Sophia Murphy gives insight into the role of large commodity trading companies in the modern agri-food system, and the influence of these market giants on small-scale producers.
Commodity trading is a highly sophisticated and complex business. It requires specialised global knowledge, and the people who work in the business are highly paid experts. If the food system was an iceberg, commodity trading would be a significant portion of the 90 per cent that is hidden from sight, supporting the relatively small part of the system that is all most consumers ever see.

Commodity trade relies heavily on a financial system built on trading contracts rather than physical crops, making the business largely virtual. Contributing to this virtuality, the trading floors for buying and selling contracts are disappearing; there are no longer physical spaces where the activity takes place. Several of the largest commodity traders are private companies, which means the law does not require them to disclose certain details about themselves. As a business that depends on having as much information as possible, and having more than the competition, commodity trading is famously secretive. Thus, despite its importance, the process remains largely invisible to consumers, and in many cases, to the producers as well.

The major traders
Commodity traders are central to the food system. The biggest traders are involved in every aspect of the food chain between the farmers and the consumers, though their involvement in actual production tends to be limited. They are invested in agricultural inputs, such as seeds and fertiliser. They buy crops from farmers – which they then store, move and process – and they provide many industries, both in food and non-food sectors, with vital ingredients. One of the unusual qualities of global commodity traders is their extraordinary persistence through the huge economic changes of the last two centuries. Bunge, the oldest of them, will be 200 years old in 2018. Through dramatic changes in international markets, these companies have persisted and profited. They are large, rich, powerful and remarkably adaptable – an unusual combination.

Economic and political influence
Traders exert both economic and political power over the food system. Their economic influence lies along two dimensions: vertical and horizontal. Horizontal market power comes from their market share at a given point of a commodity chain, such as how much trade in the raw commodity it manages or how much of a particular processing stage it controls (for example, making cocoa butter from cacao beans). Just four companies (Arthur Daniels Midland – ADM, Bunge, Cargill and Louis Dreyfus) control an estimated 73 per cent of the global grain trade – an example of their horizontal market power. With the structural adjustment programmes of the 1980s and 90s, most national commodity boards in developing countries were disbanded. The multinational private traders increased their market power by buying up competitors or establishing new joint ventures with domestic firms in developing countries. As major buyers, the companies also influence the seed varieties that farmers plant.

Vertical market power comes from having a large market share at several (or even many) of the steps in a production chain. The dominant grain traders are involved in seed and fertiliser distribution: they buy grain and process it into feed, operate feedlots where they fatten livestock, and sell ‘case-ready’ meat to supermarkets. They also own a huge amount of infrastructure, especially storage facilities and transportation, from rail cars and barges to container ships. Vertical integration interferes with price discovery, an important component of well-functioning markets. It also creates further barriers to entry for would-be new entrants. The huge costs of doing business as a commodity trader are another significant barrier to entry.

The commodity traders’ political authority comes from their wealth and size. Positioned to make generous donations to political parties, these firms work with lobbyists in political centres and are respected as large employers and big investors. Their economic and political importance in many places simultaneously is another source of their power and influence. For example, Cargill claims to do business in over 160 countries around the world.

Conflict of interest
One of the concerns surrounding the influence of the big traders on the food system is their conflict of interest with smallholder farmers with regard to price volatility. This is an issue to some extent with consumers, too. Smallerholders want stability, which allows them to better plan their investments, while traders can use their information and global reach to make significant amounts of money on price volatility. Though risk management is still a necessity, large companies have very different risk profiles to smallholders. Poor consumers, meanwhile, dislike food price volatility because it ties up scarce household income, making it harder to invest in long-term assets such as children’s education.

It is not clear that smallholders necessarily benefit when many small intermediaries are competing to buy their product. In these conditions, the middlemen may operate with too thin a margin to offer producers a good price. In contrast, a multinational trader with a dominant share (or even a local monopoly) has reason to invest in smallholders, whether to improve quality and reliability...
or to introduce new technologies. In some instances, dominant firms build processing infrastructure, which can generate employment and stabilise the market for producers. The experiences are too varied to invite generalisations, as they vary by regional dynamics, national context and commodity.

**POWER OF THE MARKET**

The market power of major traders is not always a problem, but it can create distortions that undermine market effectiveness. If a trader is dominant in the sector it might fix prices (something ADM has been found guilty of); it might also use transfer pricing (rigging costs to ensure the company pays taxes in places where tax rates are low, even if they actually make the profit in jurisdictions with higher taxes). An oligopolistic firm does not have to actively keep challengers out; natural barriers arise as the sector becomes concentrated. The challengers to the traditional commodity firms have come from an expanding market rather than at the expense of the existing traders’ market share.

**ACCOUNTABILITY WITHIN THE SYSTEM**

If agricultural traders are to be more forthcoming about their activities and be held accountable for their actions, regulation and enforcement will be necessary. The companies are not going to surrender their power willingly. The various ‘roundtables’ for sustainable commodity production, for example, have struggled to change norms. While they have provided a place where concerns can be aired, there have been few concrete improvements in performance. It is not easy to regulate commodity traders: they avoid a number of the public efforts that use voluntary codes and goodwill gestures to build trust; they operate across many uncoordinated national jurisdictions; and there is little accountability among governments for stronger global institutions. Many civil society organisations have campaigned against an international regime of investment regulation, fearing further deregulation of the sector. Yet, ultimately, measures of this kind are necessary to curb potential abuses by firms with oligopolistic power.

**THE FUTURE FOR SMALL-SCALE PRODUCERS**

Small-scale producers need many things. Above all they need a choice in which markets they sell to, legal frameworks they can hold accountable, and a political voice. Self-organisation, risk management tools, credit on fair terms, extension services – there is a long list of additional requirements. For many small-scale producers, alternative livelihood possibilities would also be desirable – not all the small-scale producers in the world want to farm, nor do all their children. But for those that do want to farm, the conditions of work should be improved to protect small-scale producers’ rights.

Small-scale producers benefit from having more than one place to sell their produce. They should not face concentrated market power in agricultural input markets nor in the markets where they sell their produce. Legal remedies are needed to protect producers from the potential abuses associated with concentrated market power.

**CHALLENGES FOR THE TRADERS**

Despite their size and power, traders face big challenges. How can they keep expanding and yet stay privately owned (for those that are)? Private ownership puts a firm in a privileged position by limiting what they are required to disclose about their operations but it makes it harder to raise capital for new ventures. They are also challenged by supermarkets and food processors, which have become more interested in controlling markets upstream, closer to where producers operate, and by new communication technologies, which have eroded the big traders’ control on information. Many smallholders have benefited significantly from cell phones and internet access, helping to make prices more transparent.

There has also been something of a shift in public views on the traders – companies are increasingly in the public eye as a result of globalisation. The global food price crisis of 2007-08, the financial crisis that began later in 2008, and the mounting evidence that climate change has begun to disrupt food systems and will likely continue to do so at an accelerated pace into the future, have all made international food and commodity markets more visible.

Many governments have lost confidence in global trade as a reliable way to deliver food security. International trade is going to continue to be a part of food systems in the future, but the role of the multinational grain traders has come into sharper focus. One example came from the G20 meetings in the wake of the food price crisis, which led to the G20 governments establishing the Agricultural Marketing Information System (AMIS). It tracks stocks of basic grains worldwide, and while the private sector does not collaborate with AMIS at this point, their role in holding stocks has received unprecedented public attention.

Looking to the future, it seems likely that increased regulation for the commodity traders, with better transparency as a first step, will be one probable outcome of the public’s growing uncertainty that the current food system is doing its job well and a greater interest in limiting price volatility, at least for staple foods.