NAFTA: Fueling Market Concentration in Agriculture

The U.S. Department of Agriculture (USDA) and the Department of Justice (DOJ) are organizing a series of historic public workshops around the United States on competition issues in agriculture. The workshops come at a time of growing concern over the negative impacts of corporate concentration in the food system and the need for appropriate regulations to promote healthy, sustainable food and farming.

Overview

Agriculture Secretary Vilsack has stated "it is important to have a fair and competitive marketplace that benefits agriculture, rural economies and American consumers."[1] We support this vision. It is imperative to consider international impacts of corporate concentration and reforms needed to create fair markets. Competition reform cannot be viewed exclusively as a domestic issue.

In the U.S., domestic markets are extremely concentrated. Just four companies—Tyson, Cargill, Swift and Co. and National Beef Packing Co.—control close to 85 percent of U.S. beef packing. Cargill is the fourth-largest pork packer, the third-largest producer of turkeys, the second-largest for animal feed plants, the first for flour milling and the third for soybean crushing.[2]

U.S. agribusiness also controls a large percentage of global trade and investment in food and agriculture; hence, our domestic regulations matter a great deal internationally. The U.S. is the largest global producer of both chicken and cattle meat and the second-largest pork producer.[3] Cargill, Archer Daniels Midland (ADM) and Bunge control most of the corn, soy and wheat being moved around the world. Monsanto accounts for nearly 90 percent of the global market in genetically engineered seeds.[4] ADM employs 28,000 people in more than 60 countries and is invested in oilseeds, corn, food and feed ingredients, sweeteners, biofuels and agricultural services.[5] Cargill is even larger, employing 159,000 people in 68 countries and is invested in meat, grains and poultry, fuels, fertilizer, sweeteners and starches, grain trading markets and agricultural services.[6]

U.S. agribusinesses exert a great deal of influence on Congress and the positions that the U.S. government takes in its international negotiations relating to agriculture, trade and investment. In North America, concentration is particularly pronounced due to the North America Free Trade Agreement (NAFTA), whose rules have allowed

© 2009 Institute for Agriculture and Trade Policy. All rights reserved.

INSTITUTE FOR **AGRICULTURE** AND **TRADE POLICY**

Overview written by Alexandra Spieldoch, March 2010 2105 First Avenue South Minneapolis, Minnesota 55404 USA iatp.org

companies like Cargill, Monsanto, Smithfield, Tyson and ADM to increase their profits to historic levels by developing and controlling markets in the entire region.

Following the passage of NAFTA and the establishment of the World Trade Organization (WTO), changes in U.S. farm policy eliminated limits on production in an attempt to expand opportunities in foreign markets. Instead, this overproduction sent prices plummeting, resulting in fewer and larger farms in monocultural systems and increased export dumping by agribusiness firms. The real losers in this scenario are farmers, rural communities and consumers across borders.

In Mexico, the impacts from NAFTA range from a loss of family farms, increased food costs, loss of biodiversity, migration, violence and dumping of U.S. grains and meat at or below the cost of production. In Canada, net farm incomes are at historic lows despite record-high production, food exports and imports.[7] In the U.S., the number of small farmers is at an all-time low and rural communities are greatly diminished. U.S. agriculture is dominated by large-scale production mono-cropping of soy and corn, reliant on genetically engineered crops and heavy pesticide use, and concentrated animal feeding operations (CAFOs). These trends have also contributed to soil erosion, pollution and health problems.

U.S. competition reform must recognize the role of trade agreements in concentrating markets both within the U.S. and within the region. NAFTA is the U.S. blueprint for other free trade agreements. We have 15 years of experience with the negative impacts of market concentration in North America, making this region an important starting point for trade and investment reform.

NAFTA must be renegotiated to support fairer rules in agriculture that will allow increased competition and protection for family farms. Such rules could include a mandatory fair price for farmers and ranchers, increased transparency in market activity, captive supply reform and protection of farmers' right to save seed. New rules would ensure that the U.S., Canada and Mexico can institute tariffs and other non-tariff barriers to ensure fair competition and protect their markets from import surges. NAFTA's Chapter 11 provision, which grants investors the right to sue governments for compensation for indirect expropriations, including regulatory changes, undermines the ability of governments to set domestic policy to benefit their citizens and the environment. Intellectual property law would need to be revised as it currently allows agribusiness companies to monopolize control over agricultural markets, with profits as the bottom line, rather than common goals to protect biodiversity, traditional knowledge, the environment and food security.[8]

These USDA-DOJ workshops represent an historic space for government and civil society to acknowledge what isn't working and consider a more sustainable and respectful direction for agriculture. For North America as a whole, this dialogue is overdue. IATP has gathered testimony from well-known experts in all three countries to share their views about the role of NAFTA in agribusiness market concentration, and ideas for change.

Expert Testimonies

Dr. William Heffernan
University of Missouri, USA

The goal of NAFTA was to reduce, if not eliminate, all rules and regulations that impede the free flow of goods and services in North America. Some of the largest agri-food firms in United States lobbied for its passage and then they moved rapidly to extend their presence into the neighboring countries. One of the major consequences of NAFTA was the consolidation and restructuring of the agri-food system on the continent. This has led to profound impacts on firms, employees and communities even in the United States.

Dominant firms in the food system do not operate in isolation, but instead they have developed linkages to a host of other firms through strategic alliances (joint ventures, royalties, licensing and other long-term agreements) to form powerful supply chains. For example, Cargill and Monsanto operate through a joint venture in some countries of the world bringing together the seed, chemical and fertilizer sectors that sell inputs to farmers. Cargill then processes grain and soybeans and some of it goes into cattle feed. They feed and process many of their own cattle and sell their beef products through a long-term agreement with Kroger, the second-largest food retailer in the United States. This represents a seed-to-shelf supply chain. There are untold numbers of other smaller firms in this supply chain, but their dominance in the decision-making process of the supply chain is not the same as these key firms.

These supply chains can basically crush any smaller domestic firm or supply chain. Collectively they bring with them huge sums of capital. In addition, they have operations in many other countries and in other product lines, allowing them to "cross-subsidize" or operate at a loss in one country or product line for a considerable time as long as they have a secure income stream from other operations. Thirdly, these supply chains do not evolve quickly. Food supply chains are very complicated social networks. They require a minimum level of trust between many firms and that requires time. Firms that were relatively large in their country before NAFTA and aspiring new firms simply cannot obtain the capital and social networks required to enter or compete with the newly dominant supply chains. The food system in each country, but especially Mexico and Canada, has been totally changed under NAFTA's "process of integration." Did the citizens of these countries realize or have any input in deciding whether to significantly alter their food system?

Jeri Lynn Bakken
Western Organization of Resource Councils (WORC), USA

One of the most disastrous results of NAFTA has been the consolidation of livestock markets in our three countries and around the world. With only a few multinational corporations controlling the feeding and slaughter of cattle in our region of the world, family-based livestock producers have gotten the short shrift in this trade agreement. NAFTA's focus on a one-size-fits-all market has had only one effect on family-based agriculture: The big corporations are allowed to get bigger and gain more control and the independent producers are at the mercy of only a handful of buyers who hold all the power over markets—all the way from the cow-calf producer to the retail grocers.

Fair trade only works when it adheres to transparent, competitive market principles, and in the case of NAFTA, the U.S. has fallen far short of enforcing the anti-trust laws designed to prevent price manipulation and anti-competitive practices in agricultural markets. Adequate enforcement of laws already on the books would remedy this market collusion, predatory practices and declining market competition that has resulted in this faulty trade model.

We have to stop allowing the major meat packers to pit farmer against farmer, and realize that we are all in this broken marketing system together—we have all been taken advantage of by big money and big corporations and we have all been duped by the promises of NAFTA.

Kent Peppler
Rocky Mountain Farmers Union, USA

Rocky Mountain Farmers Union is concerned about the current impact of concentrated agricultural markets on family farms and ranches, rural communities and our national food security. Existing antitrust laws may address monopoly, monopsony and vertical integration in the agricultural sector, but without an executive branch exercising its constitutional obligation to enforce them, those laws are a cynical joke on the American people.

Federal regulations must take into account the effects of local, regional and even global monopolies. As larger and larger corporations monopolize aspects of food production, prices to the consumer do not fall, and the production chains that begin on family farms generate less, not more, income for the farmer. In the meat packing industry for the last few decades, consumer prices and plant productivity have increased while farmer prices and plant employee wages have dropped.

The ignorant application of patent law is allowing multinational companies to seize control of basic food products. For example, under existing application of the law, a seed company controlling 80 percent of the market for a specific food, such as soybeans, successfully sued farmers because their crops were pollinated by plants grown from the company's patented seed. Corporations' vast financial resources can destroy an individual farmer with nothing more than the threat of a lawsuit.

The nation has seen the risks of letting banks and other institutions become "too big to fail." In the background, the bankruptcy of Pilgrim's Pride, the collapse of the dairy industry, and the rapid decrease in the international food surplus as corporations pursue "the bottom line," all show how vulnerable we are to similar disasters in our food economy. You can't bail out starvation.

Darrin Qualman
National Farmers Union, Canada

Canada is experiencing the worst farm income crisis since the Great Depression as a result of the interaction of corporate concentration and trade agreements—specifically NAFTA. Its net farm income is at its lowest level in 70 years, despite record-high production levels, and record-high food exports and imports.

The Canadian hog sector is in an advanced state of collapse. Our cattle farmers are rapidly reducing their herds. Eighty percent of Canadian beef packing is owned by two companies. Fertilizer, seed and chemical companies, on both sides of the border, are similarly concentrating. And, most troubling, food retail is consolidating under the control of a few giants. Canadian agriculture appears to be nearing a precipice.

The cause of the grinding farm income crisis in Canada is clear: agribusiness concentration, market power and opportunistic profiteering on the part of corporations that are increasingly large and decreasingly disciplined by competition. The dominant agribusiness corporations have established themselves as the primary beneficiaries of the wealth produced on Canadian soil.

The problem in Canada and elsewhere, however, is not simply corporate concentration and power: The problem is corporate concentration that is enabled and accelerated by trade agreements such as the NAFTA. As these agreements lower economic borders between countries and integrate markets, the effects on farmers that are opposite to those on agribusiness corporations. Farmers face greater competition as they are thrust into markets that contain hundreds of thousands (or millions) of new competitors. Corporations such as beef packers or fertilizer makers may initially face an increase in competition, but those companies soon set about merging and concentrating until only a handful remain, thus reducing competition.

Throughout the 1990s, Canadian farmers were told that our income crisis here was caused by U.S. subsidies. Similarly, U.S. cattle producers are being told today that their low prices are largely the result of Canadian producers' exports to the U.S. Such claims are not true. Farmers' low prices are rarely caused by other farmers. Much more often, our low prices are a result of markets distorted and looted by increasingly powerful processors and retailers who face entirely inadequate

levels of competitive discipline. And our input prices are pushed up by those same market dysfunctions.

Pierre Fréchette
Quebequois Poultry Producers, Canada

As a result of NAFTA, Canada opened its poultry market to imports. While the vast majority of the Canadian poultry market is still supplied domestically, there are some disturbing shifts that have occurred. For example, Canada is one of the top poultry importers in the world, despite the supply management programs that are in place. Imports have had a significant impact on wholesale prices and on the structure of the industry such that 85 percent of Quebequois poultry today is handled by only two processors. Further increases in market access, further tariff reductions, or both, will certainly result in reinforcing corporate consolidation, greatly affecting prices that producers receive.

Due to corporate consolidation, producers wishing to stay in business have no choice other than to take contracts with the two largest Quebec processors: Olymel or Exceldor (or one buyer if the two merge). Producing for these large-scale processors is to the detriment of regional development and environmental protection. And consumers do not benefit from cheaper prices as middle-men keep the profits from any cost or price reduction.

At some point, Canadians will be unable to compete with American or Brazilian giants and this will be the end of production and processing for its domestic poultry industry.

Tim Wise
Global Development and Environment Institute, Tufts University, USA

Excerpt from "Hogging the Gains from Trade"[9]

Smithfield and other industrial livestock firms gained a competitive advantage over many Mexican hog producers, an edge that grew in importance with the implementation of NAFTA in 1994. From the early 1990s to 2006–08, pork exports to Mexico increased over 700 percent, making Mexico the second most important export market for U.S. pork. With the implicit subsidy [of supplying cheap corn and soybeans at or below the cost of production to supply animal feed], U.S. exporters could sell their pork at prices 10 percent below the prices they would have had to charge if they had paid full cost for their corn and soybeans between 1997 and 2005.

Smithfield controlled roughly 30 percent of the hog market during that time, so its savings were about $2.5 billion, giving it a competitive advantage over diversified hog farms on which farmers grew their own corn, soy and other fodder for their animals [in the U.S.] and an added advantage over their Mexican hog farmers who were still growing their own feed or buying it from local farmers.

The restructuring of the Mexican hog industry, accelerated by the flood of imports from the United States and by the implicit subsidy to prices, put many small and mid-sized hog farmers out of business. Transnational firms now control an estimated 35 percent of Mexico's pork industry.

Fernando Bejarano González
Pesticide Action Network, Mexico

The transnational control of the pesticide market in Mexico was consolidated as a result of neoliberal policies and the signing of NAFTA with the United States and Canada. Pesticide oversight regulations in Mexico have been weakened while industry groups, such as the the Mexican Association of Phytosanitary Industry with participation from Syngenta, DuPont, BASF, Dow, Bayer, FMC, Monsanto, among others, have been able to expand their markets.

The Interagency Commission for the Control and Use of Pesticides, Fertilizers, and Toxic Substances, which involves all relevant ministries addressing the management of pesticide use, including the Ministry of Health, Agriculture, and Environment, has simplified administrative procedures to register the import and export of pesticides rather than implement effective measures to prevent and control harmful effects on public and environmental health. In this context, exports and commercial interests are prioritized in the pesticide market rather than mandating that corporations comply with Mexican and international laws to protect public and environmental health.

Because there is no national registration obligation that would allow citizens to monitor pesticide use along the marketing chain, corporations can move freely with little oversight. In short, a profound change is needed to curb corporate control of pesticides and seeds in support of organic and agroecological alternatives.

Victor Suarez
ANEC, Mexico

ANEC is a national network of 220 local organizations made up of 60,000 small and medium basic grain farmers of corn, beans, wheat, rice and sorghum in 16 states within the Republic of Mexico. We have much to say about the negative impacts of NAFTA and corporate concentration on agriculture. Although Mexico began dismantling its public programs in agriculture back in 1982 as a response to structural adjustment programs imposed by the World Bank and the IMF, NAFTA furthered the process of privatization and deregulation to liberalize markets. This essentialy allowed agribusinesses to operate more freely and to set rules in their favor.

Sixteen years into NAFTA, Mexico is experiencing its worst food crisis in six decades. Yet, agribusinesses have continued to increase their profits and their stranglehold over markets. Today, little more than 20 large agribusinesses control Mexican food and agriculture,

also exerting significant influence on decisions in the legislative and executive branches of the political system that benefit their interests, such as subsidies and price-setting measures. U.S. (and some European) corporations are heavily involved in Mexican agriculture. For example, Monstanto, Syngenta, Bayer, and Dow Agro dominate seeds and pesticides markets. John Deere and New Holland supply machines and agricultural equipment. ADM is one of three major corporations controlling the Mexican wheat industry. Pilgrims Pride and Tyson control large-scale Mexican poultry production and distribution. Smithfield is one of two corporations dominating the hog industry. Wal-Mart is leading large-scale retail distribution.

Monopolies must be dismantled and U.S. dumping must end. One way to do this is to cut off subsidies to agribusinesses that gives them advantage on either side of the border. However, this is not enough. A new vision for agricultural policy must be implemented and reviewed in relation to how it protects food security, tradition, culture, the environment and rural development, not just new markets. And, if we are serious about achieving competion reform, the U.S., Mexico and Canada will have to renegotiate NAFTA.

References

1. U.S. Department of Justice, Press Release: "Justice Department and USDA to Hold Public Workshops to Explore Competition Issues in the Agriculture Industry" August 5, 2009, http://www.justice.gov/atr/public/press_releases/2009/248797.htm.

2. M. Hendrickson and W. Heffernan, Concentration of Agricultural Markets, (Columbia: University of Missouri, 2007).

3. FAO, "FAOSTAT, commodities by production: top production, world," http://faostat.fao.org/site/339/default.aspx.

4. Molly Anderson, "A Question of Governance: To Protect Agribusiness Profits or the Right to Food?" Published by Agribusiness Action Initiatives (AAI). November, 2009, referencing "The Global Food Systems and Nodes of Power" by Mary Hendrickson, Bob Gronski, John Wilkinson and William Heffernan, August, 2008.

5. Compiled from ADM's 2008 annual report and its Web site: http:// www.adm.com

6. Compiled from Cargill's 2008 annual report and its Web site: http://www.cargill.com.

7. National Farmers Union Canada, "The Farm Crisis and the Cattle Sector: Toward a New Analysis and New Solutions," 2008, http://www.nfu.ca/briefs/2008/LivestockreportFINAL.pdf.

8. See Summary for Decision Makers of the North America and Europe (NAE) Report for the International Assessment of Agricultural Knowledge, Science, Technology and Development. Approved in Johannesburg, South Africa in April, 2008.

9. Timothy A. Wise and Betsy Rakocy, "Hogging the Gains from Trade," Global Development and Environment Institute, Tufts University, January 2010, http://www.ase.tufts.edu/gdae/Pubs/rp/PB10-01HoggingGainsJan10.html.