GRAIN
April 2008

Making a killing from hunger

We need to overturn food policy, now!

For some time now the rising cost of food all over the world has taken households, governments and the media by storm. The price of wheat has gone up by 130% over the last year.[1] Rice has doubled in price in Asia in the first three months of 2008 alone,[2] and just last week it hit record highs on the Chicago futures market.[3] For most of 2007 the spiralling cost of cooking oil, fruit and vegetables, as well as of dairy and meat, led to a fall in the consumption of these items. From Haiti to Cameroon to Bangladesh, people have been taking to the streets in anger at being unable to afford the food they need. In fear of political turmoil, world leaders have been calling for more food aid, as well as for more funds and technology to boost agricultural production. Cereal exporting countries, meanwhile, are closing their borders to protect their domestic markets, while other countries have been forced into panic buying. Is this a price blip? No. A food shortage? Not that either. We are in a structural meltdown, the direct result of three decades of neoliberal globalisation.

Farmers across the world produced a record 2.3 billion tons of grain in 2007, up 4% on the previous year. Since 1961 the world's cereal output has tripled, while the population has doubled. Stocks are at their lowest level in 30 years, it's true,[4] but the bottom line is that there is enough food produced in the world to feed the population. The problem is that it doesn't get to all of those who need it. Less than half of the world's grain production is directly eaten by people. Most goes into animal feed and, increasingly, biofuels – massive inflexible industrial chains. In fact, once you look behind the cold curtain of statistics, you realise that something is fundamentally wrong with our food system. We have allowed food to be transformed from something that nourishes people and provides them with secure livelihoods into a commodity for speculation and bargaining. The perverse logic of this system has come to a head. Today it is staring us in the face that this system puts the profits of investors before the food needs of people.

Market realities

The policy makers who have shaped today's world food system – and who are supposed to be responsible for averting such catastrophes – have come out with a number of explanations for the current crisis that everyone has heard over and over again: drought and other problems affecting harvests; rising demand in China and India where people are supposedly eating more and better than in the past; crops and lands being massively diverted into biofuel production; and so on. All of these issues, of course, are contributing to the current food crisis. But they do not account for the full depth of what is happening. There is something more fundamental at work, something that brings all these issues together, and which the world's finance and development chiefs are keeping out of public discussion.

Nothing that the policy makers say should obscure the fact that today's food crisis is the outcome of both an incessant push towards a "Green Revolution" agricultural model since the 1950s and the trade liberalisation and structural adjustment policies imposed on poor countries by the World Bank and the International Monetary Fund since the 1970s. These policy prescriptions were reinforced with the establishment of the World Trade Organisation in the mid-1990s and, more recently, through a barrage of bilateral free trade and investment agreements. Together with a series of other measures, they have led to the ruthless dismantling of tariffs and other tools that developing countries had created to protect local agricultural production. These countries have been forced to open their markets and lands to global agribusiness, speculators and subsidised food exports from rich countries. In that process, fertile lands have been diverted away from serving local food markets to the production of global commodities or off-season and high-value crops for Western supermarkets. Today, roughly 70% of all so-called developing countries are net importers of food.[5] And of the estimated 845 million hungry people in the world, 80% are small farmers.[6] Add to this the re-engineering of credit and financial markets to create a massive debt industry, with no control on investors, and the depth of the problem becomes clear.

Agricultural policy has completely lost touch with its most basic goal of feeding people. Hunger hurts and people are desperate. The UN World Food Programme estimates that recent price hikes have meant that an additional 100 million people can no longer afford to eat adequately.[7] Governments are frantically seeking shelter from the system. The fortunate ones, with export stocks, are pulling out of the global market to cut their domestic prices off from the skyrocketing world prices. With wheat, export bans or restrictions in Kazakhstan, Russia, Ukraine and Argentina mean that a third of the global market has now been closed off. The situation with rice is even worse: China, Indonesia, Vietnam, Egypt, India and Cambodia have banned or severely restricted exports, leaving just a few sources of export supply, mainly Thailand and the US. Countries like Bangladesh can't buy the rice they need now because the prices are so high. For years the World Bank and the IMF have told countries that a liberalised market would provide the most efficient system for producing and distributing food, yet today the world's poorest countries are forced into an intense bidding war against speculators and traders, who are having a field day. Hedge funds and other sources of hot money are pouring billions of dollars into commodities to escape sliding stock markets and the credit crunch, putting food stocks further out of poor people's reach.[8] According to some estimates, investment funds now control 50–60% of the wheat traded on the world's biggest commodity markets.[9] One firm calculates that the amount of speculative money in commodities futures – markets where investors do not buy or sell a physical commodity, like rice or wheat, but merely bet on price movements – has ballooned from US$5 billion in 2000 to US$175 billion to 2007.[10]

The situation today is untenable. Look at Haiti. A few decades ago it was self-sufficient in rice. But conditions on foreign loans, particularly a 1994 package from the IMF, forced it to liberalise its market. Cheap rice flooded in from the US, backed by subsidies and corruption, and local production was wiped out.[11] Now prices for rice have risen 50% since last year and the average Haitian can't afford to eat. So people are taking to the streets or risking their lives to journey by boat to the US. Food protests have also erupted in West Africa, from Mauritania to Burkina Faso. There, too, structural adjustment programmes and food-aid dumping have destroyed the region's own rice production, leaving people at the mercy of the international market. In Asia, the World Bank constantly assured the Philippines, even as recently as last year, that self-sufficiency in rice was unnecessary and that the world market would take care of its needs.[12] Now the government is in a desperate plight: its domestic supply of subsidised rice is nearly exhausted and it cannot import all it needs because traders' asking prices are too high.

Making a killing from hunger

The truth about who profits and who loses from our global food system has never been more obvious. Take the most basic element of food production: soil. The industrial food system is a chemical-fertiliser junkie. It needs more and more of the stuff just to keep alive, eroding soils and their potential to support crop yields in the process. In the current context of tight food supplies, the small clique of corporations that control the world's fertiliser market can charge what they want – and that's exactly what they are doing. Profits at Cargill's Mosaic Corporation, which controls much of the world's potash and phosphate supply, more than doubled last year.[13] The world's largest potash producer, Canada's Potash Corp, made more than US$1 billion in profit, up more than 70% from 2006.[14] Panicking now about future supplies, governments are becoming desperate to boost their harvests, giving these corporations additional leverage. In April 2008, the joint offshore trading arm for Mosaic and Potash hiked the price of its potash by 40% for buyers from Southeast Asia and by 85% for those from Latin American. India had to pay 130% more than last year, and China 227% more.[15]

Table 1. Profit increase for some of the world's largest fertiliser corporations

Company	**Profits 2007 (US$ million)**	**Increase from 2006 (%)**
Potash Corp (Canada)	1,100	72%
Yara (Norway)	1,116	44%
Sinochem (China)	1,100	95%
Mosaic (US)	708	141%
ICL (Israel)	535	43%
K + S (Germany)	420	2.8%

Source: Compiled from corporate reports

While big money is being made from fertilisers, it is just a sideline for Cargill. Its biggest profits come from global trading in agricultural commodities, which, together with a few other big traders, it pretty much monopolises. On 14 April 2008, Cargill announced that its profits from commodity trading for the first quarter of 2008 were 86% higher than the same period in 2007. *"Demand for food in developing economies and for energy worldwide is boosting demand for agricultural goods, at the same time that investment monies have streamed into commodity markets,"* said Greg Page, Cargill's chairman and chief executive officer. *"Prices are setting new highs and markets are extraordinarily volatile. In this environment, Cargill's team has done an exceptional job measuring and assessing price risk, and managing the large volume of grains, oilseeds and other commodities moving through our supply chains for customers globally."*[16]

Table 2. Profit increase for some of the world's largest grain traders

Company	**Profits 2007 (US$ million)**	**Increase from 2006 (%)**
Cargill (US)	2,340	36%
ADM (US)	2,200	67%
ConAgra (US)	764	30%
Bunge (US)	738	49%
Noble Group (Singapore)	258	92%
Marubeni (Japan)	90*	43%*

Source: Compiled from corporate reports
**Data is for Marubeni's Agri-Marine division only.*
Absent from this list is Louis Dreyfus (France), a private agricultural commodities trader with annual sales in excess of US$22 billion, which does not report its profits.

Managing and assessing are not so difficult for a company like Cargill, with its near monopoly position and a global team of analysts the size of a UN agency. Indeed, all of the big grain traders are making record profits. Bunge, another big food trader, saw its profits of the last fiscal quarter of 2007 increase by US$245 million, or 77%, compared with the same period of the previous year. The 2007 profits registered by ADM, the second largest grain trader in the world, rose by 65% to a record US$2.2 billion. Thailand's Charoen Pokphand Foods, a major player in Asia, is forecasting revenue growth of 237% this year.

The world's big food processors, some of which are commodity traders themselves, are also cashing in. Nestlé's global sales grew 7% last year. *"We saw this coming, so we hedged by forward-buying raw materials"*, says François-Xavier Perroud, Nestlé's spokesman.[17] Margins are up at Unilever, too. *"Commodity pressures have increased sharply, but we have successfully offset these through timely pricing action and continued delivery from our savings programmes"*, says Patrick Cescau, Group CEO of Unilever. *"We will not sacrifice our margins and market share."*[18] The food corporations don't seem to be making these profits off the back of the retailers. UK supermarket Tesco reports profits up 12.3% from last year, a record rise. Other major retailers, such as France's Carrefour and the US's Wal-Mart, say that food sales are the main factor sustaining their profit increases.[19] Wal-Mart's Mexican division, Wal-Mex, which handles a third of overall food sales in Mexico, reported an 11% increase in profits for the first quarter of 2008. (At the same time Mexicans are demonstrating in the streets because they can no longer afford to make tortillas.[20])

It seems that nearly every corporate player in the global food chain is making a killing from the food crisis. The seed and agrochemical companies are doing well too. Monsanto, the world's largest seed company, reported a 44% increase in overall profits in 2007.[21] DuPont, the second-largest, said that its 2007 profits from seeds increased by 19%, while Syngenta, the top pesticide manufacturer and third-largest company for seeds, saw profits rise 28% in the first quarter of 2008.[22]

Such record profits have nothing to do with any new value that these corporations are producing and they are not one-off windfalls from a sudden shift in supply and demand. Instead, they are a reflection of the extreme power that these middlemen have accrued through the globalisation of the food system. Intimately involved with the shaping of the trade rules that govern today's food system and tightly in control of markets and the ever more complex financial systems through which global trade operates, these companies are in perfect position to turn food scarcity into immense profits. People have to eat, whatever the cost.

The urgent need for a policy rethink

The larger backdrop to this perverse food market situation is the global financial system, which is now teetering on its flimsy axis. What began as a localised housing loan collapse in the US in 2007 has unravelled into something far more serious, as people realise that the emperors of the global financial system have no clothes. The world economy is living on debt that no one can pay. While central bankers and Lear jet executives try to patch the holes and restore confidence, the underlying truth is that the system is close to bankruptcy and no one in power wants to take the necessary tough measures: not the IMF, nor the World Bank, nor the leaders of the world's most powerful nations. Not much more than public relations glitter can be expected from the G8 meeting in June.

Similar problems lie at the heart of the food crisis: an ideologically driven elite has forced countries to wrench open markets and let the free market run, so that a few megacorporations, investors and speculators can take huge payoffs. Many countries have lost that most basic power: the ability to feed themselves. This loss, coupled with the corruption that plagues our countries and trading systems, shows that neoliberalism has lost any legitimacy that it might once have had. It is a measure of how out of touch these ideologues are that many now openly call for more trade liberalisation as a solution to the food crisis, with some even proposing that the rules of the WTO be changed to prevent countries from imposing export restrictions on food.[23]

The World Bank president, Robert Zoellick, has tried to win the world over with his call for a “New Deal” to solve the hunger crisis, but there is nothing new about it: he calls for more trade liberalisation, more technology and more aid. Today’s food crisis is the direct result of decades of these policies, which must now be rejected. While immediate action is necessary to lower food prices and to get food to those who need it, we also need radical changes in agricultural policy so that small farmers around the world gain access to land and can make a living from it. We need policies that support and protect farmers, fishers and others to produce food for their families, for the local markets and for people in cities, rather than money for an abstract international commodity market and a tiny clan of corporate boardroom executives. And we need to strengthen and promote the use of technologies based on the knowledge and in the control of those who know how to grow food. To put it another way, we need food sovereignty, now – the kind that is defined and driven by small farmers and fisherfolk themselves.

Social movements around the globe have been struggling to promote such a reversal of strategy, only to be dismissed as unrealistic and backward by those in power, and often violently repressed. The glimmer of hope in this crisis is that the situation can be reversed. Peasant organisations have concrete proposals about what needs to be done to resolve the crisis in their countries, and governments should listen to what they are saying. Already some governments are talking of a policy change towards food self-reliance.[24] Others are starting to question the fundamental rationale of pushing for more free trade. Neoliberal hawks at the top of the global food policy pyramid have lost whatever credibility they may think they once had. It is time for them to move out of the way so that the visions of food sovereignty and agrarian reform that come from the grassroots can take their place and get us out of this hellish mess.

Going further:

- **Overview:** FAO, World Food Situation: http://www.fao.org/worldfoodsituation
- **Overview:** Financial Times, “The global food crisis”, interactive map, last updated 21 April 2008: http://tinyurl.com/6knmy8
- **Overview:** Confédération Paysanne, “Les révoltes de la faim dans les pays du Sud : l’aboutissement logique de choix économiques et politiques désastreux”, Press release, 18 April 2008: http://tinyurl.com/5glx8u (French only)
- **Overview:** Stefan Steinberg, "Financial speculators reap profits from global hunger", Global Research, Centre for Research on Globalisation, Montreal, 24 April 2008. http://globalresearch.ca/index.php?context=va&aid=8794
- **Structural Adjustment Programmes**: “UNCTAD official blames food crisis on structural adjustment programme,” This Day, Lagos, 23 April 2008: http://allafrica.com/stories/200804230375.html
- **Food sovereignty**: http://www.viacampesina.org and http://www.nyeleni2007.org
- **Agrofuels**: GRAIN, Agrofuels special issues, *Seedling*, July 2007, http://www.grain.org/seedling/?type=68
- **Rice in the Philippines**: GRAIN, Philippines and beyond: rice crisis – reaping the 'fruit' of market capitalism, *Hybrid rice blog*, 22 April 2008, http://www.grain.org/hybridrice/?lid=201

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[11] Bill Quigley, “USA role in Haiti hunger riots”, ZNet, US, 23 April 2008, http://www.zcommunications.org/znet/viewArticle/17233

[12] World Bank, “Can the world market for rice be trusted”, Box 1 on p. 52 of “Philippines: Agriculture Public Expenditure Review,” *Technical Paper*, World Bank, Washington DC, 2007, http://go.worldbank.org/TGRSK19300

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