per box (currently $3.20). The Ecuadorian government is trying to tackle this abuse by getting all payments made through the Central Bank.

In 2001, the Federation of Independent Small Farmers and Indigenous Peoples of Ecuador (FENACLE) launched a campaign to improve working conditions for Ecuadorian banana workers by organising plantation workers into trade unions. Despite the huge difficulties facing union organisers, the first new banana workers' unions in over 20 years were formed in April 2002 on Noboa's huge Los Alamos plantation. But within a month these workers were attacked in the middle of the night by several hundred armed men, which the owner admitted he hired, leaving 19 workers injured; one man lost his leg.

Further consolidation in the UK supermarket sector is being watched with trepidation by the smaller scale producers in the Caribbean. Ralph Gonsalves, Prime Minister of St Vincent and the Grenadines, has written to Prime Minister Blair and the UK Office of Fair Trading protesting against Asda Wal-Mart's banana price war and the risk to his island's economy if Asda Wal-Mart were to take control of the Safeway chain of supermarkets. The price war drives the reduction in supermarkets' supply bases, and the culling of less competitive suppliers. In the UK, this process has been dramatic: in the space of two years Asda has reduced its number of suppliers from three to one, and Tesco from five to two (one of which is a forced partnership between JP/Dole and Pratts).[113]

Source: Banana Link, pers comm.

Table 7.1
The UK banana price wars 2002-3

Date	Retail price	Price to supplier[a]		Retail margin
	Per kg	Per box	Per kg	Per kg
12/2001	1.08[b]	£11.00	£ 0.61	£ 0.47
06/2002	1.08	9.50	0.52	0.56
08/2002	0.94[c]	9.50	0.52	0.42
09/2002	0.85[d]	9.50	0.52	0.33
01/2003	0.85[e]	9.25	0.51	0.34
02/2003	0.85	8.50	0.47	0.38
04/2003	0.81[c]	8.50	0.47	0.34
Summer 03 (est.)	0.75	8.00	0.44	0.31

[a] About 4% in 'over-riders' (discounts based on sales volume and paid retrospectively by the supplier to the retailer) must be deducted in order to derive the actual price paid to suppliers. These figures are rounded up or down to nearest 25p to protect sources.

[b] This price has held in all major UK multiples since the last Asda-led price war in 1996

[c] This price cut was led by Asda, all others followed

[d] This cut was led by Morrisons, all others followed

[e] Attempt to raise it up again to 0.92 was thwarted

Table 7.2
Transmission of retail banana price competition back to plantation workers in Costa Rica, based on May/June 2003 data

Stage along the supply chain	Price* for 40lb (18.14 kg) box equivalent (in £)
Retail value at £0.81/kg	14.69
Price to UK supplier (ripener)	8.97
Price delivered to UK port	7.80
Maximum price left for grower**	2.22
Price left for wages***	~ 0.45

* Prices converted from US dollars at US$1.58 = GB£1.00

** After deducting shipping, loading/unloading, the cost of the licence to import, and the EU tariff

*** Assuming 15% of costs of production is labour

Chapter 8
Dairy

The global dairy sector
Most of the world's milk production is concentrated in industrialised countries, especially Europe and North America. But milk production is growing most strongly in the 'developing' world in response to increased consumption and changes in diet. Developing countries account for 70% of imports of milk and milk products. In these countries participation of state trading companies in import markets has been substantially reduced and the importance of private sector importers has increased. Some 'developing' countries such as India, Pakistan and Brazil are important producers. Global milk consumption is predicted to increase from 422 million tonnes in 1997 to 648 million tonnes in 2020.

The industry has remained relatively geographically dispersed. International dairy trade absorbs only about 5% of cow's milk produced globally.[114] The trade is primarily in major manufactured dairy products – butter, cheese, and dry milk powders – with some trade in fluid milk products, ice cream, yoghurt and dry whey products. But improvements in transportation and the extended shelf life of UHT milk allows much greater distances between places of milk production and consumption.

Dairy is globally one of the most protected industries. Across all OECD nations the percentage producer subsidy equivalents (PSE) for milk in 2000 was 48%. The consequent problem of overproduction and disposal of surpluses at prices well below costs of production weighs heavily on international and local markets, such as the Dominican Republic where EU milk is sold at 25% below the cost of local production. In the EU, export refunds[115] for milk and milk products, expected to total € 1.4 billion in 2004,[116] are paid to processors and exporters such as Arla, rather than to dairy farmers.[117] The EU dairy regime is meant to put a floor in the market, but with UK prices again at the bottom of the European league table, the system is not working well for UK dairy farmers. The relative importance of subsidised exports is declining, and non-subsidised exporters such as New Zealand, Australia, Argentina and Uruguay are becoming more important global players; New Zealand has an astonishing 31% of global dairy exports.[118]

As with retail, the dairy giants are moving to where growth in consumption provides growth opportunities. And as noted in other commodities, some dairy processors have got out of the milk receival and commodity processing business, and shifted into branded value added products.

The dairy giants
Consolidation in dairy processing and manufacturing is gathering pace, largely driven by retail concentration. According to Rabobank International, the top 20 dairy processing companies globally accounted for a combined turnover of US$100.2 billion in 2000, 60% more than in 1992. The five largest companies (Table 8.1) accounted for 41% of this turnover. The momentum of consolidation is expected to accelerate because of the need for increased expenditure on R&D, commercial product development and quality assurance schemes from the farm to the plate – the classic quandary of being a preferred supplier in buyer-driven chains.

Downward pressure on processors' margins from increased supermarket purchasing power is very apparent in the UK, exacerbated by a tradition of below-cost selling. The major supermarkets are rationalising their supplier bases to benefit from scale economies and lower costs, putting further pressure on liquid milk processors. The six largest retailers in the UK are all now supplied with liquid milk from the leading four dairy companies (Arla, Dairy Crest, Express and Wiseman) – a number that is about to decline to three with the impending merger of Express with Arla. The large dairies are also raising the stakes by introducing new large-scale 'superdairies' to enhance their production and delivery capabilities further along the supply chain.

Source: Rabobank, cited by Danish Dairy Board[119]

Table 8.1
Top global dairy processing companies and cooperatives – Dairy Product Sales

	Company	Country	Dairy sales billion USD July 2003
1.	Nestlé	CH	15.3
2.	Dean Foods	USA	7.1
3.	Dairy Farmers of America (c)	USA	6.4
4.	Arla Foods (c)	Den/Swe	6.1
5.	Danone	France	6.0
6.	Fonterra (c)	New Zealand	5.8
7.	Parmalat	Italy	5.8
8.	Kraft Foods	USA	5.3
9.	Lactalis	France	5.2
10.	Unilever*	NL/UK	4.9

* Estimate, (c) Co-operative dairies

Headquartered in Vevey, Switzerland, ***Nestlé*** is the world's largest food company, with a total turnover in 2002 of around US$66 billion. The company has about 8,000 brands, employs 230,000 people, and has factories or operations in almost every country in the world. In 2000, Nestlé's seven R&D facilities had a combined budget of about US$600 million. The company has a strategy of balancing sales between low-risk and low-growth countries of the industrialised world and high-risk and high-growth markets of Asia, Latin America, and Africa (Box 8.1)

Dean Foods (formerly Suiza) has sales concentrated in North America. Dean Foods is the leading processor and distributor of milk and other dairy products in the US And has a turnover of around US$9 million. Dean Foods has a strategic alliance with the huge cooperative Land 'O Lakes, as well as Ahold and Giant Foods (Cotterill, 2003). The company recently announced record earnings for 2002, attributing this to *'reduced raw milk costs and the synergy of mergers'*.[120]

Kraft Foods (parent company Altria, formerly Philip Morris) which includes the General Foods, Kraft, Jacobs Suchard and Nabisco brands, had revenues of nearly $30 billion in 2002, putting it globally only second behind Nestlé.

Arla Foods was established in April 2000 by the merger of Arla of Sweden and MD Foods of Denmark, becoming the third largest supplier of fresh milk. Arla is Europe's largest dairy co-operative, processing seven billion litres of milk a year and employing nearly 20,000 people worldwide. In March 2003 the boards of Arla Foods and Express Dairies (the UK's second largest dairy group) approved a merger of the two companies. In May 2003 the UK's Office of Fair Trading officially requested the European Commission to review the merger; the Commission's initial review concluded that the merger provides no concerns for the procurement of raw milk. As a result, the OFT will only be considering fresh processed milk and fresh non-bulk cream. The merger decision was probably influenced by Safeway's transfer of all of the milk supply agreements it had with Express to its rivals Robert Wiseman and Dairy Crest, which offered lower prices.

Danone claims to be world leader in worldwide in fresh dairy products. Turnover in 2002 was €13.6 billion. 94% of group sales are within the EU.

Parmalat, based in Italy, is a world leader in UHT milk. Group sales were € 7.6 billion in 2002. The company focuses on milk, dairy products and beverages, with 57% of turnover from milk. Sales are divided between North America, Latin America and Europe. It is number one in UHT and pasteurised milk in Brazil, and number one in UHT in South Africa. Sales were US$2 billion in 1998.

The example of Brazil[121]

Supermarket chains' share of food retailing in Brazil has stabilised at around 43%, though consolidation within the sector has been rapid. The top five chains control 70% of the supermarket sector and these chains have taken a dominant role in food distribution. The bargaining power of the largest retailers has changed buyer-seller relationships and tightened suppliers' margins.

The retailing of milk has shifted rapidly into supermarkets, partly in line with the dramatic growth in popularity of UHT milk which now comprises 75% of the formal milk market. UHT milk can be transported long distances at low costs, and supermarkets such as Carrefour source as far away as Argentina and Uruguay.

Before the 1990s, most of the main dairy processing firms were central cooperatives. Deregulation of the dairy market between 1989 and 1993 saw almost all of these cooperatives sold to multinationals. Nestlé, Parmalat and Fleischmann Royal control around 60% of the Brazilian diary market. The top three dairy processing companies in Brazil – Nestlé, Parmalat and Brazilian-owned Vigor – had 53% of the market in 1996. By 2000, eight of the 10 largest food companies in Brazil were multinationals, with Nestlé the biggest.

As a result of higher price competition, dairy companies have consolidated their supply bases to reduce transaction costs. The number of farmers delivering milk to the top 12 companies, for example, decreased by 35% between 1997 and 2000, and the average size of those farm suppliers has increased by 55%. Nestlé alone shed 26,000 farmers from its supply list in the same period – a drop of 75%.

Stronger competition rather than concentration has compelled the adoption and diffusion of new technology and quality standards. Use of production contracts (already common in pork and poultry) has expanded to milk. Private standards instituted by leading processors require the adoption of refrigeration tanks at farm level, which in turn demands a minimum scale of operation. Half of Brazilian milk producers immediately found themselves out of the supply system of the leading companies, though processors have encouraged collective tanks in regions dominated by small dairy farms. However, processors report a diminishing number of these collective tanks because of the higher transaction costs of managing these systems.

The example of the UK

The recent history of the UK milk sector has been one of deregulation, with the termination of Milk Marketing Boards (MMBs[122]) in the UK in 1994-95, and crisis in primary production (Table 1.1). Deregulation, which gave producers a variety of alternatives for marketing their milk, has increased competition on the supply side. Fragmentation at the farm level amidst consolidation in milk processing has placed dairy farmers in a weak and vulnerable position.[123] Despite the relatively large farm size in the UK, there is no equivalent to the large farmer co-operatives controlling substantial processing facilities that are a prominent feature of the industry in several EU countries. Competition authorities may also bar the formation of co-operatives big enough to influence pricing. As a result, British dairy farmers appear poorly placed to achieve price increases or to negotiate lower input costs. There is a high probability of renewed downward pressure on retail prices. Levels of concentration in farming and processing will increase, with larger farmers tending to dominate direct supply to dairies. If the merger of Express Dairies and Arla Foods plc is approved, the 'Big Six' milk processors may have consolidated to a Big Three within the space of only three years: Arla Foods UK (39% market share), Dairy Crest (23%) and Robert Wiseman Dairies (19%). High-cost farmers will be under pressure to co-operate in order to reduce overheads. In practice, with consumer demand not matching the growth in supplier capacity, the increased capability of the Big Three dairies will form the basis for a new round of intense inter-dairy competition. This may in time lead to more consolidation.

Producers can contract to supply their milk directly to individual dairy companies and several companies have established umbrella organisations to represent producers supplying milk under these direct contracts. Another alternative open to producers is to join a milk selling group. These groups, which usually take the legal form of co-operatives, then sell on the milk to dairies. This stage in the supply chain is subject to continual change. There have been consolidations in the number of milk selling groups. Several have sought closer commercial alliances with individual dairy companies. Average farmgate prices hide these two distinct groups. Producers selling direct to dairy companies are receiving prices that have largely kept up with – or exceeded – prices elsewhere in Europe, while those selling to a milk selling group are receiving lower prices.

Supply chain governance is emerging in the marketplace, with many milk buyers being able to demand different requirements of their individual producers compared with the previous pooling arrangements. This has led to the emergence of different standards for hygiene and compositional quality, seasonality requirements and transport and collection options. Furthermore, a number of milk buyers are imposing on their suppliers standards for stockmanship, welfare and hygiene in order to meet the supposed aspirations of consumers and to give a competitive marketing edge.

Box 8.1
Nestlé in Pakistan

Pakistan is the world's fourth biggest milk producing country with 47 million cows and buffaloes producing 30 billion litres in 2002. Per capita consumption of milk and milk products is four times the Asian average (though half the European average), and accounts for around a quarter of consumer food expenditure. Most herds are very small, and yields are poor. Powdered milk imports made big inroads into Pakistan through massive dumping from the EU during the 1980s.

The role of Nestlé in Pakistan since setting up a joint venture in 1988 with Milkpak Ltd. has been both praised and heavily criticised, offering a window onto the controversy around the role of multinationals in the 'developing' world.

In the Punjab, Nestlé has established a cool chain for collecting milk from small producers even in remote areas, with over 2500 milk collection centres, 520 chilling centres and two processing factories near Lahore and Multan. It is now the largest milk collection system in the country, and almost has a monopoly of the UHT milk market, though this 'formal' sector comprises only around 5% of milk sales in Pakistan.[124] The company provides extension services for farmers in animal husbandry and livestock breed improvement. Nestle Milkpak also entered the export market in 1993, and now supplies countries in the Gulf, central, south and SE Asia.

Nestlé has also been accused of exploiting Pakistani dairy farmers by buying up their milk for less than it costs to produce and selling it back to local people at inflated prices. A report by Punjab Lok Sujag describes how both local middlemen and Nestlé pay farmers the same amount (11 rupees per litre), but that the packaged UHT milk from Nestlé sells for 32 rupees compared to 15 rupees for unprocessed (and diluted) milk from the local milkmen. National advertising funded by the dairy processing industry has vilified local milkmen as unhygienic and unscrupulous. The export drive has also been described as a threat to the food security of 4.6 million rural families in Pakistan.

Nestlé says it is revitalising the rural economy by disbursing over Rs.1.37 billion (US$ 24 million) annually against milk purchases, benefiting the over five million household members of the dairy farmers. A Nestlé spokesman has described the Punjab Lok Sujag claims as 'bovine excrement'.

Sources: the Independent 22 December 2002, Punjab Lok Sujag (2003)[125]

Box 8.2
'La Gloria' in Bolivia

The evolution of the milk market in Bolivia dramatically illustrates the impact of economic globalisation on small farmer organisations since the privatisation and subsequent capture by transnational capital of the state milk enterprise. Three public milk companies (PILs) were set up by the Bolivian state to supply milk to the major Bolivian cities in the 1960s and 1980s as social and economic enterprises. The PILs received millions of dollars of investments from the state and from international aid agencies. The three plants account for the vast majority of the country's industrialised dairy production.

The Association of Milk Producers in the Province of Aroma (ASPROLPA) was established in 1992 to co-ordinate the supply of milk from Aroma province on the high altiplano to the PIL near La Paz, providing social control of quality and supply. It was also to represent members organised in 'modules' in negotiations with the government on issues of price, credit, and technical assistance for livestock development. At its peak, ASPROLPA produced 10,000 litres/day, equivalent to 30% of milk production in the province, from areas of severe natural resource constraints and deep rural poverty.

The Peruvian food and construction conglomerate La Gloria bought a controlling stake in PIL's Cochabamba and La Paz operations for US $8m when they were privatised in 1996, and followed with purchase of the Santa Cruz company in 1999 for US $10.5m. Conditions were attached to the 1996 privatisation sale, in which Gloria paid Bolivian milk producers a premium over prices paid to lower cost producers in Argentina. The contract also required Gloria to buy all of the milk produced by the modules until the end of 2001.

Gloria has behaved as a classic monopsonistic enterprise that feels under no obligation to respond to local needs. In September 2000, PIL closed the La Paz processing plant and converted it to a distribution centre for milk arriving from the more efficient plant in Cochabamba. Milk produced on the altiplano now travels 600km to Gloria's processing plant in Tacna, Peru. Gloria asked all modules to install cooling tanks (at a cost of US $6,000 each) so that collected milk would meet their new quality-related standard of 4°C. Only two modules had these tanks already installed, and the other communities clearly could not afford the investment. As an alternative means to reduce collection temperature, Gloria then asked for collection during the middle of the night, at 2am, when milk temperature was low. When farmers complained, Gloria threatened to abandon milk collection, and pass responsibility of milk delivery to the farmers.

The situation improved somewhat in late 2000 when the local ice-cream manufacturer Delicia entered the market. But as Tony Bebbington notes, the capture of the state enterprises' milk collection and processing infrastructure by private capital, and the lack of ownership in the newly privatised industry by ASPROLPA members, leaves the organisation with very little leverage over the development of the milk market. Membership of MERCOSUR [126] may open a floodgate of cheap milk from Uruguay and Argentina, and ASPROLPA is looking to its local market on the altiplano as a potential survival strategy.

At the Santa Cruz plant, milk prices have fallen for both the formal and informal producer sector since the PIL was sold to La Gloria. This price reduction was not passed to the consumer.

Source: Muñoz et al [127]; Bebbington [128], Rushton et al (2002?)[129]

Multinationals and dairy smallholders in the 'developing' world

The role of multinational companies in the dairy industries in 'developing' countries will always be controversial. On one hand, accessing chains driven by large processors and retailers can allow technical upgrading and market growth; for instance Cafra, a local cooperative of dairy farmers in Southern Chile, had been selling its cheeses locally for many years until it gained access to a major supermarket chain. Their market has grown significantly as they now must supply a large number of stores nation-wide. But on the other hand, the impacts on domestic market structures can be predatory and extractive (Box 8.1 and Box 8.2). Multinationals can have extremely large market shares in poor countries, such as Nestlé's control of 80% of milk production in Peru.

Dairy production appears to be on the cusp of a major global shake-out. Dairy sector restructuring in industrialised and middle-income countries can have dramatic impacts not only internally, but also on the food systems of neighbouring low-income countries. Upgrading and intense price competition in middle-income countries, driven by the demands of powerful food processors and retailers, leads to saturation of markets with high quality, low price and long shelf-life milk. These products then flow across borders though formal and informal trade networks into fragile markets, displacing domestic production. Production systems that appeared to be sustainable at a regional or national level, such as those developed in the high Andes of Bolivia, are uncompetitive against these import surges. Policy-makers and producer organisations are almost completely unprepared for these 'spill over' impacts on domestic agrifood economies.

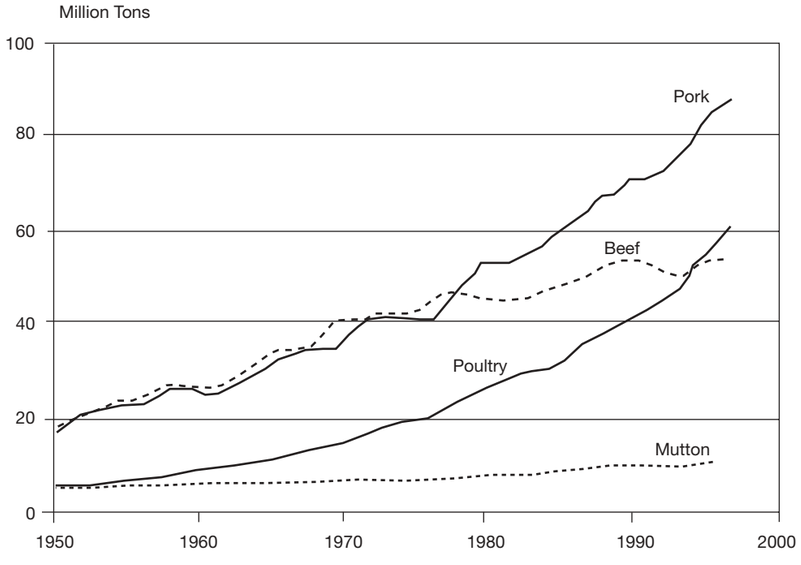
Chapter 9
Poultry and Pork

Poultry and pork – an overview
Global meat production and consumption is expected to rise from 233 million tonnes in 2000 to 300 million tonnes by 2020 (FAO). If established trends continue, poultry and pork meat will comprise the bulk of that increase (Figure 9.1). Livestock production is growing faster than any other agricultural sub-sector and it is predicted that by 2020, livestock will produce more than half of the total global agricultural output in value terms.[130] Output growth in 'developing' countries has expanded at double the rate of that in the industrialised world. Much of that increase is taking place in a limited number of transitional countries such as Brazil and China; China has seen an 8% annual growth in meat consumption over the period 1961-2000 (FAO, 2002). Poultry's share of world meat production has gone up from 13% in the mid-1960s to 28% in the mid-1990s.

While backyard production still provides the bulk of total pork and poultry production in low-income countries, what is particularly important about these sectors is the common features of industrialisation and *vertical integration* – both of which are occurring in these 'developing' countries. In 1996, industrialised systems accounted for more than half the global pork and poultry meat (broiler) production and 10% of the beef and mutton production. This represented 43% of total global meat production.[131]

Pork and poultry production is strongly buyer-driven, with short chains integrating input suppliers, producers, processors, supermarkets and food service companies. The sector has very low levels of state involvement, though it is indirectly subsidised through the low price of animal feed. The low prices of oilseeds and cereals will continue to drive intensive and environmentally damaging livestock production.

Figure 9.1
Trends in world meat consumption



Production is often a mix of in-house and outsourced production using rigid contracts with individual growers. Through vertical integration – owning animal-raising as well as processing operations – companies offset the cyclical nature of pork and poultry prices. Expensive pork or poultry means better income from production, while low pork or poultry prices mean cheaper raw materials for meat processing. Vertical integration is also justified by arguments of consistency of product and management of infectious diseases.

Through confinement systems and feedlots, livestock production has been standardised and removed from its dependence on land, season and place. Detached from their dependence on the land (other than a place to dispose of manure), industrialised livestock operations are free to move to be close to consumers, feed, cheap and available labour and weak environmental regulations. Commercial concentration in pork and poultry production and processing is thus usually associated with geographical concentration, which has profound consequences for environmental quality, migration and welfare of workers, food safety, and vulnerability to animal diseases. Hotspots such as Brittany, the piedmont of North Carolina, and peri-urban Bangkok, Beijing, Shanghai, Mumbai and Calcutta are cases in point.

Whether owned by agribusiness or a 'farmer', the production of poultry, pork, beef and more recently dairy can be operated by cheap vulnerable labour. Workers have little negotiation power because confinement systems can be replicated anywhere. Immigration laws supported by agribusiness have ensured that cheap labour is also in abundant supply. The prevalence of poverty in areas of industrial livestock production and processing[132] is testimony to the weak connection between livestock industrialisation and broad-based rural development.

Because animal production as a large-scale agroindustry ('factory farms') is disconnected from farmland and farming, it is at the forefront of competition between family farming and industrial production systems. Concentration in the supply chains of pork and poultry production is not just a question of farmers struggling with low farmgate prices; it is a struggle to retain any place in the market.

The poultry industries of southeast Asia and Latin America have been industrialised over the last three decades. Thailand began exporting poultry in the late 1970s and has become one of the stars of the country's agro-export performance. As wage rates have increased relative to neighbouring China, the industry has shifted from labour-intensive frozen boneless cuts to processed or pre-cooked chicken. Eighty percent of poultry production in Thailand now comes from only ten large, vertically integrated companies supplying feed and day old chicks to medium- and large-scale producers under contract. Also in the Philippines, by the late 1990s most broiler chickens came from major poultry integrators such as San Miguel. Independent farmers, usually purchasing chicks and feed, or feed concentrate, were supplying between 15 and 25% of the industry
(FAO, 2002).

Poultry trade has risen rapidly; in 2001 it accounted for nearly 43% of the world meat trade, up from 25% in 1990, with China and Russia accounting for over one-third of global poultry trade. World poultry markets are saturated. In contrast, international pork markets are relatively thin, with less than 4% of world pork output traded internationally.

International competition in both commodities is rising in the wake of the retail and food service sector's increasing internationalisation and trend to regional sourcing. This has transformed the competitive parameters of the industry, and can make even the largest national players look ill equipped to compete with giants such as Tyson and Smithfield in the US, Danish Crown in Europe or the CP Group in SE Asia.

Internationalisation of capital is a recent feature of global poultry and pork, whereby companies can move products with different specifications (provenance, quality, animal welfare etc.) to exploit differences in labour costs (see Table 9.1) and serve different market sectors. A classic example is investments by European-based companies in Brazil and Thailand; these companies use domestic production for fresh meat sales, where the consumer is more sensitive to provenance, and use cheaper imports for ready meals and food service customers. France-based Doux, the biggest producer of poultry in Europe, bought Frangosul in Brazil in 1998, which is ranked third in Brazilian poultry processing and exports (behind Sadia and Perdigao). The UK's Grampian Country Food Group,[133] which produces fresh and frozen meat products for the retail, wholesale and foodservice sectors, bought the business of Thailand based chicken products manufacturer

Golden Foods International in 2001. Golden Foods, which was renamed Grampian Foods Siam, exports chicken products from Thailand to Europe. Lower-priced imports are taking an increasing share of the UK market, growing from 7% to 20% in the past decade; 40% of chicken breast meat eaten in the UK is now imported. Fresh or frozen ready meals and meal centres (i.e. where chicken provides the main part of the meal, but to which something needs to be added to complete the meal), now accounts for 35% (value) of the UK market.

Competition between Thailand, China and Brazil for export markets is intense. Brazil exports over US$3 billion per year in meat products and meat related products. The livestock sector in Brazil employs 4 million people. Brazil has a 15% share of global chicken production (US 32%, China 12%) with over 9% annual growth during the past decade, and is the number two poultry exporter worldwide (20% market share) after the US (41%). The four largest poultry processors in Brazil have a 34% share of the domestic market.[134] Pork exports from Brazil, led by Sadia, have grown from 64,000 tonnes in 1996 to 350,000 tonnes in 2002. China, while accounting for nearly one half of global pork production, accounts for only 5% of global exports. Denmark, on the other hand, is highly export-oriented, producing five times more than it consumes.

The global giants of industrial livestock

Asia and Latin America are home to vertically integrated livestock operations such as Charoen Pokphand in Thailand and San Miguel Pure Foods in the Philippines – both diversified companies with very strong political connections. These giant companies combine breeding, feed supply, production on own farms and contracted production with independent growers, as well as processing and marketing both branded and own-brand products for retail and food service sectors. In contract growing, the companies provide piglets, animal feed, veterinary services and farm management skills to contracted growers.

Tyson has become the world's largest integrated producer, processor and marketer of chicken, as well as red meat, with the acquisition in 2001 of beef and pork powerhouse, IBP. The company had sales of US$23.4 billion in 2002. It has an astonishing 25%, 27% and 21% of the US chicken, beef and pork markets respectively. Tyson sells to every major US retailer including Wal-Mart, and is also number one in foodservice. It has over 7,000 contract poultry growers and 55 chicken processing plants. Tyson has poultry processing plants in China, Mexico and Panama. International sales in 2002 were US$3 billion; the company has an 18% share of world poultry exports. Tyson de Mexico is the number three chicken processor and top producer of 'value-added' chicken in Mexico, serving retail and foodservice customers.

Smithfield claims to be the world's largest pig farmer and pork processor, raising 15 million pigs and processing 20 million pigs annually, giving the company a 13% market share of US production and 20% of processing. In a steady effort to diversify, the company has built up its turkey, beef and prepared foods operations through acquisitions. Smithfield failed in its bid to acquire the pork division of Farmland Foods – the largest farmer-owned cooperative in the US – which would have given the company 27% of the US pork processing industry and a monopoly in many regions. Smithfield made its first international acquisitions in 1998, buying meat processors in Canada (Schneider) and France (Société Bretonne de Salaisons). The purchase of Poland's largest meat packer and exporter (Animex) and a joint pig-raising venture in Mexico (Norson) followed in 1999. And in December 2001, Smithfield joined a Dutch company (Artal Holland) to produce and sell meats in China (AFG) from a base in Guandong province. Smithfield's international sales topped US$1.3 billion in 2002, about 15% of the company's total revenues of $7.9 billion. Smithfield considers that with the expansion of the EU, the Polish operation will be a great platform to launch into the rest of Europe. It is hoping to vertically integrate Poland like in the US, but has encountered strong grassroots resistance from the family farm lobby.

Table 9.1
Comparison of processing and distribution costs

Country	Labour cost (US$/month)	Cost of freight to EU (US$/tonne)	Tariff
Brazil	350	170	11-15-80
USA	1,500	n/a	n/a
Thailand	120	180	11-15-80
UK	1,700	0	0
Hungary	242	58	0 (after EU accession)

ContiGroup (formerly Continental Grain) is one of the world's largest cattle feeders; the sixth-largest integrated poultry producer in the US; and, through its interest in Premium Standard Farms, the nation's second-largest integrated pork producer. The company is also a leader in flour milling, and one of the largest animal feed and poultry producers in China.

The Danish Crown group of companies is a Danish producer cooperative, and the largest pork processor in Europe, with a turnover in 2002 of around € 5.8 billion. It handles 90% of Denmark's national slaughtering and annually supplies 19.9 million pigs.[135] Exports are worth around € 3.8 billion. The parent company has 28 pig slaughterhouses and cutting plants, and is soon to open a new plant with a capacity of 50,000 animals per day.

The ***Charoen Pokphand Group*** (CP) is a large Thailand-based multinational conglomerate with interests ranging from feed milling to poultry production to restaurants, stores and petrol stations. It has 250 companies in 20 countries, with more than 100,000 employees and a turnover in recent years in the order of US$13 billion. The CP Group introduced fully integrated agribusiness to Thailand, and later exported the model to Indonesia, Taiwan, Malaysia, China, Vietnam, Cambodia and Laos. It is the largest single foreign investor in China. The CP Group also operates fast food outlets to sell poultry meat, not just in Thailand but also in China. CP has invested heavily in developing an integrated retail business in China.

The ***San Miguel Corporation*** is the dominant food and beverage manufacturer in the Philippines. It had sales of around US$2.5 billion in 2002, 30% from food. San Miguel purchased Pure Foods from Ayala in 2001. San Miguel Pure Foods (SMPF) comprises the Purefoods-Hormel Company, Inc. (a joint venture with US-based Hormel Foods International) which produces, processes and markets pork. Another division of San Miguel, Monterey Foods, performs pig breeding, pig and cattle fattening, processing and marketing. San Miguel Foods breeds, hatches, processes and markets chicken, as well as animal feeds and flour. SMPF is also owner of the Magnolia dairy subsidiary. SMPF processes over 50 million broilers per year and has around 50% of the Philippines market for processed meats. The company has over 100 facilities in the Philippines, Southeast Asia, China and Australia.

Sadia is Brazil's largest pork and poultry processor, and has become Brazil's leading maker of frozen and processed foods. Sales in 2002 totalled US$1.2 billion. Other products include frozen desserts, margarine, and pasta.

PT Japfa Comfeed Indonesia is 'is one of the largest and most integrated agri-food companies in Indonesia'. Sales in 2002 were around US$500 million. Its core business activities include animal feed manufacturing, chicken breeding, poultry processing and aquaculture farming. The company is also active in India – attractive to integrators because of its very fragmented poultry market with hundreds of small and medium-sized operators – and Vietnam, through joint ventures.

High levels of concentration in livestock production and processing are not necessarily associated with high levels of profitability. The large supermarkets are the main governors of the UK poultry chain, as production is mainly own brand and the supermarkets have almost 90% of the market by value.[136] Despite producers becoming individually larger and many selling through groups, they are no match for the power of the processors and retailers. The top UK producer Grampian Country Foods, for instance, with an annualised turnover of £1.45 billion,

cleared only £36.5m and £28.7m profits in the years 2000-1 and 2001-2.[137] The low returns experienced in the sector are demonstrated by the decision of ConAgra to get out of the meatpacking business, recently selling its fresh beef and pork business to outside investors for $1.4 billion and selling its chicken processing operations to Pilgrim's Pride Corp.

Impacts on family farmers and workers

The revolution in livestock production and the structural shifts to vertically integrated production dominated by a few large producers or integrators is bringing profound changes to family-based and small scale poultry and pork production in 'developing' countries, following the same pattern as the US and Europe. Even if back-yard production is replaced by contract production on farms rather than industrial-scale production, along the lines of US poultry production, the equipment and labour required to raise 25-40,000 birds per cycle makes contract growing capital intensive relative to its poor economic returns.[138] Little is know about the impact of vertical integration in livestock production on Rural Worlds 2 and 3 in developing countries, such as the loss of rural employment and flow of money out of the countryside (FAO, 2002).[139] What is clearer is the human cost of the low wage and high risk jobs in the huge meat processing plants, with production chains running too fast with inexperienced personnel, risking injury to workers and contamination of meat with ingestive material and E-coli. And the environmental impact of highly concentrated livestock production on land, water and air are well understood.

In the UK, a significant proportion of the additional costs falling on the industry in recent years has been passed to the primary producer, often without negotiation. These global trends are driving structural changes in UK pig production, with more small or specialised pig farms quitting the industry and consolidating herds. Herds over 1,000 head constitute only 16.6% of holdings but 80.4% of total UK pig numbers. At the other extreme, herd sizes of 1-19 constitute nearly half of all holdings, but contribute a negligible 0.5% to the national herd. Many pig producers in the UK had negative incomes across the last five years. The higher labour costs in the UK mean that pressure on wages and jobs will continue, especially when EU enlargement removes tariffs on imports from CEE counties (Table 9.1).

Even 'British' poultry production, like 'British' horticulture, depends on an army of migrant labourers who are prepared to work for £4.20 an hour.[140] Because chicken production is so industrialised, the main connection with rural development results from employment (and unemployment) in rural areas associated with poultry processing. Many of the hotspots of the chicken industry in eastern England are in areas without many alternative employment opportunities. The potential impact on a small market town of the closure of a single relatively large firm such as a processing plant may be very severe. Examples include the recent loss of 350 jobs with the closure of the Brandon's turkey processing plants factory at Dalton near Thirsk, as well as the question mark over 650 more jobs at the Abergavenny plant, after the company went into receivership following a period of increased competition from cheaper imports, including turkeys from Brazil and Eastern Europe.

Chapter 10
Fruit and Vegetables

The trade in fresh fruits and vegetables (FFV) provides a fascinating parallel to pork and poultry. It is a sector with relatively buyer-driven short chains, very little state interference in production and markets, strong retail governance which has restructured supply chains, prevalence of contract growing, and imposition of highly exclusive quality standards which have big implications for the growing horticulture export industries in the tropics and Rural Worlds 2 and 3. When people talk about supermarket power, more often than not, it is with FFV in mind.

The global fruit and vegetable sector

World annual production of FFV totals approximately 1 billion tonnes, and global trade in fruits and vegetables is worth around US$70 billion. But Cook (1998) reports that only 4.4% of global vegetable production and 8.9% of fruit production are traded internationally – in other words, markets are relatively 'thin'. After bananas, the primary internationally traded commodities are citrus, apples, tomatoes and grapes. As with other commodities, the top producers are frequently not the top exporters, and vice versa. China, India and Brazil account for 30% of world fruit production, but their impact on global trade in fresh produce has been minimal, though this may change rapidly (Box 10.1). The US and EU are the largest fruit and vegetable importers and exporters, with 40% and 11% global market share respectively (excluding wine and nuts). Major fruit exporters in the Southern hemisphere are Chile, South Africa and New Zealand.

The European fresh produce sector

The UK has long been a major importer of fresh produce. Over the past decade, UK domestic growers of fresh produce have lost out substantially to imported products. By 2001, the UK producer value shares of the domestic vegetable (including potatoes) and fruit markets were 71 and 10.4% respectively. When potatoes are excluded, national self-sufficiency in vegetables is much lower. Despite a national health campaign to increase consumption of fruits and vegetables, there is a crisis in national primary production, partly driven by a mismatch between domestic varieties and changing consumer preferences. The decline in domestic production is mirrored in data of planted area, with the area under vegetables declining from 178,000 to 137,000 ha, and under fruit from 40,000 to 30,000 ha over the decade. As the fresh fruit and vegetable sectors are largely market-oriented, domestic producers face unfettered competition from imports.

Trade liberalisation and advances in post-harvest technology and long-distance cold chains have driven rapid increases in trade in fresh produce from a low base. The market for high quality FFV has grown at a rate above population growth, supported by trends including greater consumer demand for healthy, fresh and convenient foods, and supermarkets' increased emphasis on fresh produce to attract customers.

In terms of industrial concentration, the fresh produce market is not characterised by narrow bottlenecks in trading or processing. Governance of the chain resides at the retail end.

Box 10.1
The Chinese fresh produce market: a global giant

China exports only around 1% of its vegetable production, but investment is pouring into the sector. Exports, currently standing at 1.3 million tonnes per year, are growing at around 10% annually. Major markets for Chinese vegetable exports are Japan, Hong Kong, Russia, South Korea and Singapore. The Chinese domestic market is also attractive to other low cost producers in the region; China currently takes over 30% of Vietnam's total export of fruit and vegetables. The fruit and vegetable market is the largest sector of the Chinese retail food market, but has been one of the last to be affected by the development of new retail formats. Fruit and vegetable sales are still dominated by the *wet markets*, supplied directly by local farmers and with low levels of concentration. Similar observations of a lag in supermarkets' share of fresh produce market share have been made in Latin America, most strikingly in Chile (Reardon and Berdegué, 2002). But some supermarket companies in China are reporting a doubling of year-on-year FFV sales, a process hastened by the SARS outbreak. The ascendance of supermarkets will have large impacts on the way fresh produce is grown.

Fresh produce is usually own-brand, providing the supplier with very modest market power. Profit margins at the grower level therefore tend to be depressed, and many suppliers of fresh produce perceive themselves to be little more than sub-contractors in a distribution chain heavily influenced by the large multiple retailers.

But the fresh produce category itself is highly attractive to retailers. Fresh produce carries some of the highest profit margins of any product category in a store.[141] In addition to total sales, fresh produce also influences a customer's choice of shop, and represents quality and high standards throughout the store. Hence, the fruit and vegetable sector is an important element in retailers' competitive strategies.

Supermarkets are narrowing their fresh produce supply bases, which is driving consolidation at all levels of the chain, but not to the level seen in bananas. Global sourcing of fresh produce by the transnational retailers, as implemented by Wal-Mart with their banana purchasing, is just beginning in other fruits and vegetables. Preferred suppliers or 'category managers' are often integrators or grower-packers providing year-round supplies from the Northern and Southern hemispheres through alliances with overseas suppliers. Mack Multiples, for example, sells £270 million of fresh fruit and vegetables to UK retailers from over 60 countries. Fresh vegetable production and packing in the UK has a trend towards very narrow specialisation in response to supermarket, processor and caterer requirements for category management and traceability; examples of specialist grower-packers include *United Vegetables* and *Marshalls* (brassicas), *Langmead Farms* (lettuce), and *Rustler Produce* (onions). The multinationals including *Chiquita*, *Del Monte* and *Dole* are also involved in FFV. Fyffes is the leading fresh produce operator in Europe, with a turnover of €1.8 billion. *Geest*, with 2002 sales of £762 million, is very active in the convenience/prepared salads market, with a 40% share.

The level of private sector governance of the sector is high, especially by multiple retailers. As the fresh produce chain is relatively short, primary producers get involved in standards and due diligence issues at an early stage.

Price pressure is paramount, however, and the brunt is felt by horticultural labour. 'British' horticulture is sustained by a casual labour force of migrant and often undocumented workers in the same way as horticulture in California, Florida or Spain. Tomatoes from the UK or Spain, for example, are cared by an itinerant international workforce, comprising many people from Rural World 3 obliged to migrate to escape poverty and/or send remittances home as part of extended livelihood strategies (Box 10.2). Growers are always looking over their shoulder at competition from lower cost imports – the UK looking at Spain, Spain looking at Turkey and Morocco. Half of the 72,000 people employed planting, harvesting and packing in the UK food industry are supplied by 'gangmasters'.

Box 10.2
Migrant Rural World 3 and Spanish tomato production

The boom in the Spanish horticultural sector at the beginning of the 1990s coincided with the massive arrival of immigrants in Western Almería. In this region immigrant workers make up 90% of the rural workforce, and around 30,000 immigrant workers live in the district; 50% are Moroccans and the rest mostly Senegalese, Ukrainians and Russians. A typical work team comprises one Spanish foreman and nine immigrants employed to run three 'invernaderos' (plastic tunnels). Immigrant workers are paid around € 2/hr.

There are 150,000 Ecuadoreans currently living in Spain, one of Spain's largest immigrant communities. Around one million Ecuadoreans left their country of nearly 13 million in 1999 and 2000. Ecuadoreans work on farms in Murcia, Lorca and Almeria. In Lorca, about 220 miles southeast of Madrid, there are up to 9,000 Ecuadoreans working on vegetable farms. In April 2001, Spain's Work and Social Security Inspection office discovered a strawberry farm in Huelva which employed more than 100 immigrants in exploitative conditions. Spanish authorities said the undocumented workers from Ecuador, Morocco, Lithuania and Romania were suffering 'extremely glaring exploitation', living in substandard housing and owed several weeks of back pay. The report said the clean drinking water provided the workers was rationed, that they had neither latrines nor showers, and that they slept packed together in sheds made of corrugated iron measuring six square metres each, with no electricity or ventilation.

They provide the industry with a flexible workforce to meet the seasonal demands of planting, harvesting and packing crops and the market demands of fluctuating daily and seasonal retail requirements. There is evidence that abusive, evasive and fraudulent activities are frequent, including non-compliance with national and/or agricultural minimum wage, unlawful deduction from wages and use of illegal immigrant labour (House of Commons Environment, Food and Rural Affairs Committee, 2003). Voluntary codes of practice have been developed in collaboration with the government, covering both field and packhouse workers.

The influence of retail governance on export vegetable production in the 'developing' world
One area where 'developing' countries have been able to engage in global markets is the export of non-traditional crops to meet supermarkets' demand for consistent year-round supplies of fresh produce. Sizeable export-oriented horticulture industries have developed in Kenya, Zimbabwe, Zambia, Burkina Faso and other African countries for the European market. The same niche is filled by Guatemala, Costa Rica, Colombia and Mexico for exports to the US (Thrupp, 1995).

However, returns are highly concentrated at the end of the chain in the importing countries. Dolan et al. found that for mangetout imports from Zimbabwe, 45% of retail value is retained by supermarkets to cover costs such as wastage and to ensure a profit margin while the producer share was only 12% (Figure 10.1). The team found very similar figures for fresh vegetable exports from Kenya, with producer and supermarket shares of 14 and 46% respectively. And in Guatemala, producers of snow peas received about 18 cents of the retail price of $3.99 a pound (Thrupp, 1995).

Horticulture is now Kenya's second biggest earner of foreign exchange, after tea, earning US$300m a year. Seventy thousand Kenyans are employed directly in the export of raw products and pre-packed and pre-prepared vegetables; another 20,000 are employed in ancillary industries, and the industry supports as many as 500,000 people. These export packhouse workers earn 60% more than similar workers in other sectors, but the flexibility required to meet supermarket orders puts considerable pressure on labour, leading to long working hours, misuse of overtime, and casualisation of labour contracts (Box 10.3).

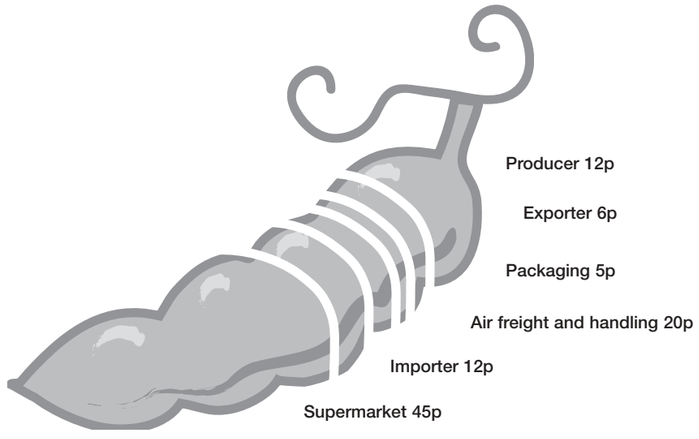
Smallholders traditionally were the backbone of the Kenya export horticulture trade, comprising 70% of production, marketing individually or as groups. But by the late 1990s, 40% of the products for export came from the farms or leased land of exporters such as Homegrown Ltd,[142] 42% from large commercial farms, and only 18% from smallholders (Dolan and Humphrey 2000). In 2002, 1,600 Kenyan growers lost their contracts. The same consolidation also took place among exporters. Dolan and Humphrey found that the top seven exporters controlled over 75% of all exports by the end of the 1990s. The small and medium-size firms that remained in the trade were largely dependent on arms-length marketing relationships, exporting bulk produce to wholesale markets. This shakeout of Rural World 2 and the smaller operations is due in large measure to supermarkets' preference for sourcing from large firms *'capable of assuming responsibility for the rigid enforcement of standards'* (Friedberg, 2003, emphasis added).

Supermarkets' standards focus on food quality and management of risk – safety and traceability. Packhouses are required to have increasingly sophisticated equipment for tracing and labelling produce which increases the scale and cost of operations. There are also standards for environmental protection and welfare of workers, even specifying the brand of fire extinguisher used in packing houses, but suppliers report that these are secondary requirment of supermarket buyers.[143] But the high capital requirements associated with meeting standards for due diligence may be a major barrier to market entry and driver of differentiation.

The risk that inappropriately stringent standards will marginalise small horticulture producers – Rural World 2 – has long been understood.[144] Yet intermediaries prefer working with large established agribusinesses to reduce their transaction costs, which include searching for potential clients, contract negotiations, distributing products or services, and monitoring contract growers' behaviour (Huacuja, 2001), including adherence with standards for agronomy, hygiene, labour welfare, environment etc. (Box 10.4).

Source: Dolan et al., 1999

Figure 10.1
How much of £1.00 retail value of mangetout exported to the UK from Zimbabwe stays with each chain actor to cover costs and margin



In Zimbabwe it is reported that small-scale farmers in one scheme receive less than 30% of the price per kilo paid to commercial farmers who deliver directly to a packing plant (Coulter et al., 1999). In Zambia, where a dynamic horticulture sector developed in the mid-1990s exporting microvegetables, Friedberg found that quality standards have had a dramatic impact on industry structure:

'This is the contradiction masked by the 'fetishism' of standards guaranteeing clean, green ethical trade. Namely: standards cost, and the retailers are not willing to pay. The costs of crèches and clinics and chemical storage facilities, of protective clothing and medical checkups for all the pesticide sprayers, of the labour to keep records and monitor workers – all these are borne by the supermarkets' suppliers, meaning the companies themselves and their white farmer outgrowers. Most outgrowers support the idea of providing schools and other facilities for their workers, and generally agree with the supermarkets' standards for minimal pesticide use. But while they have invested in complying with these standards, the UK retailers' prices have remained flat, leading to shrinking profit margins. Weighed against the long hours and high stress of vegetable farming, the profit squeeze has driven most of the outgrowers out of the micro-veg business.'
(Freidberg, 2003).

Box 10.3
Working for Homegrown in Nairobi

Homegrown is Kenya's leading exporter of cut flowers and vegetables. The supermarkets will email their orders at midday for produce they want put on flights to the UK that night, depending on how much their computerised tills tell them they sold the day before. The orders can go up and down dramatically. A flexible workforce to fill the orders is essential. Many of those workers live at Pipeline, a spreading slum of new high rise blocks and unfinished flats occupied by labourers who have migrated to Nairobi from the rural areas for work. 'Gladys' came to Nairobi to support her husband and three boys and to try to earn enough money to send them to school. She lives with them in one room in a block where about 100 people share a lavatory and outside tap. For that she pays 2,000 Kenyan shillings a month. Her target at the factory is to top and tail 180kg of beans a day, for which she is paid 200 shillings (about £1.60). But they often have to do more and then they get performance bonuses. Typically she will earn just over 6,000 shillings a month after tax and insurance deductions, which is a lot by Kenyan standards. But it's six days a week, and she's supposed to have the seventh day off but it's been cancelled this week because there are too many orders. She feels she has no say in how long she works. Homegrown says the labour force is never required to work extra hours but that while, in fact, many people want to work longer, the company tries to stick to the Ethical Trading Initiative guidelines of not letting overtime exceed 12 hours a week.

Felicity Lawrence, *The Guardian*, 17 May 2003

Box 10.4
EUREP-GAP standards

EUREP-GAP began in 1997 as an initiative of the Euro-Retailer Produce Working Group (EUREP) with the laudable goal of harmonising supply chain standards worldwide for good agricultural practice (GAP). The main focus of the EUREP-GAP Protocol 2000 is standards for food safety and traceability designed to meet consumer concerns about pesticides and food hygiene, with environment and worker welfare issues as a secondary concern. Growers receive EUREP-GAP approval through independent verification from an approved certification body. But representatives of 'developing' country producers have expressed alarm at the 'imposition' of EUREP-GAP standards by retailers without due consideration of local conditions. They claim that current standards (1) favour large-scale producers and threatens the livelihoods of 'hundreds of thousands of people' in exporting countries such as Kenya, and (2) becomes in effect a barrier to market entry. EUREP-GAP requires their growers to have an annual farm audit. An audit costs about £300; for a grower in Ghana for example, this will absorb perhaps 70% of his profit. At the present time there is no alternative. Supermarkets may require banana suppliers to comply with EUREP-GAP, ISO 14001, and the Ethical Trading Initiative's Code of Labour Practice.

Sources: *Fresh Produce Journal* 19 Sept 03, Banana Link

Quality standards may improve pesticide management and also indirectly drive quality competition in domestic markets. But as Freidburg (2003) notes, *'Efforts to impose such standards on African horticultural exporters thus respond more to the particular anxieties of corporate retail management than to the concerns of the workers in the horticultural export industry themselves.'* Based on observations in the San Francisco valley of post-liberalisation Brazil, Terry Marsden echoes this perception of retailer-imposed quality protocols as a *'re-regulation of agriculture along private lines'*, around a particular construction of consumer interests which is having severe implications for farm structure.[145]

The story of small producers dealing with agribusiness is not one of unremitting gloom. There are case studies of economic organisations of Rural World 2 effectively negotiating contracts with agribusiness, supported by state oversight of the contract process (Box 10.5).

Box 10.5
Smallholders and agribusiness: contract potato production in NorthernThailand

Recent research in Northern Thailand found that land-poor rice farmers have organised themselves to negotiate a production contract with a potato processor, and to manage a marketing system for other varieties of potatoes, and thus have been able to develop a highly profitable rice-potato system. Farmers have found that by growing both processing potatoes under contract with processing companies, and cooking potatoes for the domestic market, they can spread risk and avoid over-dependence on one partner, diversifying their enterprises between contract and open market arrangements. Organisation by farmers has allowed them to effectively demand services and resources from government authorities and local politicians. A farmer organisation in the form of a Potato Growers Cooperative has been effective in managing supply and therefore the price of cooking potatoes. Contract farming has helped promote the production of a quality product and assured quantity. However, the development of the modern formal contract is a long process; in Northern Thailand, it took at least 30 years.

Source: Gypmatasiri et al. (2001) [146]

Chapter 11
Regoverning markets: Balancing power in agrifood chains

Finding the right balance between markets and the public framework in which they operate is the most important issue of our times.
(Jeffry E. Garten, Yale School of Management and former US Undersecretary of Commerce for International Trade, Business Week, Jan 25 1999, 28)

This report started off with two questions: (1) why do farmers receive so little for what they produce? and (2) why is there a large and widening gap between producer price and retail price?

As for low producer prices for bulk commodities, increasing competition in global markets and the failure of those markets to 'self-correct' are more directly to blame for chronic oversupply, weak world prices and the strength of the 'buyer's market'. The indirect influences of corporate lobbying against supply management, corporate support for production-maximising policies, and a support for trade policies which create a global 'level playing field' in which agribusiness *'has free reign to play the interests of one country against another'* (Levins, 2001) have already been discussed.

But when only a handful of giant buyers face a large number of primary producers, as experienced by grain and livestock farmers in North America, those buyers are in an even stronger position to set low farm prices. And corporate concentration is clearly implicated in question (2); the growing divergence between producer prices and retail prices. The example of coffee is a particularly blatant demonstration of buyer power.

A combination of low prices and high costs of participating in the higher-value chains is marginalising primary agricultural producers and labourers – Rural Worlds 2 and 3 – at a time when the world is expecting agriculture to be the engine of poverty reduction and the provider of 'multiple benefits' such as the conservation of biodiversity. Farmers have to expand production and squeeze wage costs (and in the industrialised world, rely more heavily on public subsidies) just to stand still. In other words, corporate concentration may be fuelling the 'treadmill' described in Chapter 2, so that it spins even faster.

It is not enough for global trade rules to be reformed. Even if they were reformed, disparities in bargaining power, scale, market access, information or access to credit may entrench anti-poor and anti-rural bias in markets.

Market structures have a political nature, and the political process must be put to work for the reform of those structures to ensure that one firm's 'sustainable business' is not a producer's 'unsustainable farming'. A broadening of economic analysis can allow concrete steps to be taken towards the social control of raw monopoly capitalism and the regulation of industries and markets to improve economic performance (Cotterill, 2003) as well as social justice.

Producers, governments, companies and civil society all have a role in addressing corporate concentration in agrifood, and in building a more equitable apportioning of power along value chains:

- Producers need to organise commercially so they can develop countervailing power and improve their access to buyer-driven chains.
- Governments must re-examine competition policy to account for the effects of buyer power, and re-examine what supply management can achieve.
- Multilateral policy makers should revisit commodity supply management and international competition policy, and monitor corporate concentration on a global level.
- Corporations need to fundamentally re-examine what it means to implement 'corporate social responsibility'.
- Donor agencies need to wake up to the importance of corporate concentration in agrifood markets and rural livelihoods.
- And civil society organisations can help, first and foremost, by appreciating that reversing the economic marginalisation of family-scale agriculture is a global struggle.

Each of these options is discussed below.

Options for producers – 'cooperating to compete'
'Without market power, farmers can add value, but they cannot keep that value for themselves.'[147]

The most obvious advice for small-scale and family farmers responding to the changes in agrifood organisation is to treat the changes as the new commercial reality, and to organise to engage with this reality. Small producers in both 'developing' and industrialised countries are being advised to forge direct relations with the market, as well as with providers of research and advice, with NGOs, and with

the state. The opportunity, it is argued, is for small producers to exploit their comparative advantage and emerge as full partners in (and drivers of) economic and political development.[148] This report has noted successful connections between agribusiness and smallholders such as in dairy and vegetables.

This is the logic of *'small farmer economic organisations'* (Berdegué, 2001) in the developing world and *'new generation'* cooperatives (NGCs)[149] in the industrialised world. Both have similar drivers: producers realising that *'in a chronically oversupplied market, a marketing mentality – in which organisations perform at higher levels of specification, coordinate technology use and improve scheduling – is necessary to contract into differentiated agri-food chains, or capture value-added by establishing processing firms'* (Sofranko et al., 1999). An economic organisation or NGC may be set up by producers around a common interest in generating improved income, through the joint production and/or marketing of a commodity, accessing market information, unifying their production goals and possibly extracting themselves from the grasp of middlemen and farmgate buyers.

Participation in economic organisations can bring significant economic benefits when the organisation operates in chains with high transaction costs, such as dairy (Berdegué, 2001). They are well placed to deal with the management requirements of regulations and inspections associated with buyer-driven chains. Success depends on group solidarity, collective bargaining techniques and institutions that enforce contracts impartially and secure long-term property rights (Vorley, 2002). To fill the gap left by the abolishment of national stabilisation schemes and state trading enterprises, economic organisations could also transfer part of the risk of price volatility to the market using *hedging* strategies.[150]

However, when transaction costs are low, as they are for undifferentiated commodities like wheat and potatoes, there may be no benefits from collective activities. And in terms of managing price on a large scale, economic organisations of growers cannot hope to be a substitute for governments as organisers of exports.

For commodity producers, there is also a strong case for re-examining the accumulation of countervailing power through cooperative action – a return to the cooperative principle of solidarity. All the discussions in the UK, for example, about shortening supply chains and making then more transparent will not benefit poorly organised farmers when more powerful actors appropriate any ensuing savings. British farmers have a comparatively weak tradition of cooperative action compared to Scandinavia and northern Europe. The development of cooperatives in the context of globalization and open borders faces the obvious dilemma: how to reach the required size to exercise countervailing power against transnational agribusiness and retailers which are scouring the globe for their supplies?

Another important option for producers is to opt out of extractive and exploitative markets, and to diversify into localised markets and alternative trading structures.

Options for national governments – addressing buyer power

'The logic of globalisation has led, in fact, to a redefinition of national interest… in which government policy assumes that advancing the well-being of shareholders and global firms – as opposed to the general population, workers and communities – provides the highest overall benefit.'
William Grieder [151]

Great hope has been placed in industry 'self-regulation' to deliver national goals of sustainable development. But the limits of corporate self-regulation within their mandate to maximise shareholder value should be obvious. An efficient mainstream supermarket, for instance, has few routes for increasing shareholder value other than to (1) get bigger, by eating up competitors at home and abroad, and/or (2) get leaner and meaner, by squeezing suppliers and workers, and by externalising costs. In terms of national agrifood policy, some of these decisions – which are completely logical at the firm level – will be neither in the net 'national interest' nor in the interests of equitable global development. Governments are, of course, concerned that any restriction on the sector would make national retailers globally uncompetitive.

What is needed is a re-examination of competition law and policy. Competition policy traditionally seeks to ensure that the seller's side of agrifood is working to the benefit of consumers. If excessive corporate concentration in food processing or retailing was found to be driving a wedge between producer prices and retail prices, then it follows that those excess profits should be passed from the companies and their shareholders to consumers. But buyer power needs to be examined in the development of national competition policy on its own terms. Equity and fairness in trading relationships is required to create a 'level playing field' for the world's farmers.

Some states in the US have introduced anti-corporate farming laws, such as restrictions on non-family corporations from ownership of farmland or downward vertical integration of livestock processing with production. For instance, an Iowa statute prohibits any processor of beef or pork from owning, controlling or operating a feedlot in which feeds pigs or cattle for slaughter. Nebraska law prohibits direct or indirect packer ownership of livestock more than five days before slaughter. Through comparison of farm-dependent counties in states with or without anti-corporate farming laws, Welsh and Lyson (2000) found evidence that these laws can lead to fewer families in poverty, lower unemployment and higher percentages of farmers receiving cash gains from farming.[152]

A number of European countries have introduced laws intended to curtail supermarket power, mainly to protect small retailers rather than suppliers and primary producers:

- In France, the 1996 'Loi Galland' forbids selling at a loss and 'excessively low prices.' Listing fees are not permitted where there are no real benefits provided by the retailer for those fees, refunds have to appear on bills and cannot be negotiated at the end of the year, and a retailer who wishes to stop purchasing a particular product must give prior written notice.
- *Double pricing* was piloted in1999 in France, when, with the support of farmers and distributors, the French Agriculture Ministry imposed a temporary double price labelling system for a number of fruits and vegetables. Every retailer was obliged to display the price the grower received for their product in addition to the retail price for fruits, tomatoes and cucumbers, as well as imported produce.[153]
- In 2000, new measures were introduced in France to govern retail-supplier relations, with an enlarged role of the Competition Council/Office of Fair Trading to prevent abuses that could result from positions of dominance or monopoly, allowing the state to intervene to penalise breaches of contract.
- In Germany the1999 Restraints on Competition Act forbids retailers from setting prices permanently below purchase prices, allows firms to take action in the courts against the abuse of a dominant position without having to wait for the Cartel Office to take action, and allows suppliers who wish to complain about the abuse of purchasing power by a retail chain to remain anonymous during the Cartel Office investigations.

Does any of this work? As Dobson et al. (2001) concede, practices that exploit dependency relationships between retailers and suppliers are likely to continue even when codes are given legislative teeth, considering suppliers' reluctance to bring cases to court. Another approach is to oversee retailing or commodity trading as a public utility, with an industry ombudsman or regulator, as implemented in Australia.[154]

An interesting policy lever even more tangential to competition policy is robust environmental regulation of industrial livestock operations. These flagships of concentrated agribusiness are only 'productive' because of the degree to which they can externalise the costs of soil, water and air pollution, and disrupt cycling of nutrients between land and livestock. Laws to balance nutrient production and consumption, for example, can have a constraining effect on the growth of industrialised production and its accompanying market structures.

Options for multilateral policy

Global supply management – re-regulation of markets

There is a need to re-examine International Commodity Agreements (ICAs) to reduce damaging price volatility, building on the lessons of failures of coffee, cocoa and sugar ICAs in the late 1980s. In the case of cocoa, global supply management has been criticised as artificially boosting prices, which encourages faster expansion of production while suppressing consumption, storing up worse problems for the future in terms of long-term imbalance between supply and demand. Commodity supply management and price stabilisation institutions also have a history of transferring resources to the powerful lobby of Rural World 1.[155] Furthermore, the international political climate is not supportive.[156] Another important

limitation is that the contracting parties of ICAs were national governments, acting as export monopolies; these monopolies no longer exist. We can no longer continue to approach trade policy as trade between countries rather than trade between and within firms.

The arguments for revisiting commodity supply management, however, are powerful, and have been laid out in a new book, *Stolen Fruit* by Peter Robbins (2003). French President Jacques Chirac also spoke recently of the need to re-open the subject of commodity agreements to improve prices.[157] One proposal for coffee has been for a commodity agreement involving both producer and consumer states, in which consumer countries levy a border tax which is earmarked for habitat protection, sustainable production and producer cooperation in the countries of origin (Dickson, 2003). Building on this concept of folding sustainability into ICAs, a recent proposal for an international banana agreement includes measures to stabilise the market and includes social and environmental objectives (ibid.). Progressive supply management – which supports prices, reduces volatility and avoids surpluses and the need to dump them on world markets, and encourage sustainable production – is an area requiring intensive research with the active participation of civil society.

Reinstating national grain reserves would be a first step in reducing the control and/or manipulation of futures, cash, processor exporter and importer bids which currently resides in the hands of a few multinational traders that do both the exporting and the importing. An important alternative route is a tax on transactions in futures markets, to raise funds for farmers to diversify out of oversupplied commodities.[158]

Global monitoring of corporate concentration
Considering how much of agrifood trade, processing and retailing is in the hands of a small number of corporations, the case for monitoring transnationals at the UN level should be pursued as a matter of urgency. The role of the extinct UN Centre for Transnational Corporations (UNCTC) included information collection, research, policy advice and development of standards of behaviour. These functions have only partly been superseded by the UN Global Compact (criticised for being non-binding and lacking mechanisms for monitoring and enforcement) and the OECD guidelines for Multinational Corporations.

Gilbert and Wengel (2001) write:

[T]here must be concern about the potential of some of these companies to abuse their monopsonistic power in commodity purchasing, even if there is little current evidence of abuse. However, we regard it as important that the international community should initiate discussions towards setting up a monitoring facility, either in an existing institution or in a new agency, so that any move from potential to actual abuse can be identified at an early stage.

Information collection on corporate concentration is also an important role for global civil society.

Multilateral competition policy
Economic globalisation has made it necessary to improve world governance on questions of monopoly and competition, but no international competition standards exist to regulate corporate activity from one continent to another.

The demand for multilateral rules on restrictive business practices first came from the 'developing' countries. They were concerned about the exemptions from competition law granted by governments in high-income countries to domestic companies. These permit national export cartels that can raise prices to 'developing' countries.[159]

There is heated debate as to whether the WTO is the right forum to address global competition issues. The development of a WTO Competition Law Framework is headed in a very different direction: simplifying regulation across national boundaries to facilitate transnational commerce and market access for industrialised country goods and services. There is consequently the usual risk of downward harmonisation of national laws – the 'race to the bottom'. ActionAid, building on the work of Singh and Dhumale (1999),[160] have instead proposed the establishment of an independent international body to manage anti-competitive behaviour *'with full representation from developing countries and the involvement of relevant civil society organisations'* which could *'build technical capacity in developing countries, foster cooperation between established and inexperienced national competition agencies, and deal directly with anti-competitive behaviour from companies'.*[161]

The role of such an institution still seems limited given the growing number of calls to break up international cartels such as the coffee roasters or grain traders.

Options for business – fairness in trading
A new approach to Corporate Social Responsibility (CSR)
The stock market likes buyer power, seeing it as a measure of a 'sustainable business' that will generate competitiveness, profits and shareholder value. Thus voluntary self-regulation as a tool for improving agrifood companies' dealings with their suppliers and ultimately with small and family-scale producers will be limited both by shareholder pressure and company mindset. Equity and fairness in trading are almost entirely absent from the gamut of benchmarks, codes and standards for CSR,[162] even though these are features which much of society would expect to be included in measures of company performance.

Very few corporations seem to have made any significant moves to bring the CSR agenda onto their buying desks, the sharp end of agribusiness' trade with their supply chain. They remain resolutely customer-, rather than supplier-focused. Supermarkets, for example, have shown much more interest in reacting quickly to technologies that alienate consumers (such as genetic modification) than in reacting to marketing practices that alienate suppliers. Price wars and pressure on suppliers and farmers are conducted in the name of providing customer value. But as Cook et al. (2000) point out, 'the consumer' is a *'virtual' figure constructed in relationships between consumers, retailers, manufacturers and others.'* It is more the retailers and their category managers, rather than consumers, who decide the conditions placed upon producers and processors for the purposes of supply chain management (Marsden, 2001).[163] The irony is that consumers are interested in equity in trading – a Tearfund survey in March 2003 found that a majority of young people (63%) believe it is important that the people who produce the food they eat are paid a fair wage. Awareness of where and how food is sourced and produced has soared.

Taking fair trade to the mainstream
Niches are soon saturated. The risk of fair trade as a consumer niche – a niche now valued globally at nearly £300m – is that retailers can stock labelled products as just one of many high-value/high margin market segments, which in the case of the Fairtrade label also doubles as shelf-dressing for what remains a predominantly mainstream product range. Asda Wal-Mart, for example, excused their shift away from sourcing most of their bananas from the small farms of the Caribbean by pointing to the fact that it is still possible to buy Caribbean bananas in Asda stores through its Fairtrade range.

There are segments of the market where Fairtrade has influenced the mainstream, such as bananas and coffee. The mainstream market is ready for a branded food manufacturer or retailer to take this further, and apply fair trade concepts to all of its trade with the 'developing' world, and then to expand it to its trade with industrialised world producers of fresh produce, meat, dairy etc. Such second-step fair trade is one of the pillars of Oxfam's Coffee Rescue Plan (Box 11.1).

Fairtrade has four key elements: (1) direct purchase, (2) guaranteed minimum price and price premiums, (3) credit allowances, and (4) long term relationships. Incorporating these principles (or at least 2-4) into contracts on a much wider scale does not have to be trumpeted as 'fair trade' or branded as a 'fair trade store'; rather, it becomes a corporate standard, whereby customers walking into a store or buying a brand are reassured that their purchases have not contributed to the exploitation of producers and workers.

A first step for manufacturers, traders and retailers is to commit to equal or lower retail and distribution margins on organic and Fairtrade produce in comparison to conventional produce. This is clearly an opportunity for concerted civil society action.

Economists criticise the idea of a price floor (guaranteed minimum price) on the grounds that it will insulate producers from market signals and thus contribute to chronic overproduction. But one more market distortion will not make much of an impact on global production; what is being sought is leadership from ethical corporations rather than excuses nested in economic orthodoxy.

Box 11.1
Oxfam's Coffee Rescue Plan

Oxfam's Coffee Rescue Plan aims to bring supply back in line with demand and to support rural economic development. Oxfam calls on a number of constituencies to take part in tackling the coffee crisis, and has proposed a number of recommendations to help remedy the crisis.
Among them are:

Coffee roasters: The four major coffee roaster companies – Kraft, Sara Lee, Nestlé, and Procter & Gamble – should commit to paying a decent price to farmers. They should commit significant resources to tackle the coffee crisis, label coffee products on the basis of their quality, commit to buying increasing volumes of coffee under Fair Trade conditions, and respect the rights of migrant and seasonal workers.

Governments: Governments in producer countries should cooperate to reduce supply, increase quality, and help farmers switch to alternative crops. Governments in consumer countries should provide political and financial support to tackle oversupply, including monitoring quality, removing tariffs and destroying lowest-quality coffee stocks.

Institutions: Organisations such as the World Bank and the International Monetary Fund should develop a long-term integrated strategy to tackle the problems of commodities, provide additional debt relief and support a major international coffee conference.

Consumers: People should urge their governments to back the Coffee Rescue Plan and should insist on Fair Trade Certified coffee wherever they buy or drink coffee.

Source: Oxfam America

Improving small and family farmers' access to buyer-driven chains
'Upgrading' from producing undifferentiated bulk commodities entering buyer-driven chains provides farmers with opportunities to retain some value from their production. But as discussed in Chapter 2, entrants to buyer-driven chains need capital, size and access to technology and information in order to meet the standards set by the chain 'drivers'; these private standards may be another force of marginalisation of Rural Worlds 2 and 3. Reducing small and family farmers' costs when venturing into higher value chains must be a priority for business. Companies should think twice before introducing new standards, and should support the participation of smaller producers, processors and export associations, as well as consumers, into standards setting processes (Vorley et al., 2002).

Options for donor agencies
Donor agencies, in their search for 'sustainable markets', are looking for the mythical 'win-win-win' of environmental protection, poverty alleviation and economic growth. The temptation is then to home in on micro-niches such as smallholder exports of organic Fairtrade produce from the 'developing' world. But to focus on these niches, themselves subject to potential appropriation by big business (especially organics), is to duck the issue of reform of mainstream markets, be they bulk commodity or buyer-driven chains.

This report argues that the concentration of business in global and regional agrifood chains is every bit as important for policy-makers as the distortion of markets caused by domestic support programmes, export subsidies and dumping of agricultural products.

Options for civil society and ethical investment
Corporate concentration has its advantages; the huge corporations are large targets for concerted civil society and shareholder activism, or consumer boycotts. Sustainability – including fairness and justice for farmers, workers and suppliers – can be made a competitive issue. Options are either to draw attention to best performers (as undertaken by the 'Race to the Top' project on UK retailers[164]) or the construction of league tables and 'naming and shaming' companies with a history of poor performance. The ethical investment community is hungry for such information, to allocate their resources to companies with a verifiable record of non-exploitative trading practices. As the gatekeepers to the food system, retailers and branded manufactures are the prime leverage points for intervention. But supermarket companies are woefully unprepared for this degree of scrutiny, with low and declining levels of technical competence, especially among the discounters, and many functions outsourced to other parts of their supply chains.

Part of campaigning work can be to bring to the fore those corporations which operate outside the scrutiny of civil society – the (often privately owned) companies which trade and process commodities, or supply retailers' own brands. Who has ever heard of Barry Callebaut, Bunge, Dreyfus, Glanbia, or Grampian?

From a campaigning point of view, the issue of buyer power in agrifood chains is complicated by the fact that price wars are being fought 'in the public interest' by putting cheaper food on the shelves and providing 'consumer value'. There are many more consumers than there are producers, and pro-farmer advocacy has to ensure that consumer welfare is not lost in the debate about producer prices. Civil society groups can build on the successes of the Fairtrade movement, by shaping the debate around the connections between shopping choices, investment choices and rural livelihoods.

Information on ownership, alliances and clusters
Concerted civil society advocacy depends on reliable information, not only on ownership but on the food systems 'clusters' which Bill Heffernan and Mary Hendrickson have so admirably documented in the US (e.g. Heffernan and Hendrickson, 2002). These cluster relationships range from joint ventures to partnerships, long-term agreements and other arrangements among firms engaged in the food system which can 'lead to non-competitive behaviour between some of the largest transnational firms'. Information at this level of detail is almost entirely absent from the European stage, though transnationale.org has built a useful database, and alliances of civil society organisations – perhaps in partnership with ethical investors – should urgently address this information gap.

Common analysis of forces at work on farmers in both the 'developing' and industrialised world
Lastly, there is much to be gained from a common analysis of forces at work on farmers in both the 'developing' and industrialised world. Conducting separate debates can be a distraction from other more universal forces at work, forces which will survive the removal of inequities in trade policy.

Chapter 12
Resources and Further Reading

Agribusiness Accountability Initiative (AAI)
www.agribusinessaccountability.org
An evolving global network of people challenging corporate control of the food system.

Antitrust.org
www.antitrust.org
A US-based project to link four types of information: antitrust case documents (complaints, opinions, and expert testimony); enforcement guidelines and speeches; economic bibliographies; and current antitrust issues in the news.

Banana Link
http://www.bananalink.org.uk/
Working with an alliance of organisations towards a sustainable banana economy.

Business & Human Rights Resource Centre
www.business-humanrights.org
online library in partnership with Amnesty International on issues relating to business and human rights – includes section on agriculture, broken down by commodities such as coffee and sugar.

Business for Social Responsibility (BSR)
www.bsr.org
A global organisation that 'helps member companies achieve success in ways that respect ethical values, people, communities and the environment.'

Common Fund for Commodities
www.common-fund.org
Autonomous intergovernmental financial institution established within the framework of the UN, with a mandate to 'enhance the socio-economic development of commodity producers and contribute to the development of society as a whole.'

Corporate Agribusiness Research Project (CARP)
www.electricarrow.com/CARP/index.html .
Publishes the AgriBusiness Examiner, a weekly e-mail newsletter, and the Agbiz Tiller, a periodic online news feature service.

Corporate Europe Observatory (CEO)
www.corporateeurope.org
A European-based research and campaign group targeting the threats to democracy, equity, social justice and the environment posed by the economic and political power of corporations and their lobby groups.

Corporate Watch UK
www.corporatewatch.org.uk
Includes feature on 'Corporate Control of the Food Chain' with information on processors – Northern Foods, Nestlé, P&G and Unilever, retailers – J Sainsbury, and Tesco, and industry associations – the Food and Drink Federation.

Affiliated with Grassroots Action on Food and Farming
www.gaff.org.uk

Cropchoice.com
www.cropchoice.com
US-focused alternative news and information source including corporate agribusiness concentration, farm and trade policy, and rural economic and social issues

Ethical Trade Initiative
www.ethicaltrade.org
An alliance of companies, NGOs and trade unions organisations committed to working together to identify and promote good practice in the implementation of codes of labour practice.

European Fair Trade Association (EFTA).
www.eftafairtrade.org
Includes 'observatories' on rice, coffee, cocoa, sugar and other commodities.

FAO Commodities and Trade programme
www.fao.org/es/ESC/en/index.html and Committee on Commodity Problems
www.fao.org/unfao/bodies/ccp/ccp64/ccp64-e.htm

Friends of the Earth UK Real Food Campaign
www.foe.co.uk/campaigns/real_food

The Institute for Agriculture and Trade Policy (IATP) Agribusiness Centre
www.agribusinesscenter.org

IATP's Trade Observatory
www.tradeobservatory.org

IISD's Sustainable Commodity Initiative
www.iisd.org/trade/commodities/sci.asp
Launched by UNCTAD and the International Institute for Sustainable Development (IISD) in December 2002 in recognition of the fundamental link between commodities and sustainable development. The principal objective is to improve the social, environmental and economic sustainability of commodities production and trade by developing global multi-stakeholder strategies on a sector-by-sector basis.

Imperial College Centre for Food Chain Research
www.wye.imperial.ac.uk/CFCR

International Agribusiness and Food Management Association IAMA
www.ifama.org
Excellent resource, including conference papers

Institute for Development Studies (IDS) Global Value Chains Initiative
www.ids.ac.uk/globalvaluechains
Seeks to consolidate and foster the global value chains (GVC) perspective.

Institute for International Studies Department for Development Research, Copenhagen.
www.cdr.dk/ResTHEMES/globalisation
Excellent source of publications on commodity chains

International Federation of Agricultural Producers (IFAP)
www.ifap.org
See their statement on industrial concentration in the agrifood sector at
www.ifap.org/Cairo%20Conference/concentration.html.

International Task Force for Commodity Risk Management
www.itf-commrisk.org
The ITF is exploring the potential of market-based commodity price risk management – in its simplest form, a type of price insurance that will serve to mitigate exposure of producers in 'developing' countries to price shocks and the negative effects of price volatility.

New Rules Project
www.newrules.org
This project of the US-based Institute for Local Self-Reliance (ILSR) proposes a set of new rules that builds community by supporting humanly scaled politics and economics. For agriculture, these new rules include supply management, a moratorium on agrifood business mergers, and 'double price' labelling.

OECD Conference on Changing Dimensions of the Food Economy:
Exploring the Policy Issues, February 6-7, 2003 - The Hague, Netherlands.
http://webdomino1.oecd.org/comnet/agr/foodeco.nsf/viewHtml/index/$FILE/confdoc.htm
Includes paper on agrifood concentration, buyer power and farmers.

Oligopoly Watch
www.oligopolywatch.com
How and why big companies keep growing bigger, and some of the dynamics behind their moves.

Organisation for Competitive Markets
www.competitivemarkets.com
A multidisciplinary nonprofit group made up of farmers, ranchers, academics, attorneys, political leaders and business people. OCM provides research, information and advocacy towards a goal of increasing competition in the agricultural marketplace and protecting those markets from abuses of corporate power

Oxfam's 'Make Trade Fair' campaign
www.maketradefair.com
Contains excellent background reports on a range of commodities

M&M Planet Retail
www.planetretail.net
Excellent source of global supermarket news and profiles.

National Farmers Union of Canada
www.nfu.ca
Includes papers on The Farm Crisis, EU Subsidies, and Agribusiness Market Power

Race to the Top
www.racetothetop.org
Civil society benchmarking of UK supermarkets – how they are performing on fairness in trading, labour standards, local sourcing etc.

Sustainability Institute
www.sustainabilityinstitute.org
Commodity research
www.sustainabilityinstitute.org/research.html#commodities
Sets out to understand the structural forces behind global commodity systems which fail producers and communities.

Transnationale.org.
www.transnationale.org
French-based citizen portal/observatory on brands and transnational corporations, established in 1999. Database covers 35,000 TNCs.

UN Conference on Trade and Development (UNCTAD)
www.unctad.org
Resource on International Trade and Commodities. The Commodities Market Information (InfoComm) section is especially recommended, with pithy summaries for products like bananas, citrus fruits, sugar etc.

UN Global Compact
www.unglobalcompact.org
International initiative launched in 1999 to bring companies together with UN agencies, labour and civil society to support nine principles in the areas of human rights, labour and the environment.

University of Missouri work on concentration
www.foodcircles.missouri.edu/consol.htm

World Bank: Global Economic Prospects and the Developing Countries
www.worldbank.org/prospects
The Global Economic Prospects and the Developing Countries 2003 report includes detailed current information on trends in commodity markets, and commodity price data is found in the Pinksheets.

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[18] Such as the deaths of thirteen farm workers on 10 August 1999 in the San Joaquin Valley, California. when their overloaded van crashed as they were returning home after finishing a 12-hour shift sorting tomatoes; the deaths of 12 undocumented Ecuadorian farm workers on 3 January 2001 in Lorca, Spain when a train crashed into a lorry which had taken a country road to evade paper checks by the police; or the three farm labourers from Iraq, India and Bangladesh who died in Worcestershire (UK) after a train was involved in a collision with their minibus on an unstaffed level crossing on 7 July 2003

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[42]Bain, J. S. (1956). Barriers to New Competition. Cambridge: Harvard University Press

[43]In the US cheese market, Kraft, which corners about 30% of the US cheese market, found it profitable and attractive to manipulate cheese prices downward to gain price advantage – -this is discussed in Knevelbaard Dairies v. Kraft, 232 F3d 979 (9th Cir. 2000) – www.competitivemarkets.com/library/academic_reports/2002/7-23.htm and www.competitivemarkets.com/ocm1.html

[44]MacDonald JM, Ollinger ME, Nelson KE and Handy CR (1999). Consolidation in U.S. Meatpacking. USDA-ERS Agricultural Economics Report No. 785. www.ers.usda.gov/publications/Aer785/

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[49]Wal-Mart tops grocery list with its supercenter format. Wall Street Journal 27 May 2003

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[55]International experience on policy issues: India vs China. Presentation by Alan Rosling, Chairman Jardine Matheson Group-India, New Delhi, 15 November 2002. www.ficci.com/ficci/nov-retail-jardine.ppt

[56]Company statement, 21 August 2001

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[59]www.pag.com.au/articles/strat.htm

[60]Marketing Fees Reflect Relationship Between Suppliers and Supermarkets. USDA-ERA Agricultural Outlook, March 2001. www.ers.usda.gov/publications/AgOutlook/Mar2001/AO279f.pdf

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[62]Taylor Nelson Sofres

[63]Competition Commission review of proposed Safeway mergers, September 2003

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[65]The CEO of Tesco sits on a range of UK government task forces (the Government's Competitiveness Advisory Group, the DTI's Competitiveness Working Party on Making the Most of the Information Age, and the South East Regional Competitiveness Working Party), the company's corporate affairs director joined Tesco from the Cabinet Office, and Tesco hired the Prime Minister's private secretary and a specialist in rural affairs to take up a new position as director of government affairs.

[66]John McCabe (Connector Global) as reported in the Sunday Times 29 June 03

[67]www.smithfieldfoods.com/Understand/Family/bretonne.asp

[68]Business Review 2002. Emphasis added. www.dole.com/pdfs/annuals/Dole2002Annual.pdf

[69]The best of both worlds - organic and Fairtrade. Soil Association Press Release 3 January 2003

[70]Kroger to Buy Wild Oats, Say Rumors. *Progressive Grocer* 27 August 2003

[71]Dean Foods Company to Acquire Horizon Organic Holding Corporation. News Release June 30, 2003. www.horizonorganic.com. Dean Foods (formerly Suiza), the leading processor and distributor of milk and other dairy products in the US now owns Horizon Organic, America's largest organic food company.

[72]Odwalla Growth Opportunities Multiply with Coca-Cola. Press Release 30 Oct 2001.

[73]Du Toit A (2001). Ethical trading – a force for improvement, or corporate whitewash? ODI *Natural Resource Perspectives* 71, October 2001.

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[79]Minot N and Goletti F (2000) Rice market liberalization and poverty in Viet Nam. IFPRI Research Report 114. www.ifpri.org

[80]ie cereals grown for human and animal consumption

[81]FoodlineWeb Newsletter June 2003. www.foodlineweb.co.uk/FoodWeb/newsletter/june03/market.asp

[82]Flour Advisory Bureau. www.fabflour.co.uk/businessinfo.asp

[83]www.bakersfederation.org.uk/resources/david%20lang%20%20slides% 202003.pdf

[84]USDA-ERA (2002). Oil Crops Yearbook. October 2002. www.ers.usda.gov/Briefing/SoyBeansOilCrops/

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[86]www.ers.usda.gov/Briefing/SoyBeansOilCrops/trade.htm

[87]Dan McGuire, director of the Farmer Choice-Customer First program, cited in press release 'Bunge seeks bigness'. www.cropchoice.com/leadstry.asp?recid=904

[88]Arbitrage is the practice of taking advantage of a state of price imbalance between two (or possibly more) markets

[89]www.admworld.com/investor/pdf/03-05-03.pdf

[90]It is estimated that if subsidies across the OECD to the sugar sector were removed, world sugar prices would rise by 30-38%. Borrell B and Hubbard L (2000). Global economic effects of the EU Common Agricultural Policy. Economic Affairs 20(2), 18-26. The EU has recently exported sugar at 60-75% less than the cost of production--see Ritchie M, Murphy S and Lake B (2003). United States Dumping on World Agricultural Markets. Cancun Series Paper #1, IATP, Minneapolis.

[91]DEFRA www.defra.gov.uk/farm/arable/sugar/default.htm

[92]African, Caribbean and Pacific countries covered by the Lome Convention – the EU's preferential trade regime with former colonies

[93]The EU Sugar Protocol is an agreement between govern the EU and ACP countries in which EU countries guarantee to buy and import agreed quantities of cane sugar at guaranteed prices. See www.acpsugar.org

[94]The EU's EBA regulation grants duty-free access to imports of all products from the least developed countries, with the exception of arms and munitions, and without any quantitative restrictions. Tariffs bananas, rice and sugar will be gradually reduced to zero (in 2006 for bananas and 2009 for rice and sugar). The EBA proposal has attracted strong resistance from parts of the multinational sugar industry.

[95]http://europa.eu.int/comm/agriculture/agrista/2002/table_en/344.pdf)

[96]BBC's File of Four 10 June 2003. Transcript at www.bbc.co.uk/radio4/news/fileon4/transcripts/20030610_sugar.pdf

[97]DEFRA www.defra.gov.uk/farm/arable/sugar/default.htm

[98]Except retail, which is from Vanhuele M and Drèze X (2001) Les consommateurs français, connaissent- ils les prix? Fondation HEC

[99]http://www.fairtrade.net/sites/products/coffeemarkets.htm

[100]According to Lorenzo Castillo in Peru, coca production can yield US$4,500 per ha with costs of $1,800 per ha, while coffee is currently yielding $450 ha with costs of $800/ha.

[101]www.maketradefair.com/stylesheet.asp?file=16092002181737

[102]www.starbucks.com

[103]Dow Jones International News 21 May 2001, cited in Waridel L (2002) Sustainable Trade: The Case of Coffee in North America. MA thesis, University of Victoria.

[104]The cocoa market – a background study. See http://www.maketradefair.com/assets/english/CocoaStudy.pdf .

[105]International Task Force for Commodity Risk Management Possibilities for price risk management by cocoa farmers In Cameroon, Côte d'Ivoire and Nigeria.

[106]International task Force on Commodity Risk management in Developing Countries (2002) Cote d'Ivoire: Coffee and Cocoa. Phase 1 Report. December 2002. www.itf-commrisk.org/documents/documents_database/Cote.pdf

[107]www.treecrops.org

[108]The same also applied to Brazil but exports from Brazil are increasing rapidly, now on par with the two leading African producers Côte d'Ivoire and Cameroon.

[109]Jansen K (forthcoming). Greening bananas and institutionalizing environmentalism: self-regulation by fruit corporations. Chapter 7 in Kees Jansen and Sietze Vellema (eds) Agribusiness and Society: Corporate Responses to Environmentalism, Market Opportunities and Public Regulation. London: Zed Books

[110]http://r0.unctad.org/infocomm/anglais/banana/sitemap.htm

[111]Report of the Second Session of the Intergovernmental Group on Bananas and Tropical Fruits, San José, Costa Rica, 4 – 8 December

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[112]UK grocer Sainsbury unhappy with meagre growth. Reuters 23 July 2003

[113]Banana Link, pers. comm.

[114]www.ers.usda.gov/Briefing/Dairy/Trade.htm

[115]Export refunds are variable export subsidies given to traders to cover the difference between the internal EU price of a commodity and its world market price

[116]European Commission (2003). CAP Reform – A Long-term Perspective for Sustainable Agriculture. http://europa.eu.int/comm/agriculture/mtr/index_en.htm. See also http://europa.eu.int/comm/agriculture/agrista/2002/table_en/344.pdf) for current levels.

[117]www.cafod.org.uk/POLICY/dumpingonthepoor200209.pdf

[118]Danish Dairy Board www.mejeri.dk

[119]www.mejeri.dk

[120]www.deanfoods.com

[121]This section based largely on Farina (2003)

[122]The Boards were essentially co-operatives of dairy farmers having legally constituted powers and a statutory monopoly. Producers were required to sell their milk solely to the Board or through its agency. The Boards had the statutory obligation to buy and find a market for all milk offered to them provided it complied with certain quality standards.

[123]Fearne A and Bates S (2000) Co-operative Milk Marketing. Report to the Milk Development Council
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[126]MERCOSUR is the trade agreement started by the two largest economies in South America, Argentina and Brazil, along with Uruguay, and Paraguay. It is presently a customs union in addition to a free trade zone. Chile and Bolivia are in the process of becoming members, and it is likely that in 10 years MERCOSUR will represent almost all of the South American countries.

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[131]De Haan C, Steinfeld H and Blackburn H (1997). Livestock and the environment: finding a balance. FAO Rome. www.fao.org/ag/AGA/LSPA/Lxehtml/tech/index.htm

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[136]British Chicken Association www.britishchicken.co.uk/market_total.htm

[137]www.gcfg.com/financial.cfm

[138]For experiences of US poultry farmers, see *The Plucking of the American Chicken Farmer* – three part series in the Baltimore Sun, 1999 (www.sunspot.net/search/bal-archive-1990.htmlstory) and Taylor CR (2002) Restoring economic health to contract poultry production. Agricultural and resource Policy Forum, Auburn University USA. www.agribusinesscenter.org/docs/Consumer_2.pdf

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[141]García M et al (2002). The impact of European private safety and quality standards on fresh produce exports from Mediterranean countries. Imperial College at Wye Food Industry Management Unit, Department of Agricultural Sciences. January 2002. http://www.wye.ic.ac.uk/AgEcon/FIM/projects/medprod/WP2%20UK.pdf. According to the USDA gross margins for the produce department were 33% compared to a 26% average for the entire store in 1997. Agriculture Information Bulletin No. 758

[142]Homegrown Ltd is one of the handful of large exporters remaining, and is a major supplier to most of the UK supermarkets. It is Africa's largest horticultural exporter of vegetables and flowers and has approximately 6,000 employees and accounts for over 15% of Kenya's horticultural exports. The company specialises in high quality premium and prepared vegetables and cut flowers.

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[164]www.racetothetop.org

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Baby Milk Action
Banana Link
Catholic Fund for Overseas Development (CAFOD)
Catholic Institute for International Relations (CIIR)
Christian Aid
Consumers International
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Farm crisis Network
Farmers' Link
Farmers World Network
Find Your Feet
Gaia Foundation
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New Economics Foundation
Oxfam GB
Panos Institute
Pesticide Action Network
Royal Society for the Protection of Birds (RSPB)
Save the Children
Scottish Catholic International Aid Fund (SCIAF)
Susila Dharma Britain
Tearfund
War on Want
Women's Environmental Network
World Development Movement
WWF
Observers:
Greenpeace
Overseas Development Institute
Sustain

UK Food Group
The UK Food Group is a network of non-governmental organisations from a broad range of development farming, consumer and environment organisations, who share a common concern for global food security. We represent a unique body of expertise and experience, with members drawn from the UK's leading national and international organisations working on food and agriculture issues.

Through raising awareness of global trends in food and agriculture the UK Food Group seeks to promote sustainable and equitable food security policies. The priority areas of action are trade policies, sustainable agriculture and the regulation of food and agriculture transnational corporations, through research, awareness raising, advocacy and facilitating South-North exchanges of experiences.

The views expressed in this report are not necessarily the views of all individual members.

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