WHAT DRIVES THE FOOD INDUSTRY?

GLOBAL CORPORATIONS

Workers in the food, drink and tobacco sector in the UK are part of a globalised food system. Each stage of this globalised food system is dominated by an increasingly small number of large multinational corporations, each chasing larger and larger annual profits.

Whilst the diversity of brands on the market may give the impression of marketplace awash with multiple competing companies, the fact is that behind many of these of brands stands a larger over-arching parent company.

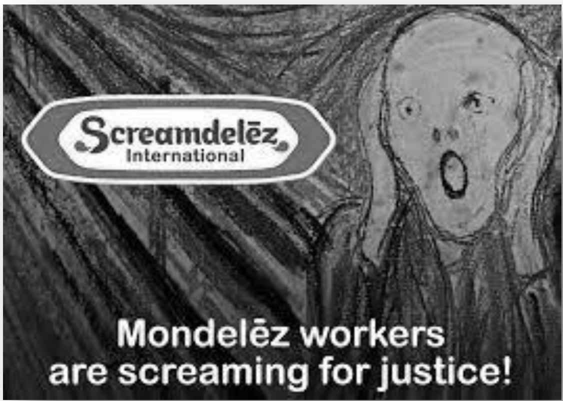
Nestlé, a conglomerate that owns brands such as Nescafé and Maggi, is the world's biggest food and drink (F&D) company with an annual revenue of $90.3 billion.

COMPANY	ANNUAL TOTAL REVENUE
Nestlé	90.3 billion USD
PepsiCo	66.5 billion USD
Unilever	60.2 billion USD
Mondelez (Kraft)	55.4 billion USD
Coca-Cola	44.3 billion USD
Mars	30 billion USD
Danone	25 billion USD
Associated British Foods (ABF)	17.2 billion USD (F&B revenue = 8.9 billion USD)[3]
General Mills	15 billion USD
Kellogg's	13.2 billion USD

Table 1: Top ten global brands. Source Oxfam, "Behind the Brands", 2013

THE 10 BIGGEST GLOBAL FOOD & DRINK COMPANIES[1]....

- Collectively generate revenues of more than $1.1 billion a day
- Employ millions of people directly/indirectly in the growing, processing, distributing and selling of their products
- Part of an industry valued at $7trillion – making it bigger than the energy sector.[2]



[1] This list does not include breweries. The global brewing market is dominated by five companies.
The largest is ABInbev (Belgium) which had an annual turnover of $43.2 billion dollars in 2013 followed by SAB Miller (Britain), Heineken (Netherlands), Carlsberg (Denmark), China Resources Enterprise (China).
[2] See Oxfam, Behind the Brands, 2013

[3] ABF has a retail segment: Primark

GLOBAL CONTROL

INPUTS

A tiny number of multinational companies control the agricultural inputs (seeds, pesticides, animal pharmaceuticals, etc.) for the industrial global food chain. In fact, in all but one input sector (fertilisers), four companies control 50% of the global market share. As the Canadian NGO **ETC**

Group rightly points out, these groupings of companies should more accurately be referred to as cartels, and they exert a huge degree of control over the global food system.[4]

	ANNUAL TURNOVER OF SECTOR (BILLIONS US $)	MARKET SHARE OF TOP CORPORATIONS
SEEDS	$34.5	**Top 10 – 99%** Monsanto (US) – 26% DuPont (US) – 18.2%, Sygenta (Sw) – 9.2%
FERTILISER	$90.2	**Top 10 – 55%** Yara (Nor) – 12% Mosaic (US) – 11.4% Agrium (US) – 10.1%
PESTICIDES	$44.0	**Top 11 – 97.8%** Sygenta (Sw) – 23.1% Bayer (Ger) – 17.1% BASF (Ger) – 12.3%

Table 2: Global turnover/market share of key agricultural inputs. Source Berne Declaration, "Agropoly", 2013

[4] ETC, (2013)

PRODUCTION

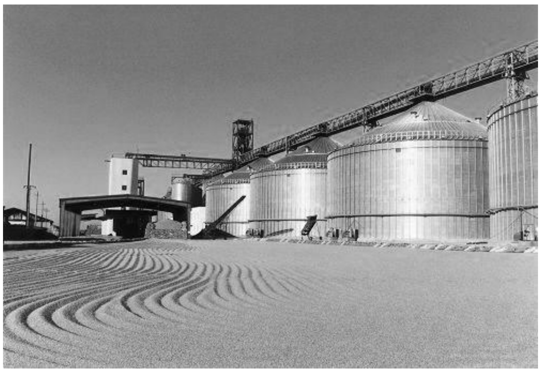
There are an estimated one billion farmers working on around 450 million farms worldwide. The vast majority of these farmers are working on small-scale farms in developing countries, and it is these workers who continue to feel the brunt of our globalised corporate food system.

Land Grabs

As food prices rise and companies, banks and even states are seeking to secure resources in an increasingly volatile world market, huge swathes of land in Asia, Africa and Latin America are being sold or leased to foreign investors. These "land grabs" result in violent evictions of farmers and small-holders from the land, and displace some of the world's poorest people.

TRADE

Four companies – Cargill, Archer Daniels Midland, Bunge, Dreyfus (often referred to as the "ABCD companies") - control 90% of the global trade in grain.[5] This



bottle-neck in the food system gives these secretive and unaccountable trading companies an enormous amount of power and influence in the food system. Their global reach and influence means that even though the vast majority of food is consumed close to where it is produced, the local price of food is tied to the increasingly volatile world market of food commodities.[6]

[5] Oxfam (2013)
[6] Berne Declaration (2013), p.2

Cargill – Profiting from Hunger

From 2006-08 average world prices for rice rose by 217%, wheat by 136% and maize by 125%.[7] These price hikes hit the world's poorest – those who spend the highest proportion of their income on food – the hardest. Across the world there were street protests by people who could no longer afford to put food on the table for their families.

Meanwhile, Cargill, the world's biggest grain trader reported record profits. In 2008 Cargill made profits of $4 billion – a 157% rise in profits since 2006.[8]

PROCESSING

The ten biggest global food processors have a 28% share of the world market and enjoy some of the highest profit margins in the global food chain.[9] However, those working in food processing factories experience extremely poor working conditions.

Meat and Poultry Processing Workers Exploited

In 2008 an inquiry was launched looking into the mistreatment of agency and migrant workers in the UK meat and poultry processing industry, some of which supplied the UK's big supermarkets.

"Widespread evidence" of abuse and exploitation was found across the sector, with workers reporting bullying, physical and verbal abuse, and humiliating treatment by employers – for example being denied toilet breaks.[10]

In the US, meat processing has been classed as "the most dangerous factory job" by the NGO Human Rights Watch.[11]

[7] Oxfam (2012)
[8] Grain (2009)
[9] Berne Declaration (2013), p.15.
[10] BBC (2010)
[11] Berne Declaration (2013)

SUPERMARKET POWER

The top ten supermarket corporations have a global market share of 10.5%. However in some national markets such as those of the US and Europe, supermarkets hold much more dominant positions and exert immense power over domestic markets and their global supply chains.

Walmart, which owns Asda in the UK, is the world's biggest corporation with an annual turnover of over $476 billion.[12] Despite managing to return $12.8 billion to shareholders in 2013, the average wage for a Walmart cashier in the USA is $8.48 an hour – well below the $15 that workers in the US estimate they need to stay above the poverty line.

Walmart's low-wages and the consequent reliance of many of its US staff on government assistance in order to buy food (food stamps) has led a recent report to describe America's largest retailer as a "poverty incubator."[13]

In 2012, 76% of food retail in the UK was controlled by 4 corporations: Tesco 29.5 %, Asda 17.5 %, Sainsbury, 16.7 %, Morrisons 12.3 %.[14] This pattern of supermarket dominance is reflected across a further 10 EU countries where 7 retail chains have a 70% share of the food market.[15]

Their high market share gives supermarkets a great deal of power over consumers and workers – both workers who work in the supermarkets themselves, and those who

[12] Walmart Annual Report (2014)
[13] The Guardian (Nov, 2014)
[14] Berne Declaration (2013)
[15] SOMO (2012)

work in the global food supply chain.

Supermarkets have a long history of using their position to put pressure on suppliers to deliver goods at cheaper and cheaper prices. This "race to the bottom" inevitably entails the exploitation and abuse of those who produce, process and sell these goods – the workers.

Slave Labour in the Global Supply Chains

In June 2014 a Guardian newspaper investigation revealed that slave labour and human trafficking was endemic in the Thai seafood industry, which supplies cheap prawns to major US, UK and other European supermarkets.[16]

THE DISCOUNTERS: ALL CHANGE, NO CHANGE?

Big UK supermarkets have recently seen their market share challenged by the low-cost German retailers Lidl and Aldi. Whilst this trend, along with the growth of convenience stores and potential expansion of internet grocery shopping, is predicted to dramatically shake-up the landscape of British supermarkets, the fundamentals of a corporate dominated global food system look set – if not challenged - to stay.

TRENDS

CONSOLIDATION

100% of senior executives from organisations across the global food/agribusiness industry interviewed by the law firm Norton Rose Fulbright expect further consolidation to occur in the agriculture industry over the next three years.

- The major US food conglomerates are expected to be acquisitive i.e. they will continue to buy smaller companies in order to increase their market power and influence (horizontal integration). The takeover of the UK company Cadbury in 2010 by the US-headquartered Mondelez (previously Kraft) is a prime example of this.
- The future looks set to be characterised by price volatility and growing scarcity of resources which means that companies are looking to consolidate and strengthen their vertical integration in supply chains i.e. they'll want to "lock in" the (cheap) ingredients they depend on. This will mean that companies towards the "top" of the global food chain – the processors and retailers – will aim to have even more control of the workers and the land at the "bottom" of the chain.
- The big global grain trading companies are also becoming increasingly vertically integrated. For example Cargill is not only the world's biggest grain trader, it also provides inputs such as seeds and fertilisers to the growers, is involved in meat packing and has its own transport business, Cargill Ocean Transportation.[17]
- Large Chinese companies are also expected to be acquisitive in order to consolidate their supply chains.

[16] The Guardian (June, 2014)

[17] Oxfam (2012), p.9

EMERGING MARKETS

Food and drink companies are increasingly turning their attention to the "emerging markets" of China, Russia, India and Latin America. Currently 77% of UK exports are directed towards the EU. However, this looks set to change as companies seek out new export opportunities beyond Europe.

In 2013, Mondelez announced that it was setting aside $600 million over the next three years to invest in emerging markets.[18] While Mondelez has been seeing "double-digit" growth in Russia, India and Brazil, it regards developed countries such as the UK as "low growth" areas where in the absence of high growth in operating income, increased margins can only result from a squeeze on suppliers and workforce in general.

FINANCIALISATION

Who owns the big multinational food and drink companies? Increasingly, it's private equity funds and other institutional investors who expect incredibly high returns on their investments in short time periods. Companies become heavily indebted as a result of leveraged investor buy-outs and are thus forced to squeeze more and more from their operations in order to service debts, maintain cash flow and simultaneously deliver higher and higher returns to investors.

MONDELEZ

"no food manufacturing company with an eye on the longer view would set the profit targets Mondelez has recently announced. But like 3G at Burger King or Peltz [hedge fund investor] at Heinz, the current crew probably doesn't plan on sticking around for the long haul. For the moment their eyes and those of the entire industry are glued on Heinz and their private equity bosses."

From "The IUF's Private Buyout Watch", March 2014

For more information see:
Private Equity Buyout Watch
"A Workers' Guide to Private Equity Buyouts"
Screamdelez.

The American company Heinz offers the most recent example of a highly leveraged food and drink company buyout by private equity funds. In 2013 Heinz was bought by Brazilian 3G Capital and Warren Buffett's Berkshire Hathaway for $23 billion. According to the IUF, in the first year following the buyout, "3G has shuttered 3 plants in the US and Australia, eliminated over 10% of the global workforce and brought in advisors Accenture to implement their "zero-based" cost-cutting budget program."[19]

This briefing paper was produced by Jess Whelligan, Global Labour Institute (Manchester) for the Unite Food, Drink & Tobacco course held November 2014.

[18] Nieburg, Oliver. 30.05.2013, "Mondelez creates $600 million kitty to seize emerging markets", Confectionarynews.com.

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