

Agribusiness Consolidation: *Squeezing out Family Farmers and Consumers*

Introduction

With over 852 million people on earth experiencing hunger, it is clear that something is wrong with our current global food and agricultural system. A piece of the problem is that the current agricultural system is run by large corporations, banks, and individuals whose primary motive is profit, not feeding people. As fewer and fewer corporations start controlling more and more of our agricultural system, we need to ask whether or not this trend is a contributing factor to hunger in the U.S. and around the world.

What is agribusiness consolidation?

Over the past decades, fewer and fewer agribusiness firms are controlling more and more of our food markets. For example, only four firms – Tyson, Cargill, Swift & Co., and the National Beef Packing Co. – controlled 83.5% of the beef packing industry in 2004. All four companies are based in the Global North. Consolidation that happens in this manner is called **horizontal consolidation** and gives these few firms a lot of power. Horizontal consolidation allows these few firms to influence the prices that they pay agricultural producers and the prices that are charged to consumers. It also provides them with increased political power that they use to influence politicians around food and agricultural policy decisions.

In addition to seeing fewer firms control more of a given market, there has also been a trend towards firms controlling more of the process, from “field to table,” in given markets. This form of consolidation is called **vertical integration**. Firms are starting to not only control one aspect of the food chain between the field and your table, they are starting control the whole process. Agribusiness firms will sell the seeds, fertilizers, and pesticides for given crops, then buy those crops from farmers, process them in their own factories, and then sell them to retailers. Vertical integration again gives more power to a limited number of agribusiness firms to set prices for both farmers and consumers.

What problems are caused by increased agribusiness consolidation?

Among the problems with consolidation in the agribusiness industry are: agricultural dumping, the loss of family farms, an increased corporate influence over public policy, and environmental erosion.

- The process whereby an agricultural company in one country exports its product to another country at a

Agribusiness Consolidation Ratios

A useful way to identify highly consolidated industries is to examine how much of a given industry is controlled by the top four firms. This measure is called a **concentration ratio**. Although not an exact process, if the top four firms control over 40% of a given industry, that industry can be seen as highly consolidated. In 2004, the concentration ratios for the top four firms in agribusiness markets were:

- The top four firms in **Beef Packing** controlled **83%** of the market.
 1. Tyson Foods
 2. Cargill
 3. Swift and Co. (46% owned by ConAgra)
 4. National Beef Packing Co.
- The top four firms in **Pork Packing** controlled **64%** of the market.
 1. Smithfield Foods
 2. Tyson Foods
 3. Swift and Co. (46% owned by ConAgra)
 4. Hormel Foods
- The top four firms in **Flour Milling** controlled **63%** of the market.
 1. Cargill/CHS (Horizon Milling)
 2. Archer Daniels Midland
 3. ConAgra
 4. Cereal Food Processors
- The top three firms in **Soybean Crushing** controlled **71%** of the market.
 1. Archer Daniels Midland
 2. Bunge
 3. Cargill
- The top five firms in **Food Retailing** controlled **46%** of the market.
 1. Wal-Mart Stores
 2. Kroger Co.
 3. Albertsons, Inc.
 4. Safeway, Inc.
 5. Ahold USA, Inc.

Source: Mary Hendrickson and William Heffernan, “Concentration of Agricultural Markets,” September 2004.

price that is lower than what it actually cost to produce the product is known as **agricultural “dumping.”** A high level of agribusiness consolidation is one contributing factor to “dumping.” When few agribusiness firms buy goods from thousands of farmers they are able to drive down the prices they pay to producers. Since the agribusiness firm then controls the processing of the good, it is able to sell the product abroad very cheaply because of the low price it paid to the farmer.

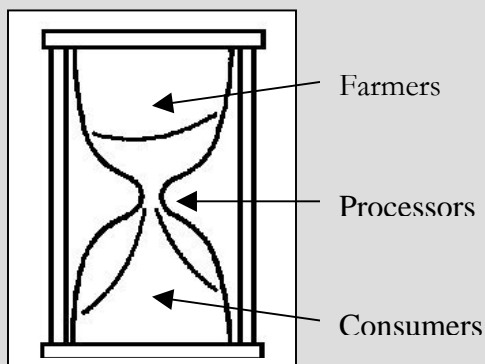
- High levels of agribusiness consolidation also **hurt family farmers** in the U.S. Family farmers get hurt in two ways:
 1. First, the seed industry is highly consolidated, which means that **seed prices are often very high.** Also, because of intellectual property restrictions, farmers are now forced to buy new seeds every year. Until recently, most small farmers saved their seeds from one year to the next to cut down on their costs.
 2. There are thousands of farmers who produce a given crop or animal product, but there are only a few agribusiness firms who buy those crops and

animal products. This gives agribusiness firms incredible power in **setting the prices** they will pay to farmers. This means that farmers are often paid extremely low prices for their goods.

Farmers are getting squeezed from both sides: paying high prices for their inputs, such as seeds and fertilizers, and receiving low prices for the goods that they produce.

- An increased level of agribusiness consolidation also means that agribusiness corporations have incredible **influence over agricultural policy decisions.** Through donations and lobbying, agribusiness firms make sure that governmental policies will not restrain their ability to make profits. In the 2004 election cycle alone, the agribusiness industry contributed over \$52 million to political campaigns (Center for Responsive Politics, www.crp.org).
- There are also serious **environmental impacts** of agribusiness consolidation. Consolidation contributes to soil and water contamination due to increased dependence on pesticides and other chemicals, soil erosion from producing only one crop, as well as a loss of biodiversity. For those who care about environmental sustainability, consolidation is a serious issue.

The Food System is like an Hour Glass



“We liken the food system to an hour glass in which farm commodities produced by thousands of farmers must pass through the narrow part of the glass that is analogous to the few firms that control the processing of commodities before the food is distributed to millions of people in this and other countries.”

-Dr. William Heffernan

Source: William Heffernan, “Consolidation in the Food and Agriculture System,” Report to the National Farmers Union, 1999.

Conclusions

Heightened levels of consolidation within the agribusiness industry have negative impacts on small farmers in the Global South, family farmers in the Global North, and consumers worldwide. Consolidation also increases the influence of a small number of profit-driven corporations in the policy-making process. A decentralization of power within the agricultural system is an important step in ensuring the livelihoods of small farmers worldwide and promoting an agricultural system where everyone has a right to food.

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Farm Subsidies: Support for Farmers or Catalysts of Poverty?

Introduction:

For those who care about eliminating hunger and poverty it is important to understand the links between domestic agricultural policy in the United States and international trade. There are currently serious debates going on at the World Trade Organization (WTO) about the relationship between agricultural subsidies in the U.S. and the EU and their relationship to perpetuating hunger and poverty around the world. This fact sheet outlines U.S. agricultural subsidy programs and the current debates surrounding them at the WTO.

What is a Farm Subsidy?

A farm subsidy is a form of support, usually money, given by a government to a farmer. Subsidies can be cash payments that farmers receive as checks in the mail or other forms of support such as loans.

Different Types of Subsidies:

There are two main categories of subsidies given to farmers: export subsidies and domestic subsidies.

1. Export Subsidies:

Export subsidies are payments given by the government to farmers so that they will sell their product abroad. Export credits ensure that those who want to export their goods will have the credit necessary to do so.

Problems with export subsidies and credits:

Export subsidies and credits make it easy and profitable for farmers to sell their goods abroad. But, farmers in other countries often do not have the same support from their government, which means that export subsidies and credits in the U.S. can lead to agricultural “dumping.” Dumping is when a business from one country sells agricultural goods to another country at a price that is lower than what it actually cost to produce the product. Dumping makes it difficult for farmers in the Global South to compete, even in their local markets, which perpetuates poverty for many small farmers in the Global South.

2. Domestic Subsidies:

Another form of farm support is domestic subsidies. These subsidies are given by the government to encourage a producer to grow more of a certain crop, assist farmers who are not making a profit, promote environmental protection, and respond to the needs of farmers when natural disasters occur. Different types of domestic subsidies include:

Farm Payments: These are usually cash payments or special loans made directly to participating producers. These payments are generally given only to the producers of certain commodities including corn, wheat, soybeans, rice, upland cotton, and oilseeds. Farm payments given to support the production of certain commodities totaled over \$11 billion in 2003 (www.ewg.org).

Conservation Payments: There are also agricultural subsidy payments made to farmers for environmental and conservation purposes. The Conservation Reserve Program (CRP) and the Conservation Security Program (CSP) are two primary programs in this category. The CSP provides money to farmers who engage in sustainable agricultural practices. Since agriculture is one of the most heavily polluting sectors of the economy, this program is aimed at protecting environmental resources. In 2003, the U.S. spent just over \$2 billion on conservation payments to farmers (www.ewg.org).

Disaster Payments: Disaster payments are made to crop producers when either planting is prevented or crop yields are abnormally low because of problematic weather conditions. Funding for disaster payments totaled \$2 billion in 2003 (www.ewg.org).

Problems with domestic subsidies: In certain cases, domestic supports can encourage overproduction because if the government is paying producers of a certain crop, others will want to start producing it too or will produce more of it than normal. This can make global prices

WTO Agricultural Support “Box System” Definitions

Due to the many different types of domestic farm support programs in the U.S. and around the world, the WTO decided to form distinct categories, each represented by a different colored box, to classify the various types of subsidies depending on how much they distort trade. **Trade distortion** is when the policies of one country create an environment where companies in that country have an unfair advantage over companies in another country. For example, export subsidies that cause dumping distort trade a lot because they lower the prices paid for agricultural goods. The WTO’s goal is for all support to eventually fall into the “green box” category, which distorts trade the least.

Amber Box: “Amber box” domestic supports are those subsidies that are seen as highly trade distorting. For example, if a government pays producers money to export more of their goods than they otherwise would, this will make the price fall in other countries and be very distorting. The WTO’s goal is for every country to have no more than 5% (10% for developing countries) of their total agricultural supports remain in the “amber box.”

Blue Box: The “blue box” contains any subsidy that would normally be considered trade distorting, but that encourages farmers to limit production, not increase it. These subsidies will still have an effect on trade because they deal with the amount of goods that are produced, which will have an effect on prices. However, their effect will likely not be as negative as that of subsidies that increase production. Currently, WTO regulations do not limit how much money a country can spend on “blue box” subsidies, but a cap is likely to be placed on “blue box” subsidies in the future.

Green Box: Subsidies that are not trade-distorting fall into the “green box” category. They must be funded by the government and cannot be a subsidy that controls prices. Different members of the WTO are still debating what should actually be considered a “green box” subsidy and whether some subsidies that initially appeared to fall into the “green box” category actually have trade-distorting effects.

Source: World Trade Organization, www.wto.org.

lower, which can lead to agricultural dumping and can make it very difficult for small farmers in developing countries to survive. The extent to which domestic supports actually create these problems is a topic of much debate among farmers, politicians, trade negotiators, and researchers.

Who Receives Subsidies in the U.S.?

Who receives agricultural subsidies in the U.S. is a complicated and very contentious issue among farmers, politicians, consumers, and citizens. Farm payments are concentrated among the largest producers. However, this high level of concentration is the product of a much deeper problem – the structure of the farm sector itself. The farming sector has become highly consolidated to the point where very large commercial farms produced 44% of total farm output in 2003. Since farm payments have been historically linked to production, and remain partially linked, the structure of the U.S. farm system perpetuates the skewed distribution of subsidy payments. The top ten recipients of farm subsidies in 2003 were (www.ewg.org):

| | |
|--------------------------------|--------------|
| 1. Riceland Foods Inc | \$68,942,419 |
| 2. Producers Rice Mill Inc. | \$51,400,838 |
| 3. Farmers Rice Coop | \$17,914,254 |
| 4. Pilgrim’s Pride Corporation | \$11,401,045 |
| 5. Ducks Unlimited Inc | \$7,078,200 |
| 6. Cargill Turkey Products | \$6,693,286 |
| 7. Ute Mountain Tribe | \$4,035,347 |
| 8. Dnrc Trust Land Management | \$3,106,805 |
| 9. Attebury Grain Co | \$2,971,143 |
| 10. Bureau of Indian Affairs | \$2,655,353 |

Agricultural Subsidies and the WTO:

What is all the Controversy About?

At the WTO, there is pressure from countries in the Global South for the United States and the European Union to change their agricultural policies. One of the groups of countries leading this fight, called the G-20 and led by Brazil, China, South Africa, and India, met in mid-March of 2005 to release their vision for agricultural trade policy reform. One of their key demands is the reduction of any agricultural subsidies in the U.S. or the EU that give farmers in those countries an unfair advantage in international trade. For example, farm

subsidies that encourage farmers to produce more of a certain commodity can lead to overproduction, which lowers the price of the commodity, which in turn gives the farmers in the Global North an unfair advantage. They are able to sell their goods at a lower price because they know they will receive subsidies from their government. Many countries in the Global South do not have the resources to subsidize their farmers in a similar fashion. Their main protection is using tariffs to keep out products from other countries, but the use of tariffs is under attack at the WTO.

To figure out how to deal with the farm subsidy issue, the WTO created a “colored box” system. Their goal is to move the agricultural subsidies paid in each country to the category, known as the **green box**, where they do not give certain farmers an advantage in global trade (see the shaded area for more information on the WTO box system). Even though the U.S. and EU claim that most of their subsidies are moving toward compliance with WTO “green box” standards, there are still uncertainties about whether this is in fact the case. For example, the WTO recently ruled that U.S. cotton subsidies were in violation of WTO regulations. Concerns that other U.S. and EU agricultural support programs are trade-distorting has also led the G-20 to call for a re-examination and a re-definition of both the **blue box** and the green box regulations to ensure that they do not give farmers in the Global North an unfair advantage.

Is Progress Being Made?

The U.S. and the EU are tentative about reforming their agricultural support programs. Although the rhetoric of the U.S. is in favor of reducing trade-distorting domestic support, it is unclear that the U.S. actually desires this move in practice. The 2002 U.S. Farm Bill, which dictates U.S. agricultural policy, increased agricultural support programs by \$84 billion over ten years. Although there are many reasons for the U.S.’s continued agricultural support programs, one important reason is the lobbying pressure from large U.S. farmers to continue the subsidy programs. Since only 10% of U.S. farmers receive over 70% of the farm subsidies, it is no wonder that they are

fighting hard to keep their payments. These large farmers are well organized and have significant political power, meaning that finding the political will to reform U.S. agricultural subsidies could be quite difficult.

Agricultural subsidy reform issues will continue to be a hot topic at the WTO for the months to come. The WTO negotiations at the Hong Kong ministerial in December, 2005 will reveal whether or not the demands for agricultural reform coming from developing countries will be met with actual changes to U.S. and E.U. agricultural policy.

The U.S. must substantially change its current farm subsidy programs, in addition to other aspects of its agricultural policy, to support family farmers in the U.S. and stop “dumping” agricultural goods, which perpetuates poverty for small farmers in the Global South.

Reflection Questions:

1. What are two different types of farm subsidies in the U.S.?
2. Why are U.S. farm subsidies a topic of debate at the World Trade Organization?
3. What is a “green box” subsidy, according to the World Trade Organization?
4. What is one reason why U.S. farm subsidies should be changed?
5. Why might some form of farm subsidy be needed in the U.S.?

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Food “Dumping”: Does it Help Hungry People?

What is dumping?

The term “dumping” is used to describe the process whereby a business in one country exports a product to another country at a price **below the cost of production** (when the price a product is sold for is lower than what it actually costs to make the product). In our current global system, the United States and the European Union are most commonly criticized for dumping agricultural goods (wheat, soybeans, corn, rice, cotton, etc ...) into developing countries. It is necessary for people in the U.S. to understand dumping because it is one contributing factor to the perpetuation of poverty in developing countries.

Background on dumping:

For example, it costs Mary, a family farmer in Iowa, three dollars to produce a bushel of corn. Those three dollars include the costs for all of her inputs: labor, seeds, fertilizers, water, and the other items that go into producing corn as well as a small profit of ten cents for Mary. Under our current food and agricultural system, Mary will most likely sell the corn to an agribusiness firm such as Cargill or Archer Daniels Midland. That firm will then either sell her corn to a food retailer in the United States, export her corn to another country, or make another product from her corn.

But, there are many other U.S. farmers selling their corn. Only a few agribusiness firms, however, buy corn from farmers. With a large supply of corn from thousands of farmers and a demand for corn that is controlled by the few agribusiness firms, these firms have a great deal of power and can drive down the price that they pay for corn. So the agribusiness firm will only pay two dollars for Mary’s bushel of corn even though it costs her three dollars to produce. Mary continually loses money on her crop and is forced to take out loans, go in to debt, or receive government subsidies if she wants to continue to farm. At the same time, the agribusiness firm has cheap corn that it can export to developing countries at below the cost of production. This corn is then sold in markets throughout the developing world at prices that do not reflect how much it cost to produce.

Why does dumping happen?

Although there is much debate about the root cause of agricultural dumping, some of the factors contributing to dumping include:

- A lack of effective **supply management**. Traditional economic thinking would usually dictate that as prices drop, producers will slow down their production until prices rise again. However, as agricultural prices drop, farmers tend to continue producing as much as they can to try to maintain adequate revenues. Agriculture differs from other industries in this way. This means that oversupply occurs frequently in agricultural production, which means that prices are often low. In turn, this means that the cheap agricultural goods are exported at below the actual cost of production. A form of supply management could assist in solving this problem.

“Dumping Rates”

In 2003, the United States consistently “dumped” goods into markets in the Global South:

- **Wheat** was exported by the U.S. at an average price of **28%** below the cost of production
- **Soybeans** were exported from the U.S. at an average price of **10%** below the cost of production
- **Corn** was exported from the U.S. at an average price of **10%** below the cost of production
- **Cotton** was exported from the U.S. at an average price of **47%** below the cost of production
- **Rice** was exported from the U.S. at an average price of **26%** below the cost of production

Source: Sophia Murphy, “WTO Agreement on Agriculture: A Decade of Dumping,” Institute for Agriculture and Trade Policy (www.iatp.org)

Food Aid: Development or Dumping?

Generally, international food aid is thought of as a humanitarian effort. But is food aid always beneficial to its recipients? Is food aid another way that rich countries “dump” surplus agricultural goods on to countries in the Global South?

Ultimately, food aid is a short term solution to much deeper problems. As some food aid experts argue, to eliminate hunger in a world of plenty, the international community must commit itself to combating poverty itself, not simply making food available to poor people.

How are food aid and “dumping” related?

Food aid can sometimes be used by developed countries to dump their surpluses of agricultural goods into the Global South. If food aid is not distributed at the correct times and in the appropriate ways, it has the potential to:

- **Damage local production** and agricultural development in recipient countries; and
- **Depress already low prices** for farmers around the world;

Which are similar consequences to other forms of dumping.

What would an improved food aid system look like?

International food aid programs could increase their effectiveness by:

- Shifting away from focusing purely on food and begin emphasizing other aspects of development. As international affairs expert John Prendergast argues: “There must be a continuing shift in the aid ratio of food to non-food items, favouring the latter, prioritizing strategies to rehabilitate internal commercial networks, primary health care networks, veterinary networks, and seed and grain banks.”
- Being distributed in grant (cash) form instead of commodity (in-kind) form; and
- In-kind food aid should be limited to situations of acute local food shortages where local purchasing is not possible.

- Currently, the government gives payments to farmers who produce certain commodities such as corn, wheat, and cotton. These payments, called **domestic supports**, are the topic of much debate among politicians, farmers, and the international community. Some believe that these domestic supports encourage farmers to produce more of their crop, which creates an oversupply of that crop, which U.S. farmers and agribusinesses then dump into the developing world. Others believe that these domestic supports, in general, are not the cause of dumping. They see export subsidies and agribusiness consolidation as the leading factors contributing to dumping.
- A trend over the past few decades has been for the number of agribusiness firms to decrease, leading to fewer and fewer agribusiness firms controlling more and more agricultural processes. For example, three firms – Archer Daniels Midland, Bunge, and Cargill – control 71 percent of all soybean crushing. This level of **corporate consolidation** has contributed to international agribusiness firms being able to export agricultural goods at below the actual cost of production. A few agribusiness firms buy goods from thousands of farmers giving them the power to drive down the prices they pay to producers.
- Governments offer payments and credits to agricultural producers to encourage them to export their goods. These payments, called **export subsidies** or **export credits**, are given to farmers and are aimed at getting rid of the surplus of agricultural goods produced in a country and keeping exporters competitive in the global market. Export subsidies and credits, however, are one of the main causes of dumping because they make it cheap and profitable for agricultural goods to be exported to developing countries.
- Over the past decades there has been pressure on developing countries to remove any tariffs, quotas, or other protections for their economies. The process of removing protective measures, called **economic liberalization**, has made it difficult for developing countries to protect their

farmers from goods produced below the cost of production in other countries.

What are the problems with dumping?

Do below-cost imports in developing countries provide cheaper food to consumers in that country? Not necessarily. Dumping of agricultural goods creates serious problems in the Global South and does not necessarily mean cheaper prices for consumers. Some of the negative impacts of dumping include:

Flooding local markets in the Global South with below-cost agricultural goods makes it nearly impossible for small farmers to compete, even at their local market. This has far-reaching effects because such a large percentage of people in the Global South rely on agriculture for their primary income. Seventy percent of rural household income in Asia and sixty percent in Latin America and Africa comes from farming and farm labor.



Displacing small farmers. As small farmers are not able to compete, they are often forced to leave their land and find work by migrating to either a local city or another country. Many do not find a job that pays them enough to survive. Some farmers who are displaced from their farms in Latin America end up migrating to the United States to work as farmworkers, forced to work long hours, receive very little pay, and often have to work with dangerous pesticides.



Limiting agricultural development. As artificially cheap agricultural goods flood markets in the Global South and local farmers are not able to compete, improvement of the agricultural sector in the developing world becomes very difficult for an

enormous number of people living in poverty. Dumping stunts the growth of the agricultural sector in the developing world, which in turn makes it more difficult for farmers to break free of poverty.

Action to stop dumping:

There are many groups internationally who are working to counter the negative effects of dumping. Two major anti-dumping efforts are organized by:

- **The G20**, led by Brazil, India, South Africa, and China, is a group of developing countries at the World Trade Organization (WTO) who have organized themselves partially around putting an end to dumping. The countries represented by the G20 contain more than 60 percent of the world's farmers. One of their key demands is for the United States and the European Union to stop export subsidies and to ensure that their domestic support programs do not promote dumping. Some of the other countries involved in the G20 include: Egypt, Pakistan, Argentina, Chile, Mexico, and Venezuela.
- Farmers around the world are also working to put an end to dumping. One of the leaders in this struggle is **Via Campesina**, which is an international movement that coordinates peasant organizations of small and middle-scale producers, agricultural workers, rural women, and indigenous communities from Asia, Africa, America, and Europe. For more information on Via Campesina, visit their website at www.viacampesina.org.

Even with international organized efforts to stop dumping, U.S. and EU policies have not changed. Dumping will be an important issue at the Hong Kong ministerial of the WTO in December, 2005.

Reflection Questions

1. Does “dumping” help hungry people in the developing world? Why or why not?
2. Does dumping contribute to the perpetuation of poverty in developing countries? Why or why not?
3. What are some of the causes of dumping?
4. If you were a small farmer in the developing world, what would you think of dumping? How would it make you feel?
5. What can people in the United States do to stop dumping?

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