Agriculture Without Farmers?
The Threat of Buyer Power Concentration in Global Agrifood Chains

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ActionAid’s Starting Point

Rights to End Poverty

- ActionAid focuses on poverty eradication by addressing unequal power relations and strengthening our rights-based approach and methods
Why Focus on Farmers and Farm-workers

- 1.3 billion work in agriculture worldwide
- 2.5bn depend on the sector
- 70% of world’s poor live and work in rural areas – will do so well into 21st century
- sector vital for poverty reduction and food security
National, Regional and Global Agribusiness Concentration

- 30 food retailers account for a third of global grocery sales
- 5 MNCs control 90% of world grain trade
- 3 MNCs control 85% of world tea market
- 1 MNC controls 80% of Peru’s milk production
The Global Double Bottle-Neck

Consumers (6.3bn)

Retailers (C4 projected for 2008=15.8%)

Processors & Manufacturers

Bulk Traders (C4 depends on commodity)

Farmers (1.3 bn)

Agri-Inputs (eg. C6 for Agrochemicals = 77%)
Buyer Power Abuse By Retailers

- Payments for access to shelf space
- Imposing conditions on suppliers’ trade with other retailers
- Applying different standards to different suppliers
- Imposing retrospective changes to contractual terms
- Restricting suppliers’ access to the market
- Imposing charges and transferring costs to suppliers
- Requiring suppliers to use third party suppliers nominated by the retailer

Source: UK Competition Commission, 2000
Buyer power in action

Price paid to suppliers relative to average (%)

Retailer market share (%)
Impacts of buyer power on producers and workers

1. Forces down producer prices
2. Extracts value from producers in other ways
3. Forces or keeps small producers out of markets
4. Leads directly to poor labour conditions on farms

- As a result, many farmers are being squeezed out of global supply chains and out of agriculture altogether.
Example - Bananas

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

- Plantation workers: 1.5p
- Plantation owner: 10p
- International trading company: 31p (includes 5p EU tariff)
- Retailer: 40p
- Ripener/Distributor: 17p
Pushing Risks Down the Supply Chain

Shareholder pressure for high returns

Consumer expectations of low prices

Retailers and brand owners offload costs and risks down the supply chain

Mid-chain suppliers seek low-cost producers

Producers – farms and factories pass the pressures on to workers

Sub-contractors

Sub-contracted and home-based workers
Government Steps to Curb Buyer Power

**France**: Loi Galland law

**South Korea**: Fined Wal-Mart US$ 1.6 million for abusive buying practices

**Thailand**: Thai Trade Competition Act supervise unfair trade practices in the wholesale and retail businesses in Thailand

**UK**: Competition Commission enquiry in 2000, resulting in supermarket Code of Practice.

**Ireland**: Groceries Order which, amongst other things, bans below cost selling.

**Argentina**: Code of Good Business Practice
Key Points

- Agribusiness *can deliver multiple benefits* to the rural poor.
- **BUT**, the *imbalance of power* between agrifood companies and farmers/farm-workers has led to worsening terms of trade.
- In most countries, *competition policy* is currently insufficient to prevent abuse of buyer power, particularly at cross-border level.
- *National action & cross-border cooperation* is urgently needed to ensure that agrifood markets support rural development objectives.