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## Section IV

Corporate Role in Food and Agriculture

*Special Issue: Mapping the Global Food Landscape***ABCD and beyond: From grain merchants to agricultural value chain managers**

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The world of agricultural commodity trading firms has changed over the years, although corporate concentration has long been a defining feature of this sector. The four dominant agricultural trading firms—the ABCDs (ADM, Bunge, Cargill and Louis-Dreyfus)—have a long history dating back to the 1800s and early 1900s. First established as private, family-owned grain merchant companies with specific geographical specialties, these firms have since evolved to be quite complex companies. They buy and sell grain as well as a host of other agricultural and non-agricultural commodities, while they also undertake a range of activities from finance to production to processing and distribution. New entrants into this space have also taken on complex structures and activities in a bid to stay competitive.

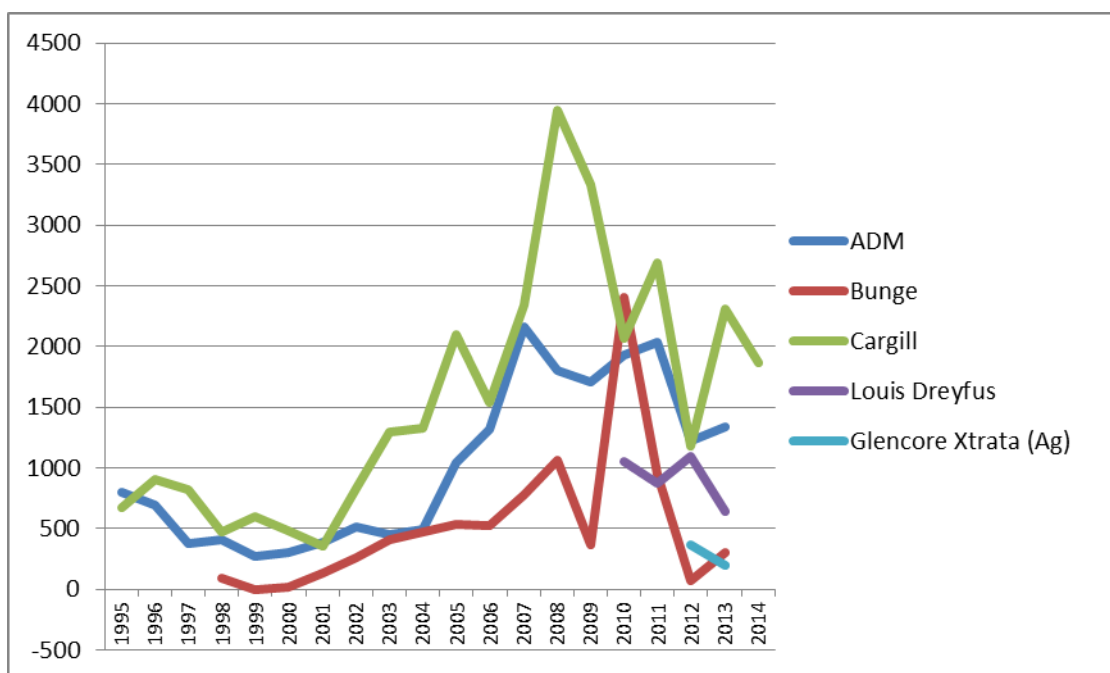
In many ways the world's major grain trading firms now operate more like cross-sectoral “value chain managers” on a truly global scale compared to their grain trade origins. High degrees of concentration combined with control over a vast array of activities give these firms enormous power to shape key aspects of the global food landscape. As a result, the agricultural commodity-trading sector has important implications for farmer livelihoods, hunger and the environment. Following a brief snapshot of the main firms that dominate global grain trading today, I examine the major trends that have reshaped the sector in the past decade. I then outline the main challenges that these changes present for the food system, and suggest possible research directions moving forward.

## Snapshot of the agricultural commodity trading sector

Agricultural commodity trading firms are enormous in size, although their precise scale is hard to determine (Blas, 2013a). Cargill, the largest of the grain trading firms, for example, recorded revenues of over US\$136 billion in 2013, and boasts its 142,000 strong workforce. The other dominant firms in the ABCD grouping, although smaller in size than Cargill, are still large compared to firms in other sectors: ADM – US\$89 billion in revenue and 31,000 employees; Bunge – US\$61 billion in revenue and 35,000 employees (Marketline, 2014a, b, c and d, p. 3); and Dreyfus – US\$63.6 billion in revenue and up to 22,000 employees (Louis Dreyfus, 2014a). These major agricultural commodity-trading firms have operations in a number of countries around the world. Cargill and ADM, for example, operate globally; Bunge and Dreyfus focus on the Americas, Europe and Asia.

The ABCDs form a relatively concentrated group that controls over 70 percent of the global grain market (Murphy, Burch, & Clapp, 2012, p. 9), although new entrants (discussed below) are also edging into the market in recent years. Profits on the whole for these firms increased in the period of commodity price volatility since 2007, but their earnings have been highly volatile as well (see Figure 1). The net earnings of these firms, however, have generally been well above levels achieved in the early 2000s. The grain trade surged by over 20 percent in the 2000-2010 period, compared to less than 2 percent growth in the previous decade, and declining nearly 1 percent in the 1980s (Blas, 2013a).

**Figure 1.** Net Income of the Major Agricultural Commodity Trading firms 1995-2014



Sources: Company websites; financial press

## New trends shaping the world of agricultural commodity trading

Three major trends in the past decade are worth noting in the agricultural commodity-trading sector. First, new players have arrived on the scene, and as a result are driving important changes in the organization of the sector. Second, agricultural commodity trading firms have intensified the vertical integration that was already in motion some decades earlier, in effect now becoming managers of entire value chains. And third, agricultural commodity trading companies have also intensified their horizontal integration, diversifying beyond food and agriculture into other sectors. These three trends are intertwined in complex ways and have wide-ranging implications for small-scale producers, hunger, and the environment.

### *New players*

Growing demand for food and agricultural commodities from emerging and rapidly growing economies has brought fundamental changes to the commodity trading firms in the past decade. As incomes have risen in China in recent decades, there has been a steadily growing demand for more meat and dairy products, which has put pressure on global grain supplies as China begins to look abroad for supplies. Africa is also now seen as the latest growth area for commodity traders seeking to market their products (Blas, 2013b). It is not just demand from emerging economies that is changing. There has also been a huge jump in food exports from non-traditional exporters between 2001 and 2009 (Briones & Rakotagrisoa, 2013, p. 5). In this context, new rival agricultural commodity firms have emerged as important players in the past decade and are already challenging the dominance of the ABCD companies.

A number of significant acquisitions and mergers have taken place among several Asian commodity firms as they divvy up the marketplace amongst themselves, and their concentration in the region grows. Wilmar, for example, was first established in 1991 and has since grown to a significant size, with 2013 revenues of US\$44 billion and 90,000 employees (Marketline, 2014h, p. 3). In the same year, China's Cofco had US\$32 billion in revenue and 120,000 employees (Roberts, 2014). Several other Asian commodity trading firms also teamed up in 2014 when Cofco, which is a government controlled agricultural commodity trading firm, acquired a majority stake in the agricultural division of Noble shortly after purchasing a 51 percent stake in Nidera, a Dutch grain trading firm (Roberts, 2014). This move enabled China to get closer to the source of potential grain imports, after it signaled a reduction in its self-sufficiency policy and is expected to increase corn imports over the coming years (Grant, 2014). As such, Cofco has expanded from mainly operating in China, to having connections in the Americas, Europe, and Asia.

Other global commodity firms that have historically focused on non-agricultural commodities are now also edging into agriculture in order to capitalize on their knowledge of a range of markets that have relevance for agriculture. Glencore Xtrata, a Swiss trading firm that

recently diversified into agriculture alongside its more traditional business of minerals and energy, is absolutely massive—with 2013 revenues at US\$ 232 billion and 200,000 employees (Marketline, 2014f, p. 3). By 2014, Glencore Xtrata had become the largest commodity trading company in the world (Meyer, 2013). Before merging with mining firm Xtrata, Glencore acquired the major Canadian grain company Viterra in 2012. Prior to its acquisition of Viterra, Glencore captured around 9 percent of the global grain market (Telegraph, 2011). From 2012 to 2013, the firm’s agricultural activities increased by 43 percent and its agricultural profits reached US\$200 million in 2013 (Glencore Xtrata, 2013). Since this expansion, Glencore now operates in agricultural trade throughout Europe, the Americas, and Australia.

#### *Intensified vertical and financial integration*

In recent decades, the commodity trading firms have deepened and consolidated their vertical integration that began in the 1980s. In this more recent period, the firms have moved away from their tendency to maintain an arm’s length distance from producers and farmland, to becoming more closely linked to production processes than ever before. At the same time, they have become much more deeply engaged in financial investment activities in the sector (Murphy et al., 2012).

Rather than simply marketing agricultural commodities that farmers independently decided to produce, these firms have now become careful managers of entire agricultural value chains. The grain trading companies consider themselves to be “originators” of grain supply, and they have become a central focal point for management along entire commodity chains—from land ownership to input supply, to advice and insurance, to growing contracts, to purchasing, to storage, to processing and retail, as well as being active in building and maintaining storage and transportation infrastructure and financing all along the chain (Murphy et al., 2012). Louis Dreyfus, for example, advertises its presence from “farm to fork” and notes: “While on the surface the journey sounds simple, the reality is a complex supply chain that needs to be controlled precisely to secure delivery” (Louis Dreyfus, 2014b).

Technological change and informational advances have helped to drive these firms into all facets of agricultural commodity chains. These firms use their advantage in securing access to the latest information and data on market and production conditions to take on activities that they previously saw as too risky (Blas, 2013a; Briones & Rakotagrisoa, 2013). They are also collecting their own data to maintain their information edge. Cargill, for example, recently launched a software service designed to help farmers with “prescriptive planting,” which happens to also collect huge amounts of data for the firm (Bunge, 2014).

#### *Expanded horizontal integration*

Recent decades have seen a greater horizontal expansion of the commodity trading firms beyond food into industrial and other businesses (see Marketline, 2014a-e). Agricultural commodity

traders have become deeply involved in energy markets, for example, both those linked to agriculture such as biofuels, as well as those not directly related, such as petroleum. This shift toward a more horizontal business model appears to be linked to the firms' intensified involvement in global agricultural value chains combined with their financial dealings, which has increased their need to operate in unrelated markets for hedging and speculating purposes.

In this manner, agricultural and non-agricultural markets have become interlinked in new ways by commodity trading firms. ADM, for example, has become a major investor in corn-based ethanol production while Cargill has ventured more fully into the petroleum industry. Both Cargill and ADM are involved in plastics, paints and coatings, shipping, metals and industrial chemicals.<sup>1</sup> Louis Dreyfus is engaged not just in commodity trade, but also asset management, real estate and forestry (Louis Dreyfus, 2014a). The broader scope of commodity trading rivals such as Glencore Xtrata, which only recently diversified from energy and mining into agriculture in a significant way, has in some respects pushed the traditional agricultural traders to themselves diversify into other activities in order to similarly hedge their risks across sectors.

## The costs of commodity firm dominance

Commodity trading firms shape markets and the governance of those markets through a variety of strategies: they shape public discourses about their own role in food and agriculture issues; they lobby governments on policy that may affect their business; and they wield enormous structural power that enables them to dictate prices on one hand and to set standards on the other (see Clapp & Fuchs, 2009; Murphy, 2008). The dominance of these firms, even as their context has changed over the past decade, has important implications for the livelihoods of small-scale agricultural producers, hunger, and the natural environment.

### *Livelihoods at risk*

Small-scale producers that specialize in crops such as coffee and cocoa are increasingly being brought into the service of global agricultural value chains dominated by large-scale commodity trading firms. At the same time, commodity-trading firms are also acquiring land in many developing countries, often displacing small-scale producers and contracting farmers to engage in large-scale industrial production crops such as soy, sugar, and oil palm (Oxfam, 2014).

Although commodity-trading firms advertise that they are supportive of a variety of types of producers, the options available to those producers, particularly small-scale farmers, are limited in practice, and their livelihoods are put at risk as a result (see McMichael, 2013). Producers have become effectively captured by the global commodity giants as the latter dictate prices and are the main sources of farm credit.

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<sup>1</sup> See the websites of the companies: [cargill.com](http://cargill.com) and [adm.com](http://adm.com).

### *Food insecurity*

There is heated debate about the financial activity of commodity trading firms and its relationship to the broader trend of food price volatility that has plagued global agricultural markets in recent years (Clapp, 2014). Food price speculation has affected world hunger as rising prices have put food out of the reach of the world's poorest people (Worthy, 2011).

The agricultural commodity trading firms claim that they are simply hedging when they engage in futures markets and buy and sell financial derivatives, but in practice it is nearly impossible to differentiate between hedging and speculating. When questioned on whether trading highly uncorrelated commodities constitutes speculating, a Louis Dreyfus executive said “I don't consider that speculating at all. It's what's normally done in the norm of our business. It is our business. It is what we do” (quoted in Meyer, 2014). These firms profit from financial investments in the sector whether prices of commodities are rising or falling. But this activity can have an influence on prices, which in turn affects people's access to food.

### *Environmental degradation*

Distance in the food system has only expanded as agricultural production has been reorganized by commodity trading firms into global value chains that rest on an industrial agricultural model that is both driven and supported by financialization (Clapp, 2014). A number of environmental externalities have been associated with this process, such as a negative impact on biodiversity, water availability, and soil fertility, in addition to contributing to climate change (Dauvergne & Neville, 2010; McMichael, 2010; White, Borras, Hall, Scoones, & Wolford, 2012).

The traditional ABCD commodity-trading firms have begun to face some pressure from food processing firms to address the environmental externalities associated with agricultural supply chains (Terazono, 2014). The websites and annual reports of the commodity-trading firms advertise their sustainability goals and their engagement in promoting “responsible” agricultural supply chains. But because the trader firms do not have brand names themselves, they have little incentive to ensure compliance.

### The need to go beyond voluntary approaches

The dominant agricultural commodity trading firms are not particularly regulated. As a recent Swiss government report noted openly, “Physical commodities traders are, in principle, not subject to any oversight” (quoted in Blas, 2013a). Privately held firms, including Louis Dreyfus and Cargill, are not required to report publicly on their earnings and activities. Publicly traded firms are also very selective about the information they release. As a result, we know little about their activities, and what we do know is carefully managed.

The commodity trading firms work hard to give the impression that the lack of regulation is appropriate because their activities serve the public interest. Cargill's 2014 annual report, for example, is titled "Delivering", and stresses that the firm is delivering solutions to hunger, obesity, and environmental degradation. But are these firms worthy of trust in one of the most important industries today that has wide ranging implications for the public interest? There are significant costs to allowing these firms to operate on such a massive and concentrated scale with virtually no oversight.

It is important to go beyond voluntary corporate social responsibility in addressing the impacts of the highly concentrated agricultural commodity trading firms. Future research should explore the following types of questions:

- *What are the prospects for regulation of commodity market speculation by trader firms?* Commodity trading firms have been actively seeking to weaken financial rules around commodity trading (Meyer, 2014b). Whether hedging or speculating, financial bets are driven by the profit motive, rather than by the right to food, the need to secure livelihoods, or protection of the environment. Regulations that tame speculative investments in the sector can help to reduce price volatility and its associated impacts, and create a more supportive environment for the scaling up of alternative food system models. Yet to date progress on this front has been slow and piecemeal.
- *How might a reduction in corporate concentration in the agricultural commodity-trading sector best be achieved?* Banks are retreating from their foray into commodities trading in the face of growing regulation following the financial crisis, but commodity trading houses are getting bigger because they are buying up banks' assets and they are not as heavily regulated (Hume, 2014). This trend raises the question of whether regulators see these firms as "too big to fail" because they are systemically important (Blas, 2013a). How likely is it that governments will break up corporate concentration by regulating mergers and acquisitions through anti-trust legislation? Will these firms continue to escape oversight because of their sheer size and importance?
- *How can transparency and accountability be increased in this sector?* Commodity trading firms may be privately owned, but they control huge segments of the global food industry and their activities have enormous implications for food security, livelihoods, and sustainability. Requiring more detailed reporting on their activities would enable more independent assessment of whether the activities of these firms serve the public's interest.

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