

Seeds

Food crisis or agribusiness as usual?

The narrative for the "2010 food crisis" is already being cast: Russian drought triggers export ban, causing a spike in the price of wheat, leading to global food inflation and, as a result, riots in the streets of Mozambique. This sounds eerily like the shallow story lines of 2008, except this time the distortion is even worse.¹

The news from Russia is not about a food crisis, it's about agribusiness. There is a link with the protests in Maputo, but it is not explained by drought or Moscow's export ban.

The price of wheat on international markets had already climbed dramatically before the Kremlin imposed a ban on wheat exports on 5 August 2010. Between early June and the end of July it rose by 40 per cent in Chicago and 80 per cent in Paris. But it was in Russia where the price of wheat really went through the roof, surging by 100 per cent as the drought set in, according to one FAO economist.²

Much has been said about the role of international speculators in pushing up wheat prices, and this is valid. But Russia's market is

not accessible to such speculation. It's another form of speculation that's at work there. Over the past few years, foreign investors and local business magnates have been buying up Russian farmland, mainly for the production of wheat. They've set up huge, vertically integrated "agro-holdings", particularly in the southern grain belt where they now control 40–50 per cent of total grain production.

As the drought took hold, the corporate farmers held back their harvests and demanded higher prices.³ The Russian government did nothing to intervene, even though it could easily have unloaded some of its massive wheat stockpiles on the market. Moscow has a grain intervention fund of over 9 million tonnes and total stockpiles of over 21 million tonnes, which is well beyond what it needs to ensure ample domestic wheat supplies.

The Kremlin moved only when the profit-taking started to pinch the grain traders who were locked into export contracts they'd signed before the drought began. Glencore, a private Swiss company that is Russia's largest wheat exporter, stood to lose millions.

Some companies have already faced the fact that the contracts for the supply of

wheat for July–August were agreed at the price of US\$160–170 per tonne, and now the grain cannot be purchased for less than US\$220 per tonne, which forces exporters to meet contract agreements with losses,

said Nikolai Demyanov, deputy chief executive officer of Glencore's Russian subsidiary, International Grain Co.

According to reports in the Russian and international press, on 3 August Demyanov lobbied the Kremlin for an export ban, which would allow Glencore to cancel its export contracts because of *force majeure* – circumstances beyond its control.

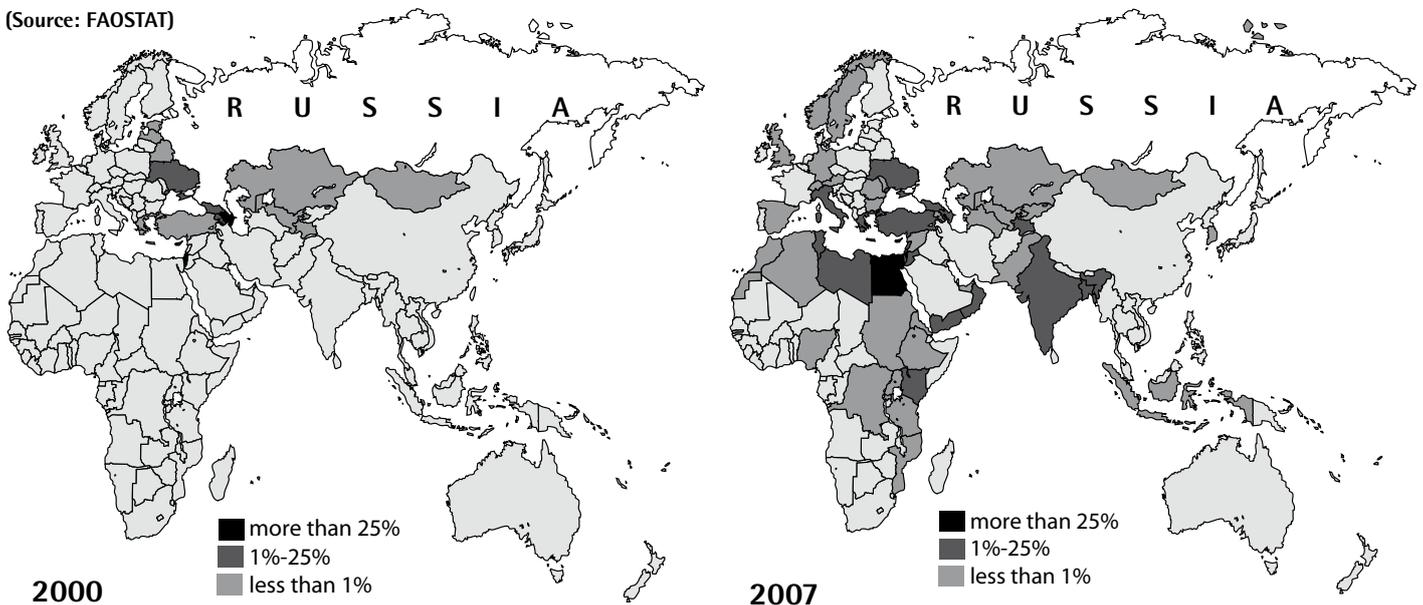
"The government should set a temporary ban on grain exports immediately; it should set a ban rather than an export duty because a duty doesn't qualify as *force majeure* for exporters," said Demyanov in an email.⁴

And two days later the Kremlin did exactly what Glencore asked for. Russia's President, Dmitry Medvedev, even made a public statement to ensure that Glencore's clients got the message: "This is a real *force majeure*, an unforeseeable circumstance."⁵

Russia's corporate farmers, some of whom are also major grain traders, were not

Distribution of Russian wheat exports to recipient countries, 2000 and 2007

(Source: FAOSTAT)



altogether thrilled with the decision, but it was better than a large release of stockpiles, since they could still sell at high prices on the local market. Alongside the export ban, the Kremlin pledged US\$1 billion in low-interest loans and subsidies for grain producers. Most of this money will go to the corporate farmers who are already talking about taking advantage of the crisis to expand their land holdings.⁶ One of the companies buying farmland in Russia is none other than Glencore.⁷

The ban means little for Russian consumers who are already dealing with rampant food inflation, and not just for grains. The French dairy company Danone, which has recently taken control of nearly a quarter of the national market for dairy, used the drought as an excuse to ramp up its wholesale prices by 31 per cent.

The biggest losers in all of this are the poor countries that were expecting shipments of wheat from Russia. Since 2000, agribusiness corporations, with heavy support from Moscow, have turned Russia into the world's most important exporter of cheap wheat. If you look at the two maps on page 25, you can clearly see how Russia's market growth has taken off in poor countries that are heavily dependent on wheat imports – from South-east Asia to North Africa. With this "*force majeure*" they not only lost their contracts for Russian wheat, but had to scramble to sign new contracts with the same grain traders at much higher prices, since in the intervening time speculators on the international market sent the price of wheat skyrocketing.

The costs are huge for countries that can hardly afford it. To cover a contract that it lost for 100,000 tonnes at US\$210/tonne, Jordan had to settle for a new contract at US\$324/tonne. Bangladesh had to deal with the cancellation of contracts for 345,000 tonnes of Russian wheat. Egypt, the biggest importer of Russian wheat, bought 540,000 tonnes at US\$239/tonne, for which it now had to pay US\$310/tonne. The Government of Egypt says that the price change will add US\$705 million to its budget for bread subsidies this year.

So the real story is this: instead of Cargill,

Bunge and Glencore taking a hit on bad futures bets, they passed on the price hike to countries like Mozambique and then cashed in on a new round of extortion. *Force majeure*? It's more like organised crime.

1 Worse still is IFPRI's bizarre response, which blames "suggestions" of similarities with the 2008 food crisis for inciting food price increases this year. IFPRI dismisses increases as "minimal" (tell that to consumers throughout the South coping with food inflation), and panic as not justified because the US has ample wheat stocks (cold comfort for those now having to buy wheat in dollars at high prices). See: Maximo Torero, "Wheat Price Volatility: Panic is Baseless and Hurts Poor People," IFPRI, 13 September 2010. (Thanks to Rahul Goswami for sharing comments on this).

2 <http://www.bloomberg.com/news/2010-08-13/wheat-rally-will-increase-budget-deficits-in-north-africa-iran-fao-says.html>

3 "Grain speculation as prices rise prompts intervention comment", RT, 4 August 2010:

<http://rt.com/Business/2010-08-04/russia-grain-prices-export.html>

4 Ibid.

5 Dmitry Medvedev, "Kremlin – Opening remarks at meeting on domestic grain market stabilization", 13 August 2010,

http://www.isria.com/pages/13_August_2010_52.php

6 Isabel Gorst, "Investors fear re-run of great grain robbery", *Financial Times*, 6 August 2010, <http://farmlandgrab.org/14728>

7 "Russia. Valars group buys 100,000 hectares of land for grain exports", *Kommersant*, <http://www.blackseagrains.net/agonews/11868>

A high-risk food system

In mid-August 2010, news broke that over half a billion eggs were being urgently recalled in the United States because they were contaminated with Salmonella. Another "tainted food" scandal in the US? Yes, but given the astonishing number of eggs involved it was difficult not to sit up and take a closer look.

In the space of one week, 550 million eggs were identified as potentially dangerous. That is a full 1 per cent of the country's annual production. Some 1,300 people had reported falling ill from eggs since the outbreak began in May, four times the normal rate.¹ It turned out that the toxic eggs came from two farms, both in the state of Iowa and both sharing the same feed and chick supplier.

No food safety system to speak of

There are two bodies mandated to look after the quality of food being bought and sold in the United States. The US Department of Agriculture (USDA) is supposed to monitor meat, poultry and egg products. The Food and Drug Administration (FDA), under the Department of Health, is supposed to keep an eye on "everything else" – 80 per cent of the food supply. This has led to absurd divisions of responsibility (as in cheese pizzas falling under the remit of the FDA while pepperoni sausage pizzas go to USDA). Yet no one has any authority to pull toxic food off the shelves. They can only invite companies to do so.¹ And the FDA has no real regulatory power, a minuscule budget and less than 900 staff dealing with food safety. In its endless drive to keep costs down (and profits up), the US food industry has managed to retain self-regulation when it comes to safety controls. There are no truly constraining rules and no one breathing down anyone's neck.

1 One should not assume that companies will withdraw offending products in their own self-interest. For example, in 1997 when contaminated ground beef infected 16 people in Colorado, a USDA official had to negotiate for days with Hudson Food, the producer, over how much beef to recall. The federal government had identified 25 million pounds as potentially dangerous. The company wanted to keep it to down to 20,000. As they argued, more and more Hudson Valley beef was being sold to consumers. (Barry Yeoman, "Dangerous food", *Redbook*, August 2000, <http://www.barryyeoman.com/articles/food.html>)

People quickly realised that this was the crux of the problem; they know that there is hardly a food safety system to speak of in the United States. A former associate commissioner of the US Food and Drug Administration, one of the two regulatory pillars of that system, bluntly describes it as "a relic of the 19th century"²

But while many called for the rapid adoption of new legislation and for real means to implement it, the problem is clearly not just lack of regulation, but the structure of the industry – factory farming itself. The US food supply is so extremely concentrated – with very few companies involved in production, processing and retail – that when something goes wrong the effect is massive. In eggs, just ten companies account for 95 per cent of the entire country's production. In fact, the owner of Wright Farm, the larger



Photo: USDA

of the two firms implicated in the recall, is himself one of the country's ten largest egg producers. And he has accumulated this amazing power despite decades of illegal corporate practice.³ Just four companies control 85 per cent of the beef packing industry, 66 per cent of the pork packing, 60 per cent of broiler chicken production, 80 per cent of the soya crushing, and so on. Only cattle rearing itself might still be considered not concentrated, with many independent herders raising beef cows until their last months of life, when they are shipped off to huge feedlots for finishing and slaughter.

All the food safety regulation in the world won't contain the risk that is inherent to such gargantuan scales of operation and the few fists of control behind them. That is the maths that policy makers need to do. Public health needs to be protected, and governments are responsible for dealing with that. Equally, the US – the birthplace of industrial agriculture and a timeless model of corporate agribusiness, which too many countries from Brazil to Saudi Arabia emulate as a path to food security – has to get its food safety act together, and not rely on corporate good will and voluntary recalls. But the real key to a safe and healthy food supply is in decentralised systems, where food is produced, processed and marketed on much smaller scales. True, you can have any disease or pathogen on a small farm. But it will never hurt so many people as in the magnified world of factory farming and vast plantation agriculture. That is what more and more people are learning from these crises, which may – one lives in hope – lead to more people supporting the right solutions.

1 The US Centres for Disease Control estimate that for every food poisoning incident that is reported, 30 similar cases are not reported. Therefore, 39,000 people are assumed to have got sick in this outbreak.

2 William Hubbard, speaking before Congress on 11 March 2009. See Nicole Gaolette and Edwin Chen, "Hamburg, Sharfstein Picks for FDA Add Focus on Public Health", Bloomberg, 12 March 2009, <http://www.bloomberg.com/apps/news?pid=newsarchive&tid=aKpk7oml173s>

3 Jack DeCoster has an ugly history of offences for flouting labour laws, environmental laws, animal welfare standards, immigration rules and sheer decency. In all cases, though, the matters were dealt with through mere payment. See Mary Clare Jaolink, "Egg recall: Supplier Austin 'Jack' DeCoster has history of health, safety violations", Huffington Post, 22 August 2010, http://www.huffingtonpost.com/2010/08/22/egg-recall-supplier-violations_n_690400.html

Groups take on the causes of hunger in India

As stocks of food grains rot in government warehouses and food inflation pushes millions more people into hunger, groups in India are increasing their calls for an overhaul to the country's food system. In early August, more than 2000 people from across India gathered in Rourkela, in the eastern state of Odisha, for the Fourth National Convention of the Right to Food Campaign.¹ The Convention allowed for reflection on a broad range of issues, from hunger and food security to control over resources such as land, forests and water, as well as for specific demands such as an enforceable call on the State to guarantee food for all.

The National Convention delved deeply into food production issues – looking not only at access to food but also at how that food is produced. It ended with calls to

stop the diversion of agricultural lands to non-agricultural uses and food-crop lands to non-food uses, and for access to and control over food production resources to remain in the hands of local communities. A resolution was passed supporting "biodiverse, pro-Nature agricultural technologies", and climate-friendly agricultural practices, while all toxic and unsustainable technologies, including chemical pesticides, GM seeds and chemical fertilisers, were condemned. The Convention also asked for the fixing of fair and remunerative prices for primary producers to stop the constant under-valuation of agricultural labour and produce.

One of the election promises of the ruling Congress Party has been a National Food Security Law for India. But the government's version of food security is forcefully rejected by the Right to Food Campaign and other groups in India. They say the law would not guarantee people enough food to provide for their needs, and that it falls short of what the Supreme Court has already ruled that the Central Government must provide. Moreover, for them, India's food crises cannot possibly be addressed by a single law. A profound overhaul is necessary, requiring tough political decisions to stop the corporatisation and commodification of agricultural inputs (seeds, land and water) and outputs (food processing, retail), to reject intellectual property rights on the agricultural resources and related knowledge that belongs to farming communities, and to reject free trade agreements, especially when it comes to agriculture.

The Government is doing little to support this people's vision. Instead, it is pushing ahead with a National Food Security Mission, one of the main focuses of which will be the promotion of hybrid rice.² Along the same lines, India's Prime Minister announced in August that a Borlaug Institute for South Asia will be opened shortly, not far from the site of the Right to Food Campaign convention, to usher in another "Green Revolution" for India!

1 <http://www.righttofoodindia.org/>

2 <http://nfsm.gov.in/>