

The Challenges Facing Producers in the Global Food Chain

Alan Renwick

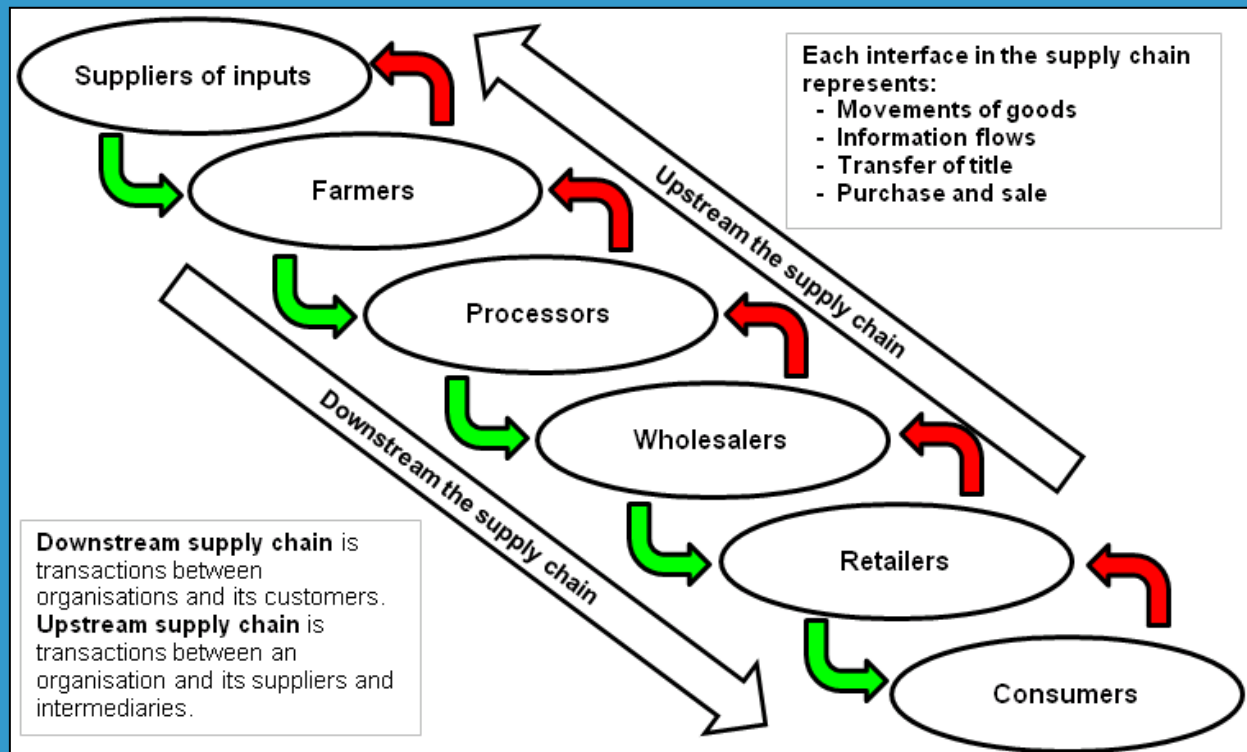
38th ICOS National Conference



**Agri-Business and Rural Development
School of Agriculture and Food Science.**

The Globalisation of the Food Chain

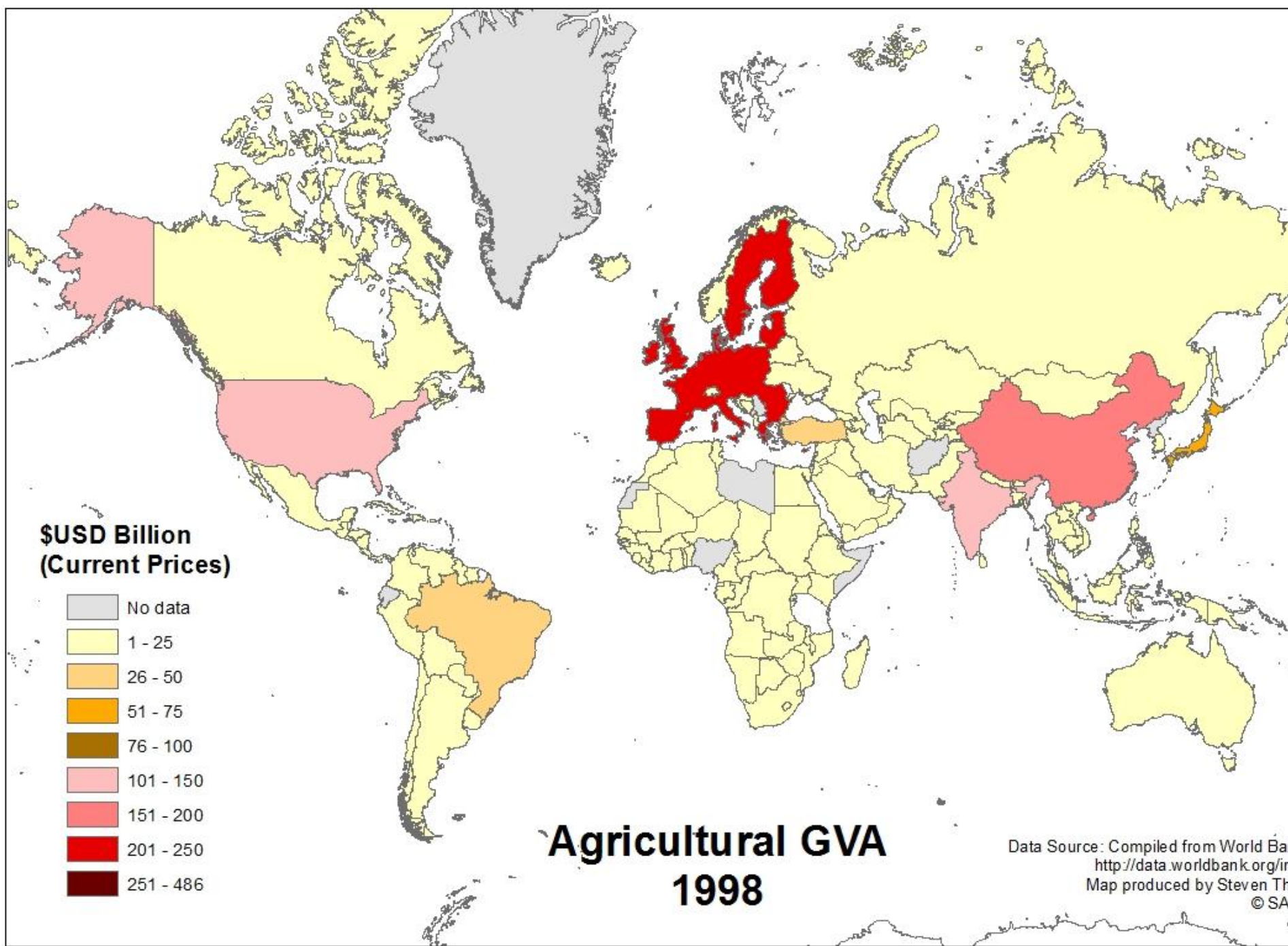
- Why is it taking place?
- What is happening?
- What does it mean for Producers?

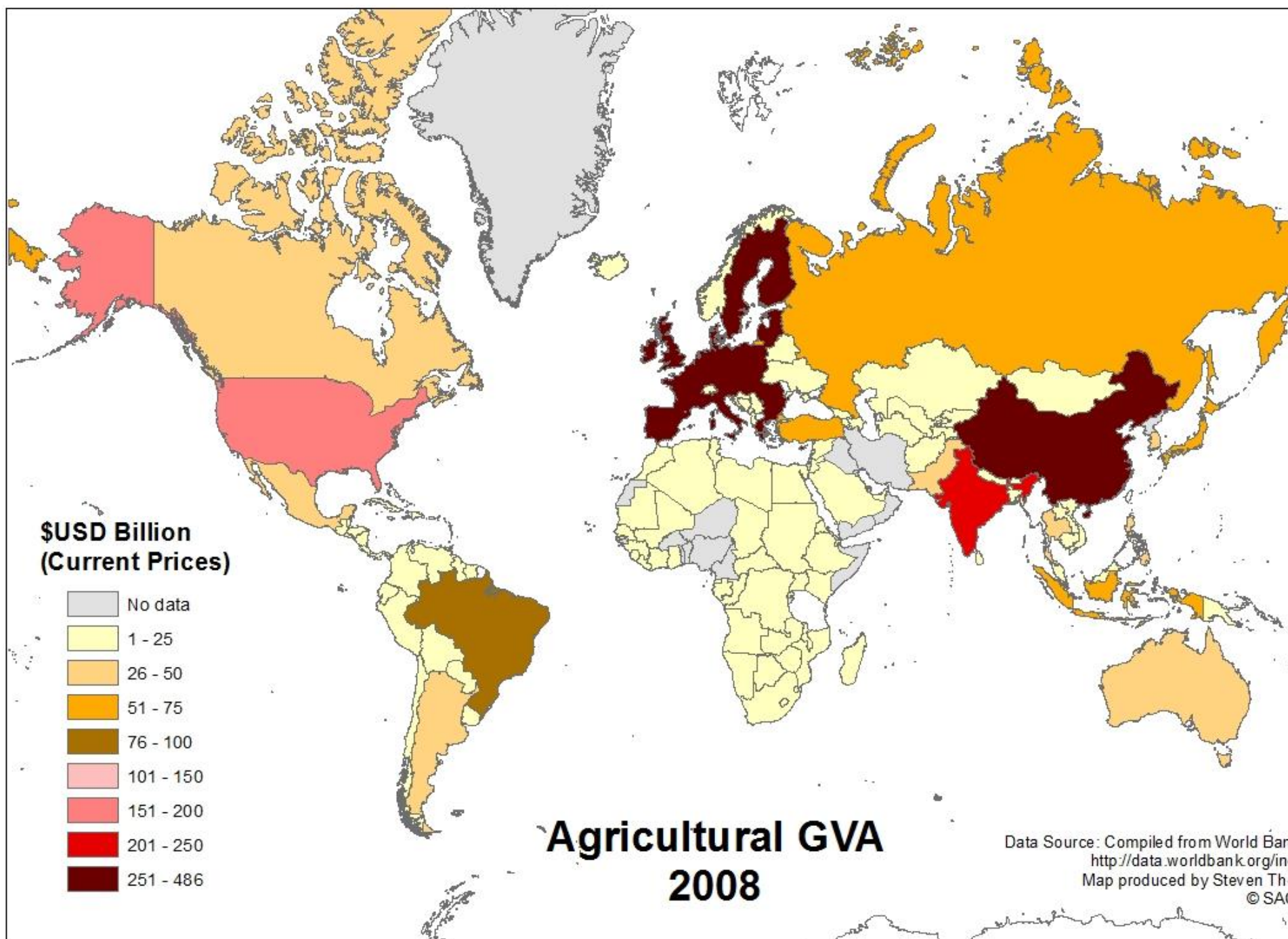


Background

- Globalisation not new, however...
- The opening up of agricultural markets through a gradual process of trade liberalisation and de-regulation has led to..
- Increasing globalisation of agricultural trade, with increased levels of concentration in agricultural market places
- Should also note the heavy reliance on use of natural resources, including non-renewables means factors, such as climate change and depletion of mineral reserves will be important.





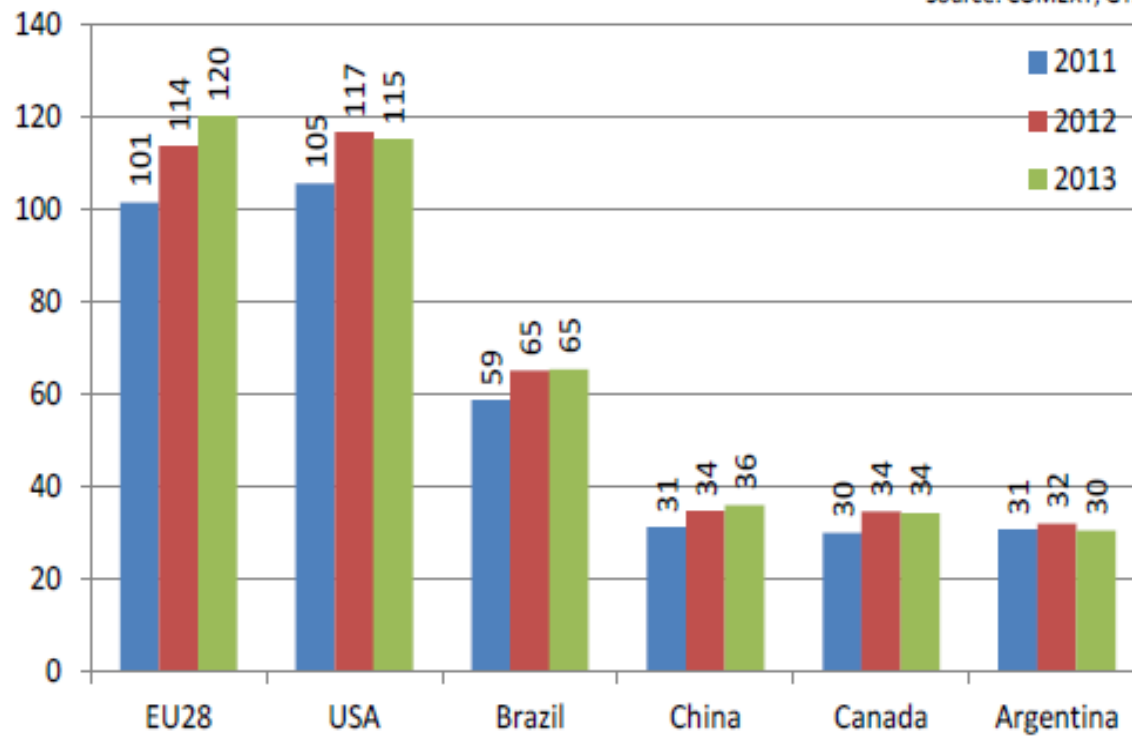


Agricultural Trade

- Very concentrated
 - top 20 exporting and importing countries account for 78% of global exports and 70% of global imports.
- Trade patterns reflect factors including proximity and historic relationships
 - reflection of past power relationships
- New and evolving trade patterns emerging
 - Multi and Regional/Bi lateral Trade Agreements and other
 - particularly noticeable is the rising importance of a number of the BRICS countries



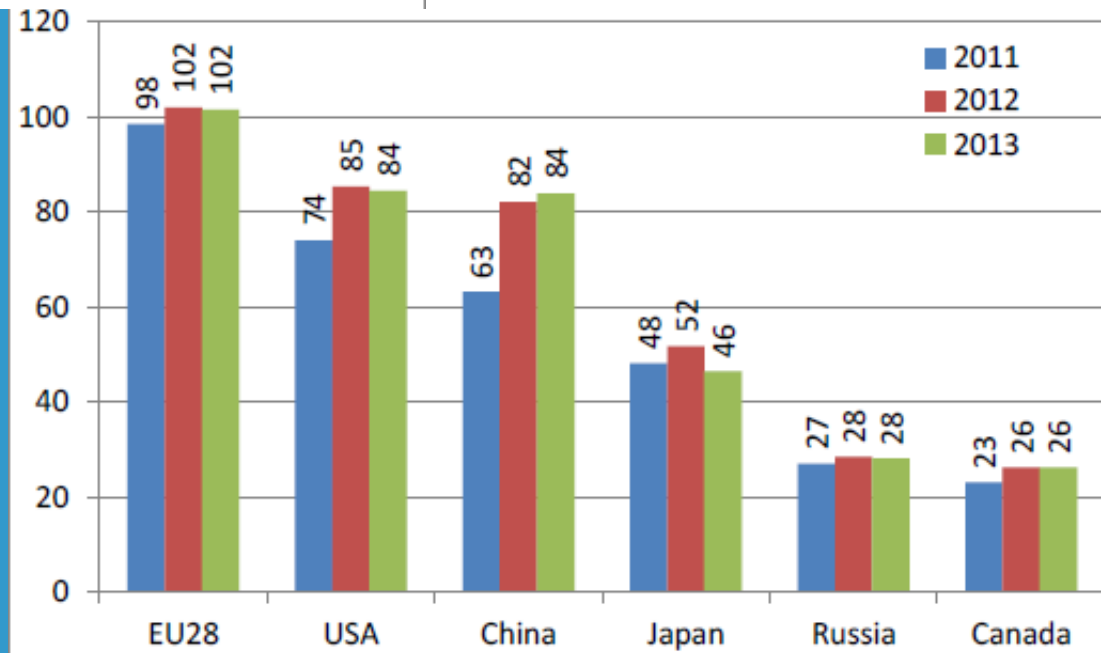
Source: COMEXT, GTA

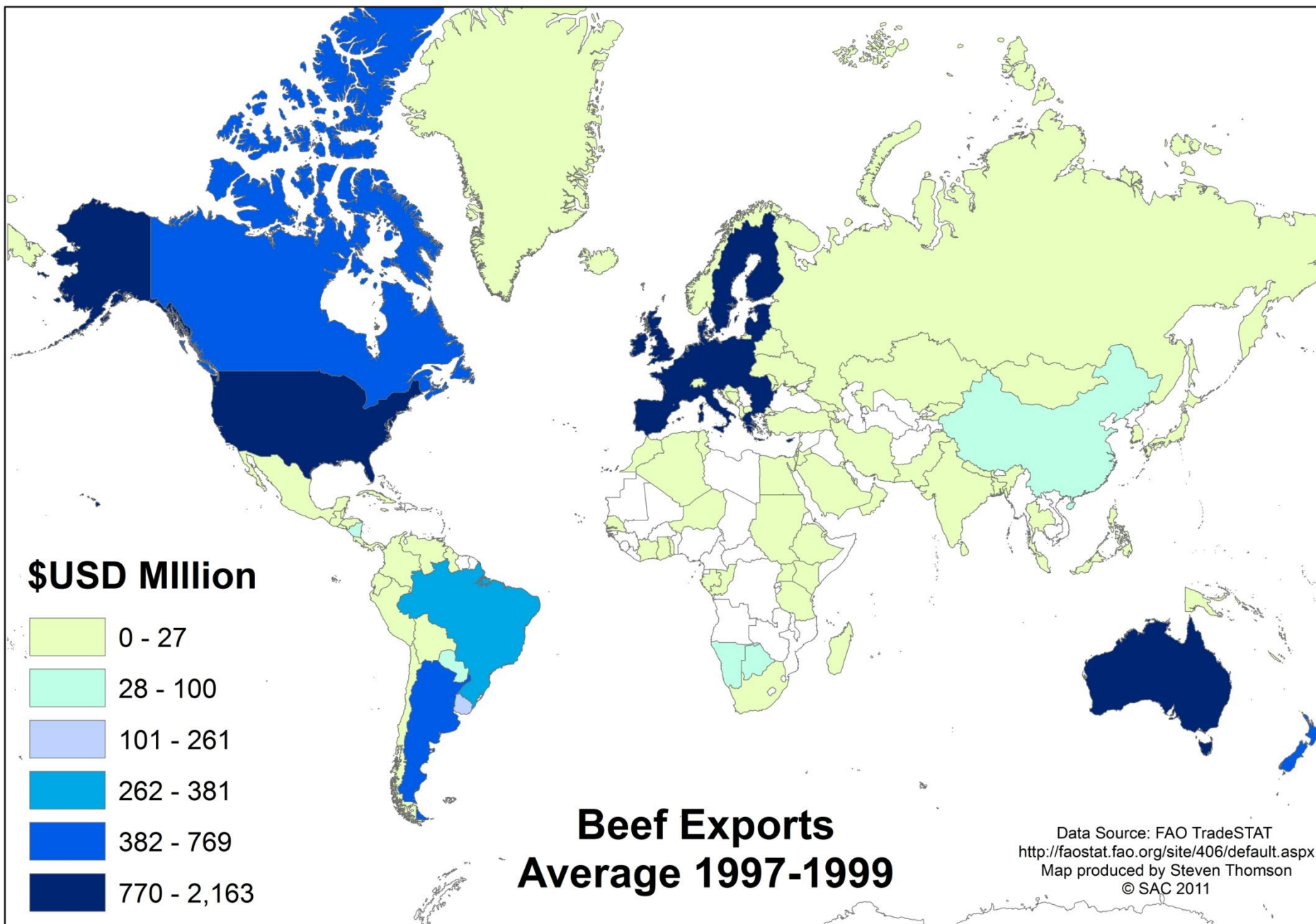


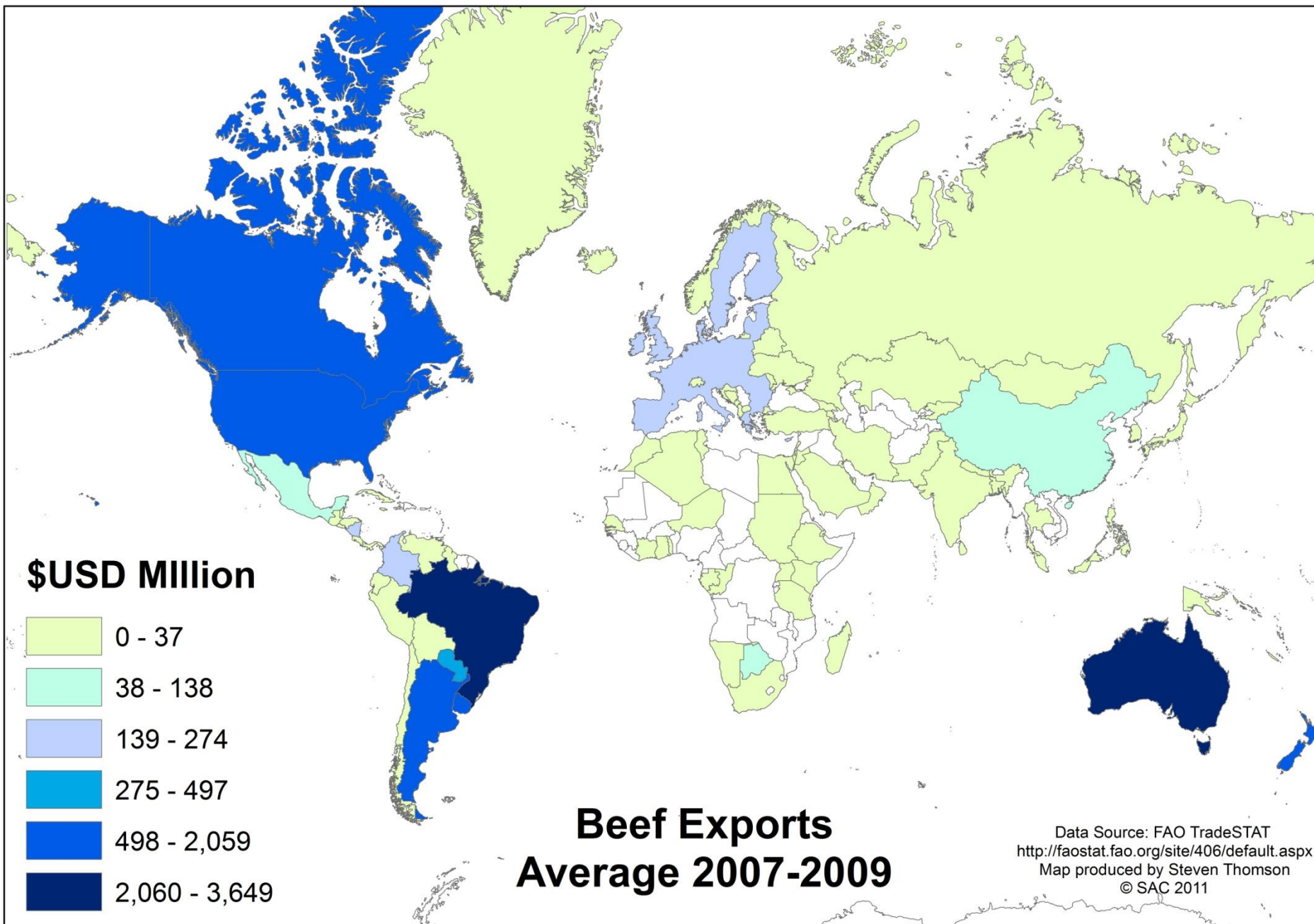
Top 6 Importers

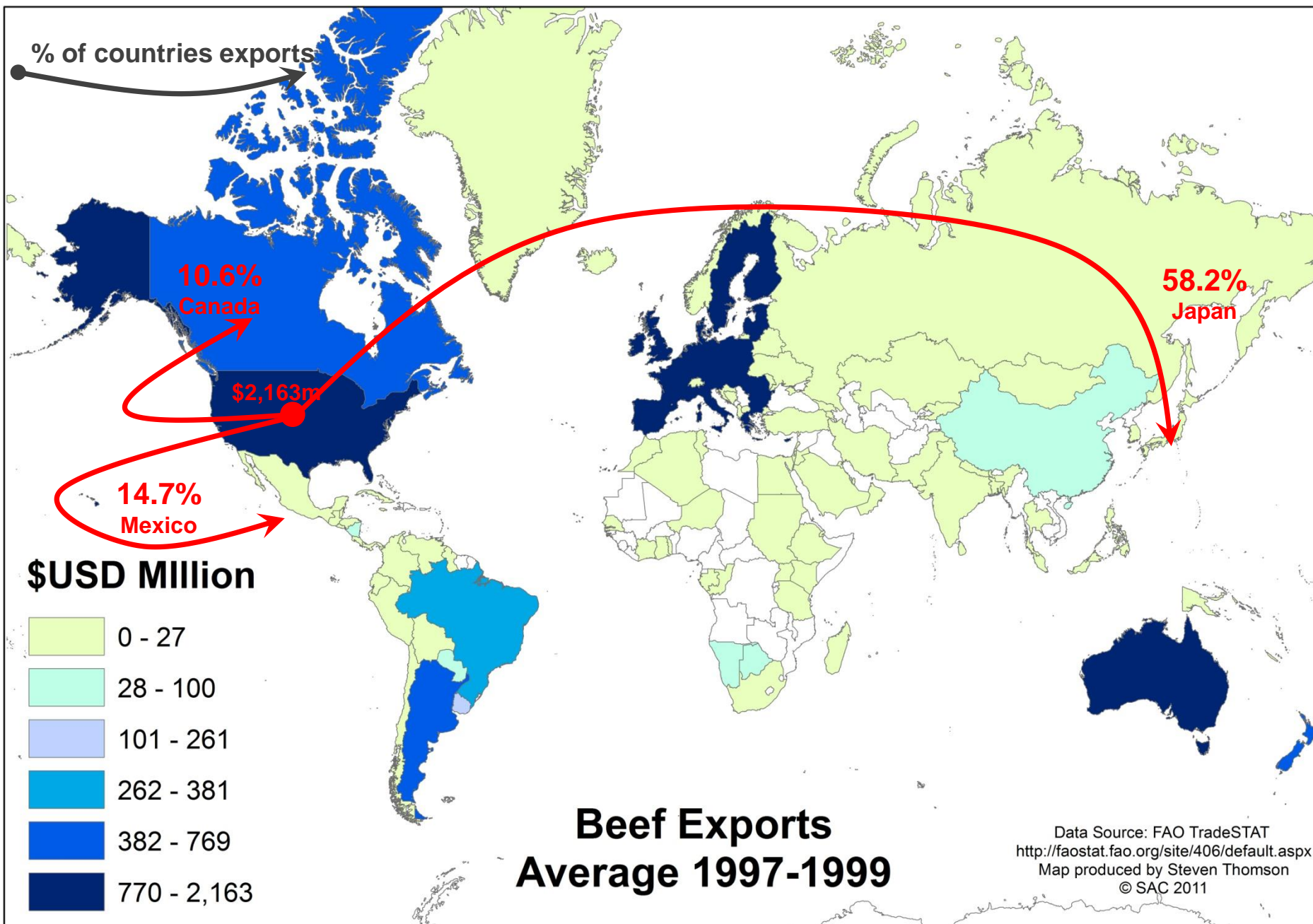
Source: COMEXT, GTA

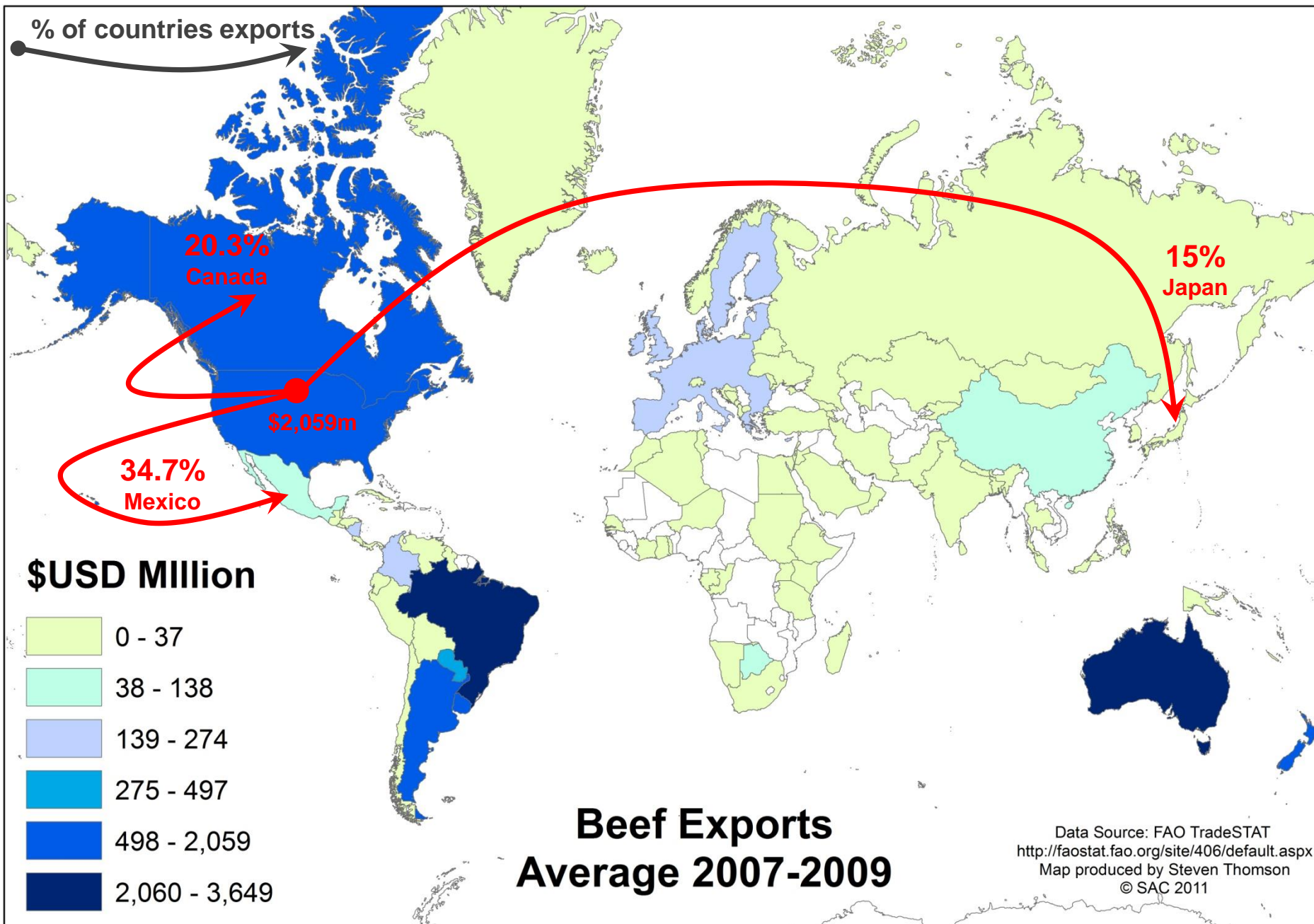
Top 6 exporters

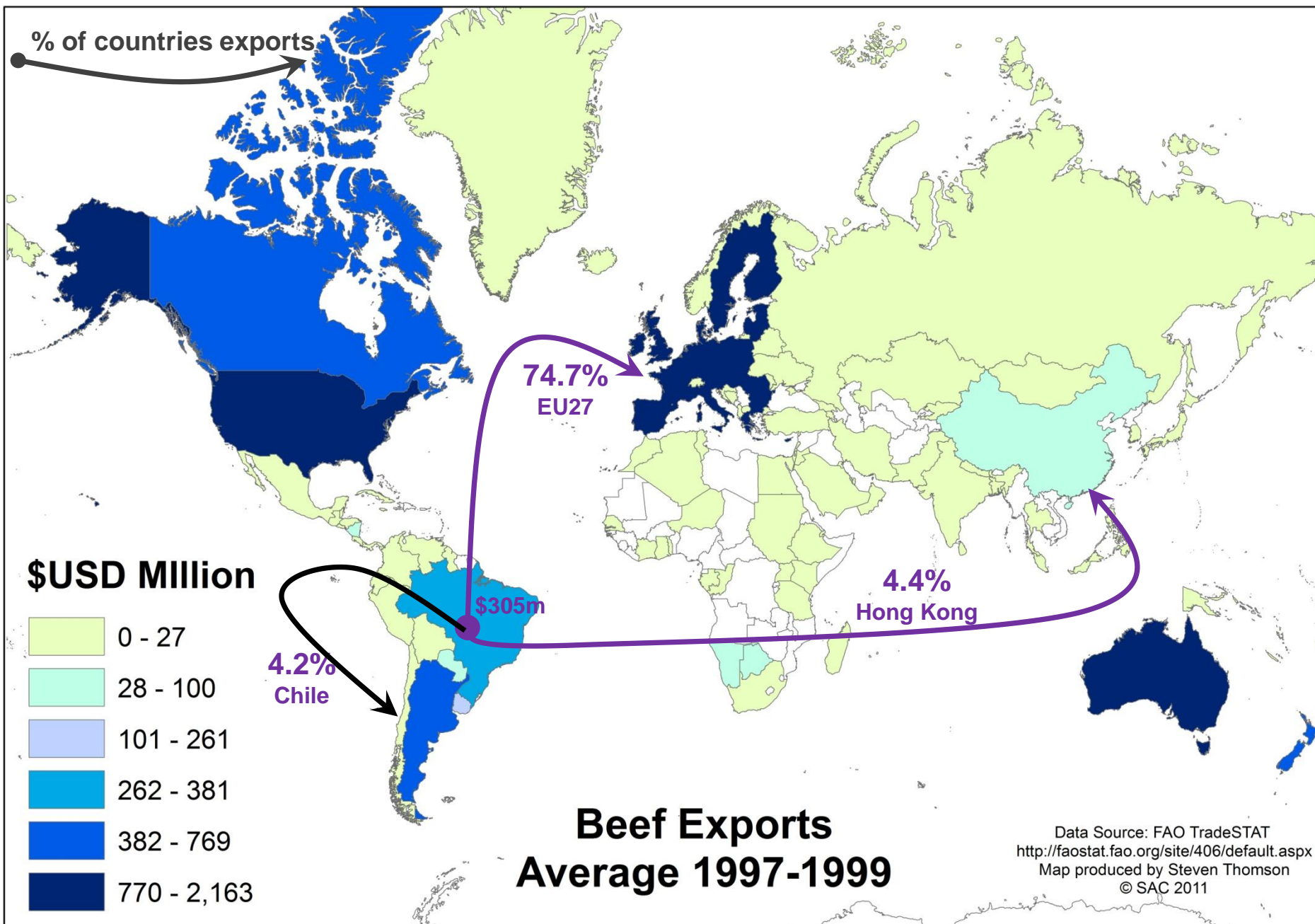






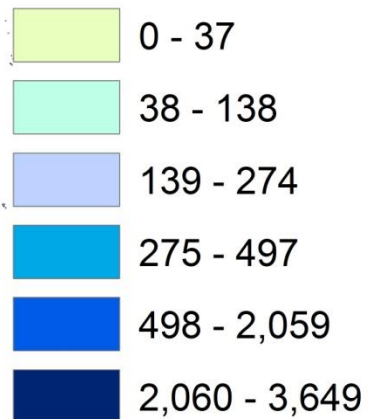






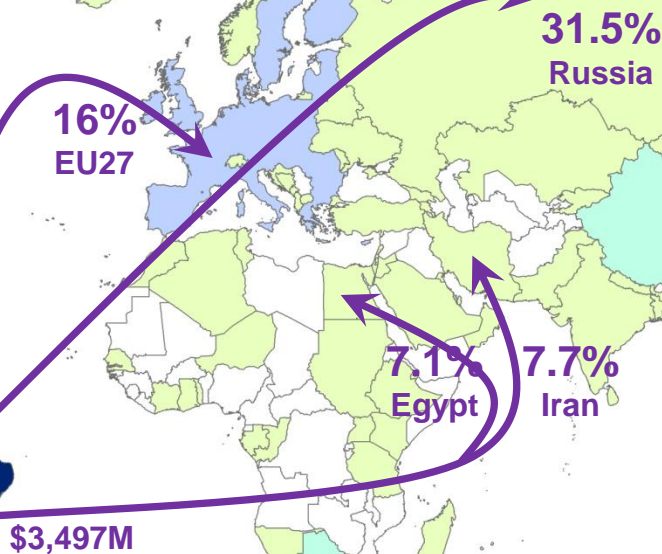
% of countries exports

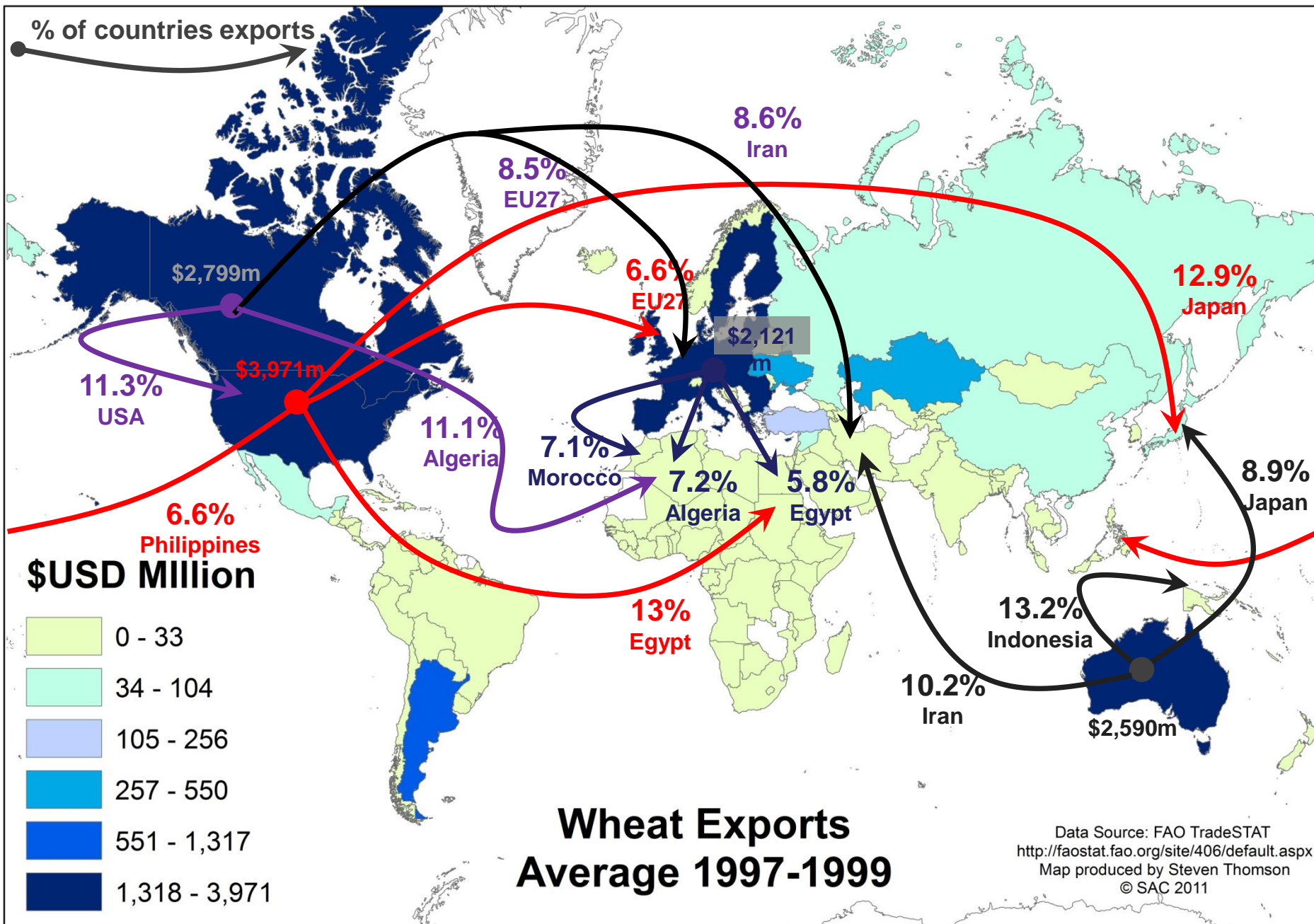
\$USD Million

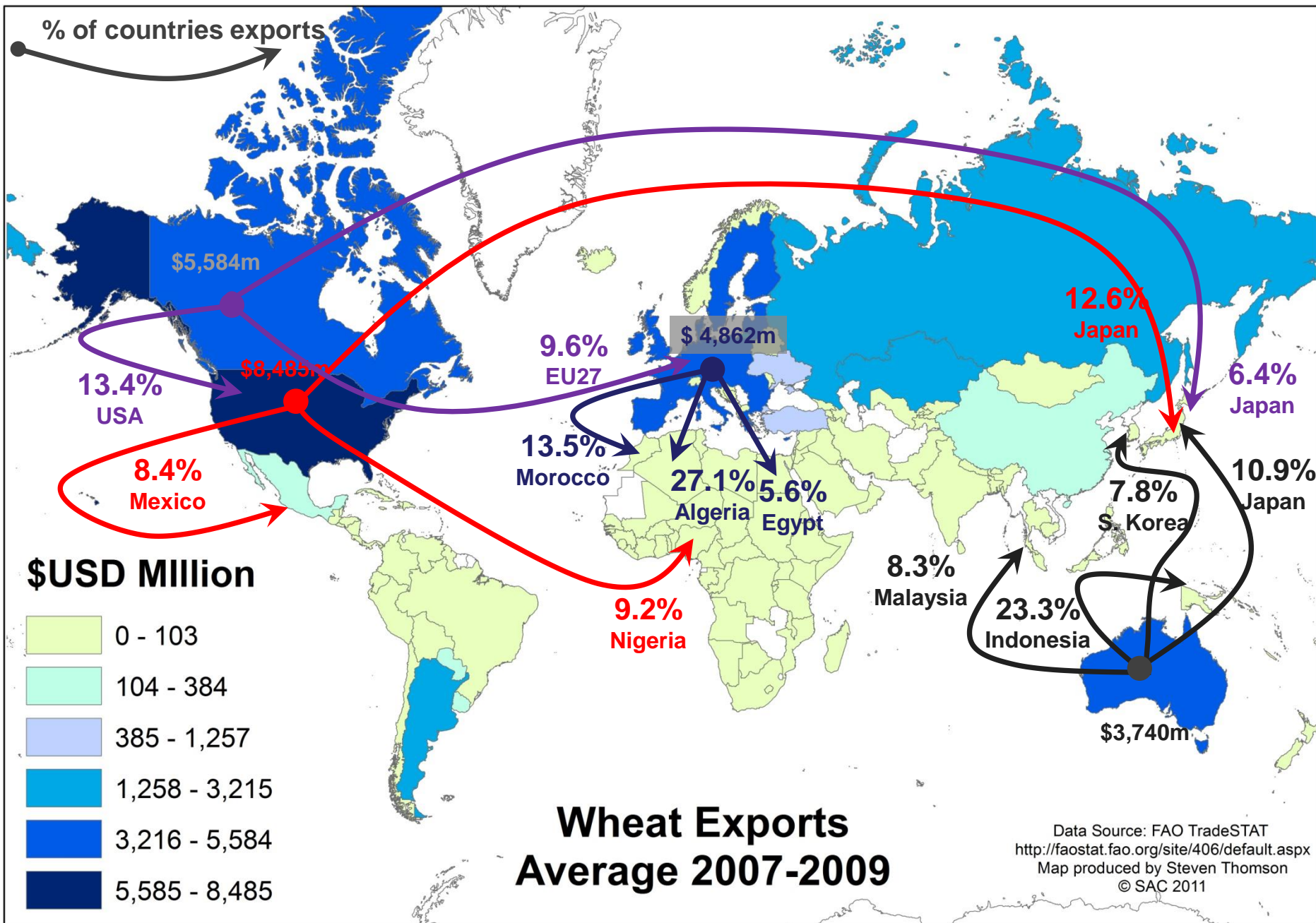


Beef Exports Average 2007-2009

Data Source: FAO TradeSTAT
<http://faostat.fao.org/site/406/default.aspx>
Map produced by Steven Thomson
© SAC 2011



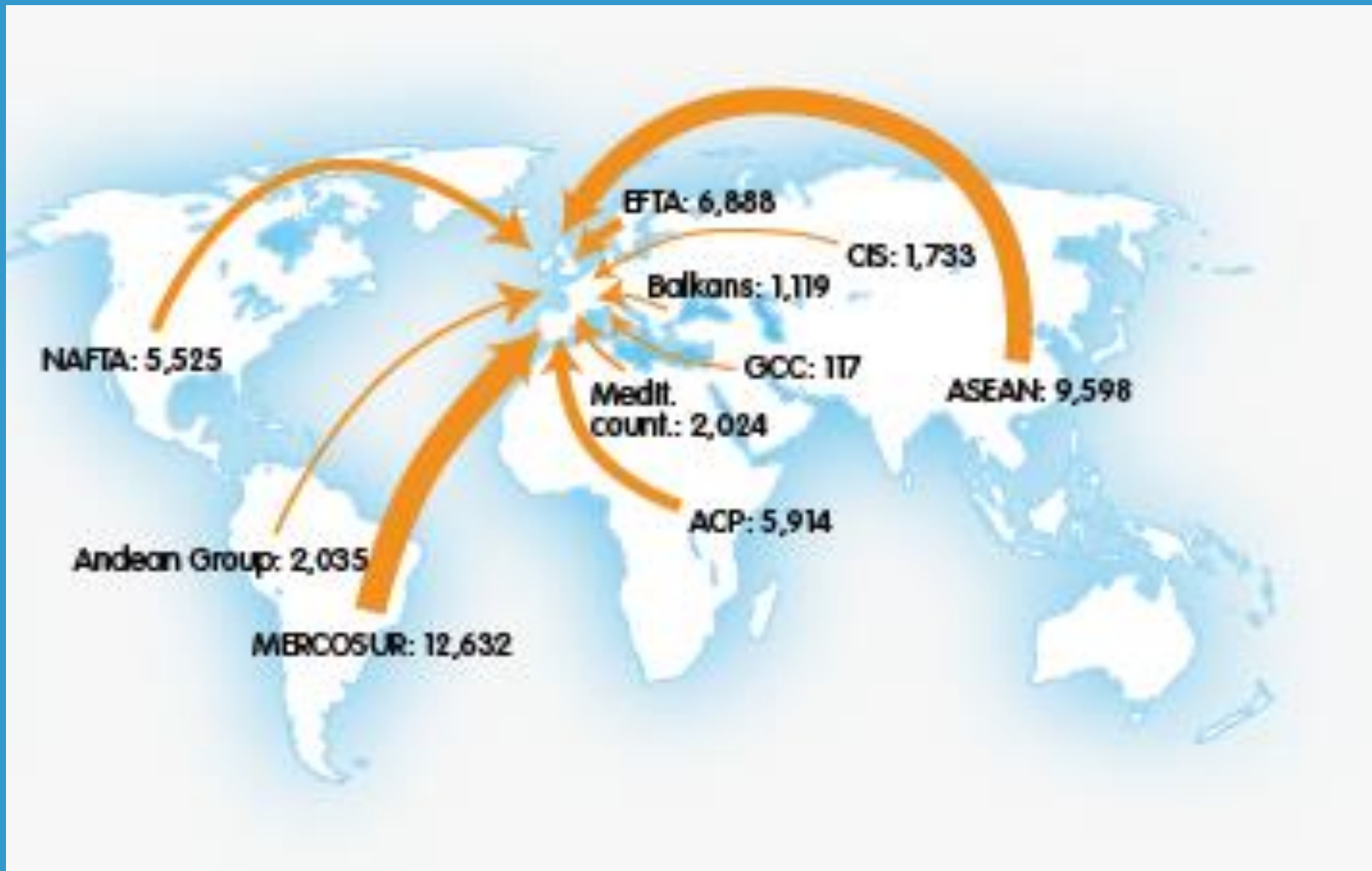




European Food and Drink Exports (Bn Euro)

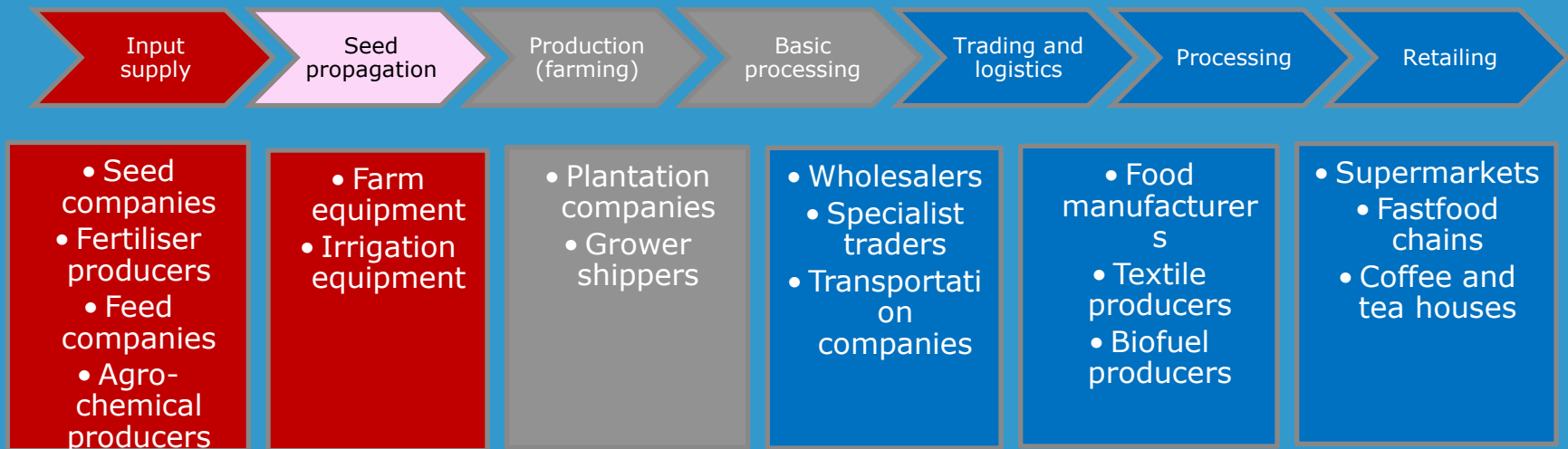


European Food and Drink Imports (Bn Euro)



Companies not Countries Trade

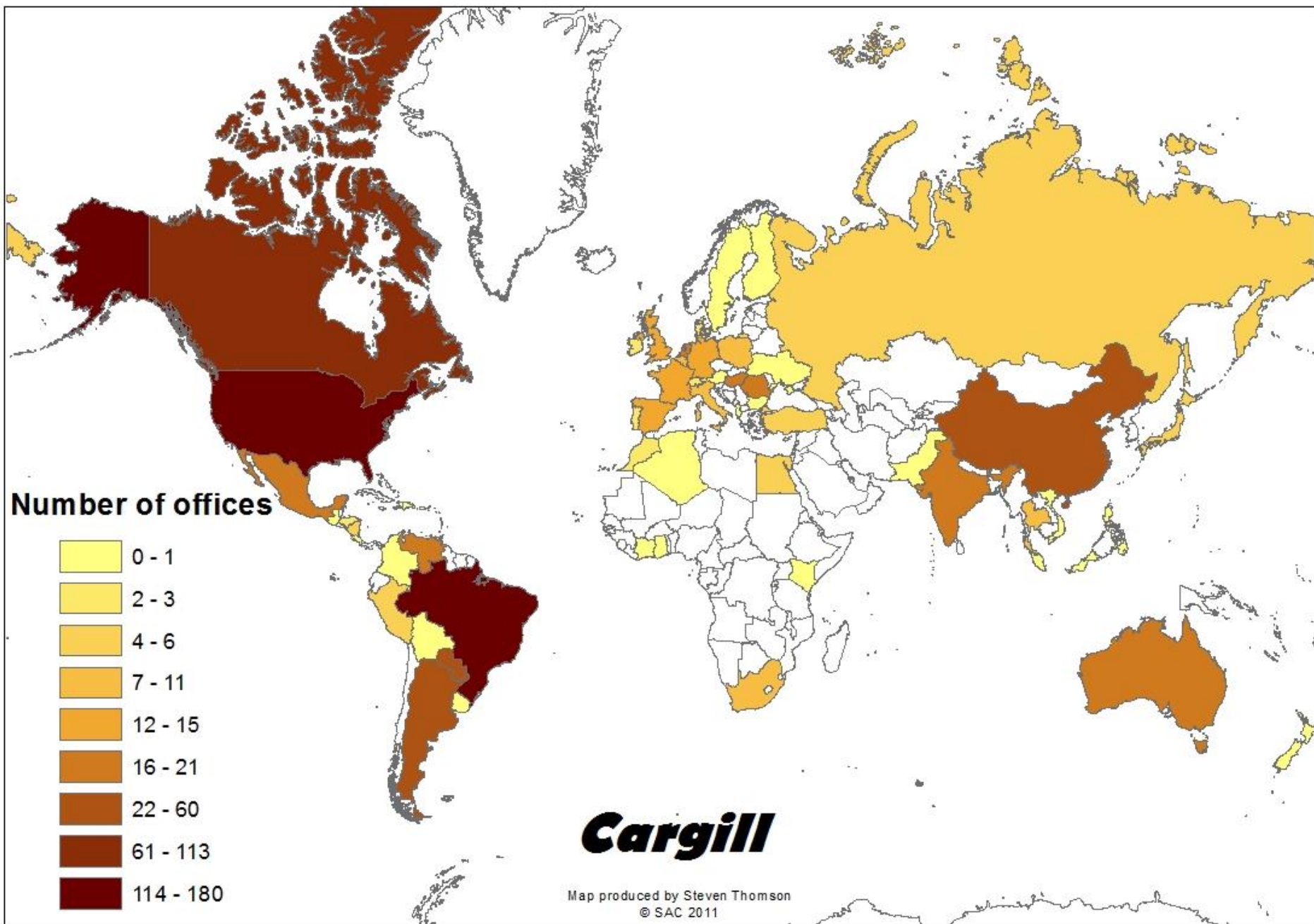
- State intervention in agriculture and trade has been diminishing.
- TNCs have become increasingly dominant in all aspects of the agricultural supply chain.



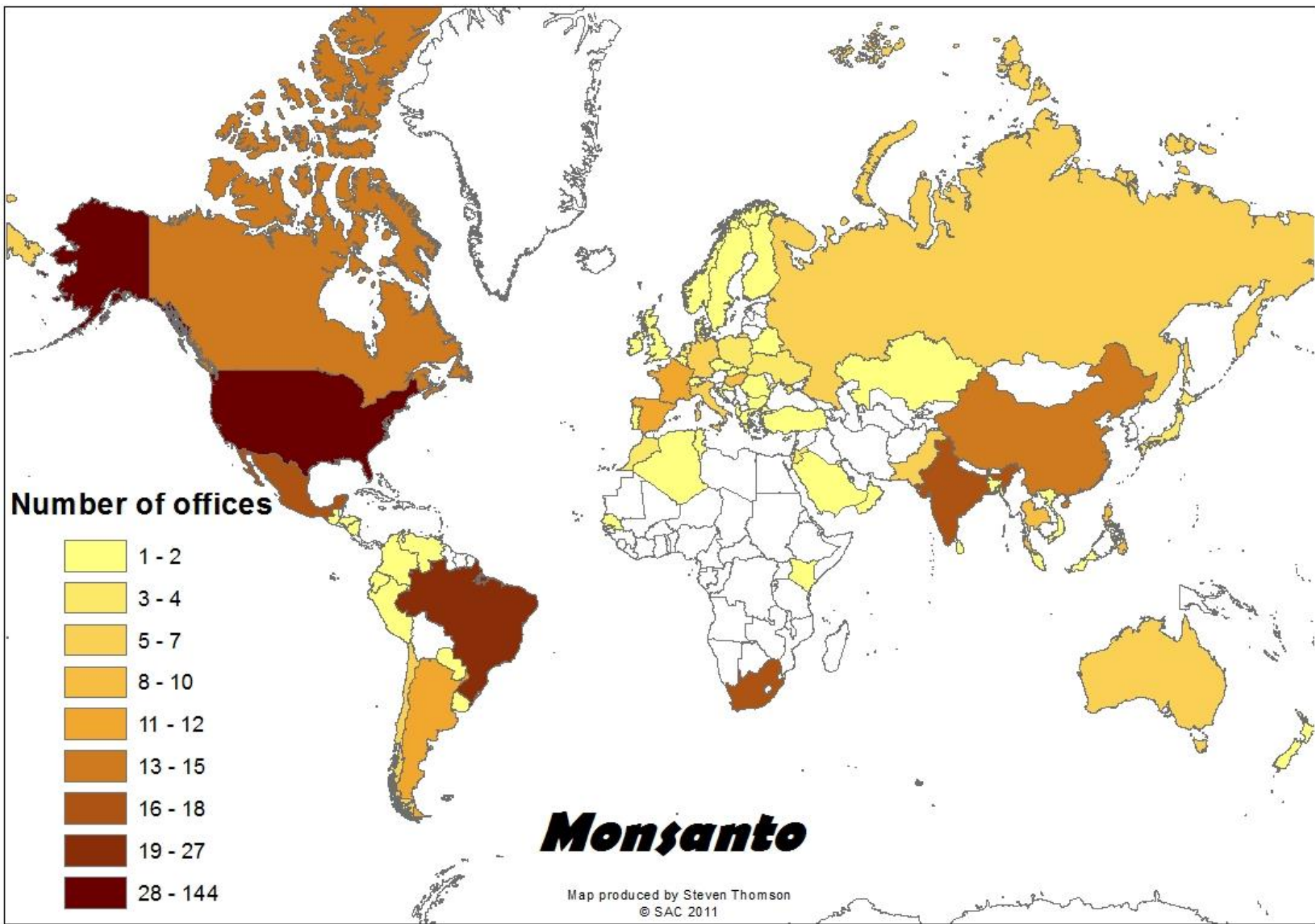
Corporate Power: Companies not Countries

- Statistics tell the story:
 - 4 companies account for 75-90% of the global grain trade
 - 10 companies are responsible for >40% of the global retail market
 - 10 mega-companies control the brands
 - 10 companies control virtually all fertiliser supply
 - 6 companies share 91% of the world's agrochemical market and 70% of the proprietary seeds market (Source IFJ)



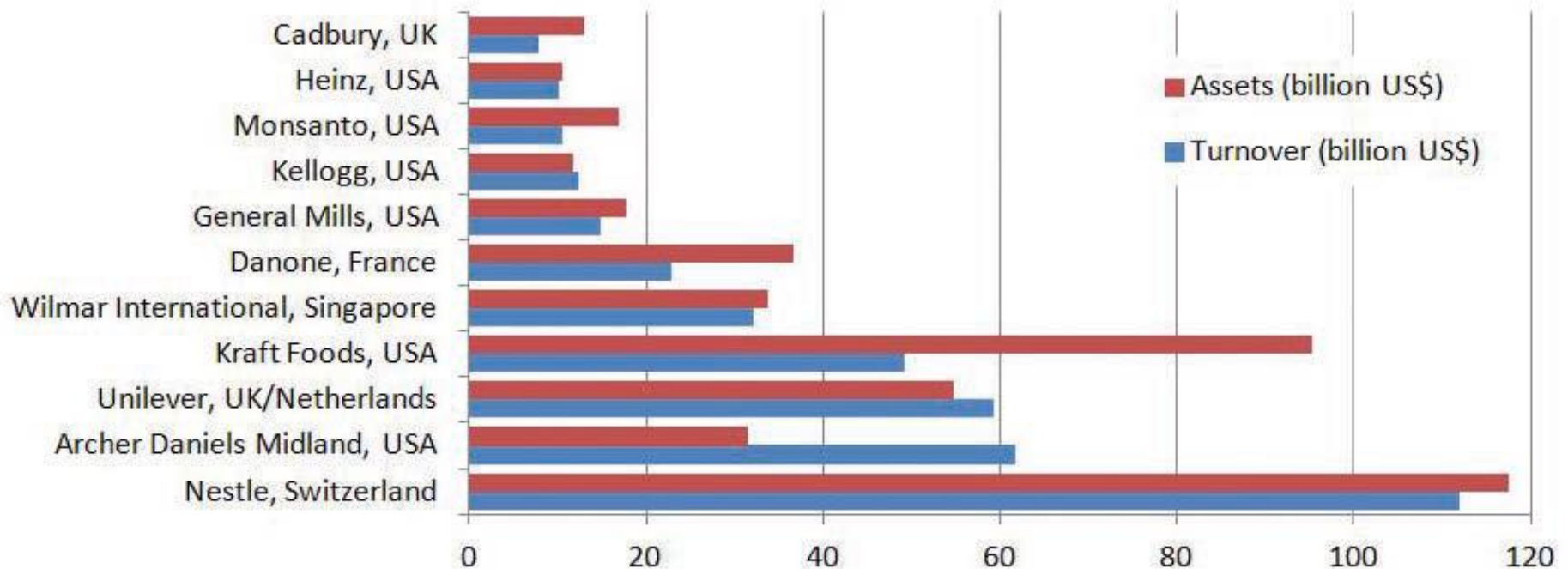


Other Transnational Corporations are available

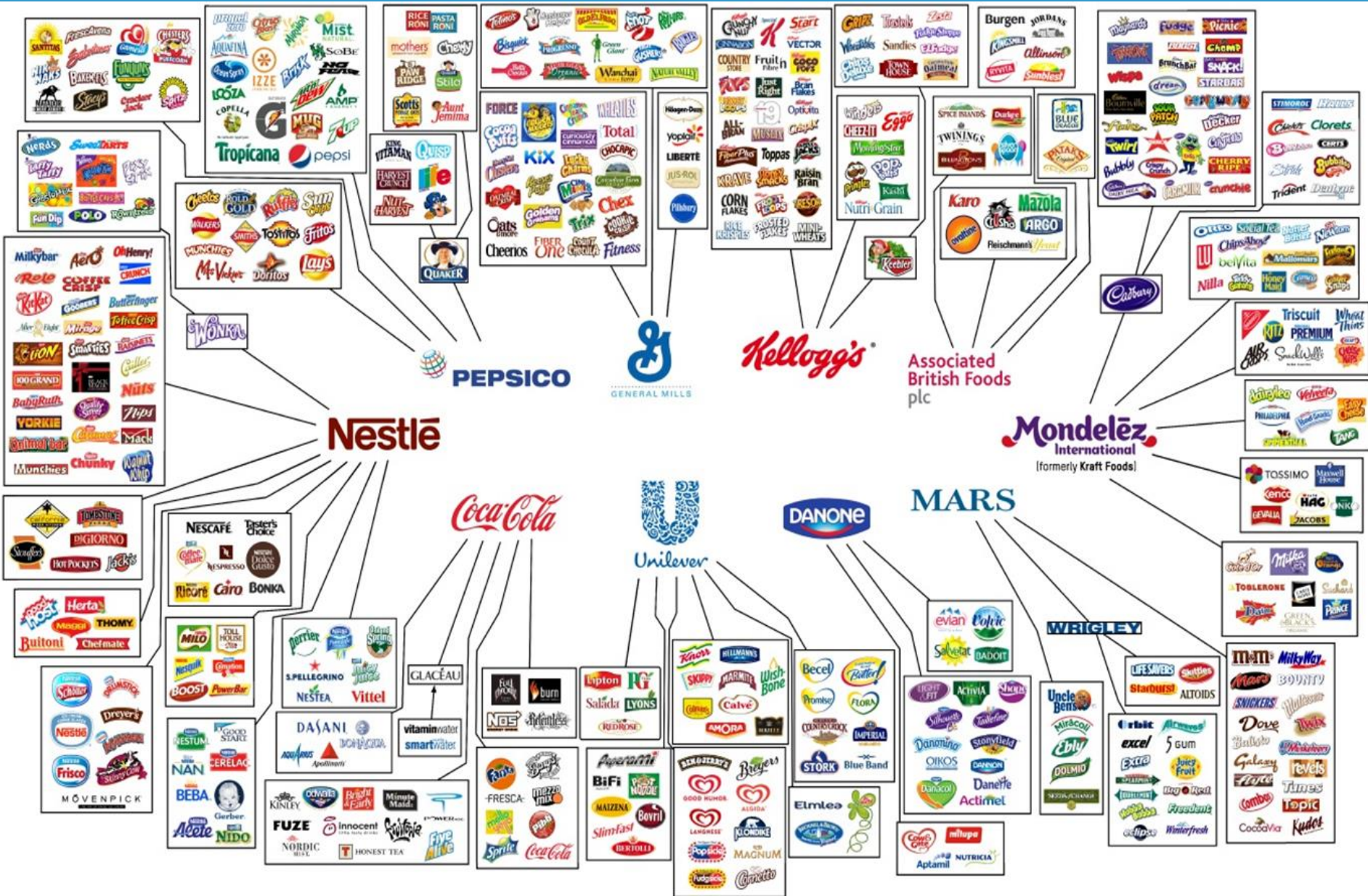


Top Food Companies...

Figure 2.15 Annual turnover and asset value of world's top food products TNCs
(Source: FT Global 500)

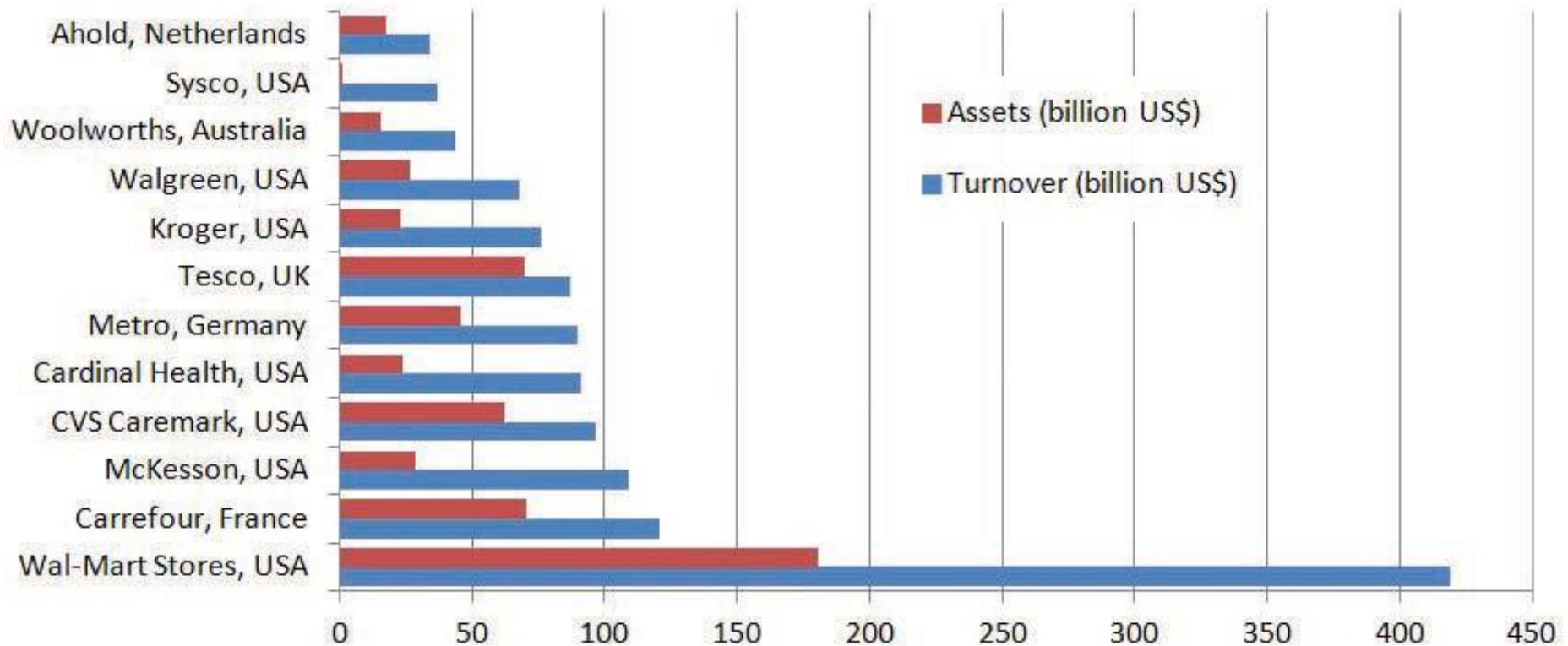


... Own the major brands

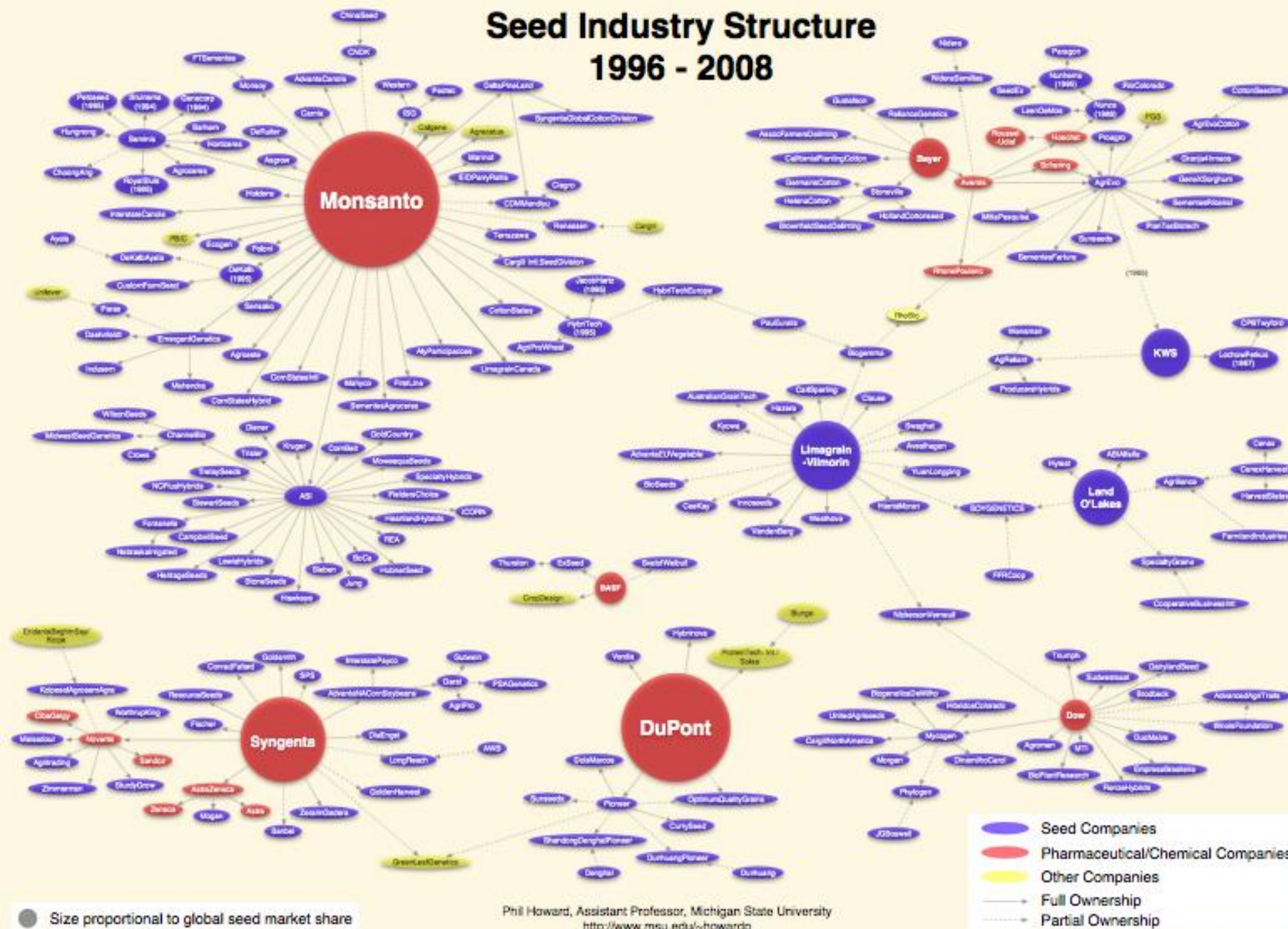


Retail Concentration

Figure 2.17 Annual turnover and asset values of world's top food retail TNCs
(Source: FT Global 500)

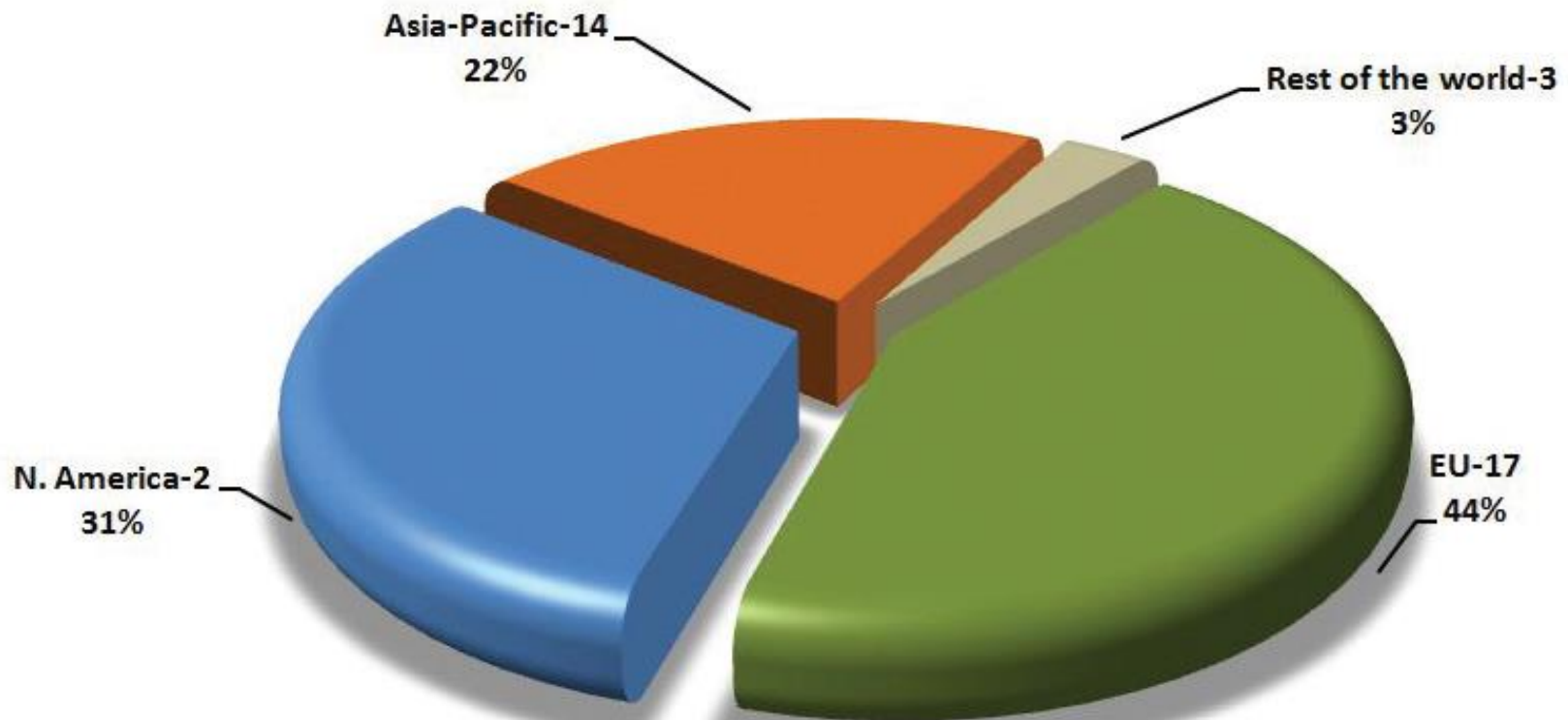


Seed Industry Structure 1996 - 2008



Predominance of EU and North America

Figure 2.14 Regional distribution of world's top 150 agribusiness TNCs
(Source: UNCTAD, 2009)



The Global Picture: Dairy Processing

- Estimated global production 620 bn litres (Irish Farmers Journal, 2014)



Fonterra

22bn

Fonterra

22bn

DFA

17bn



Fonterra

22bn

DFA

17bn

Lactalis

15bn



Fonterra

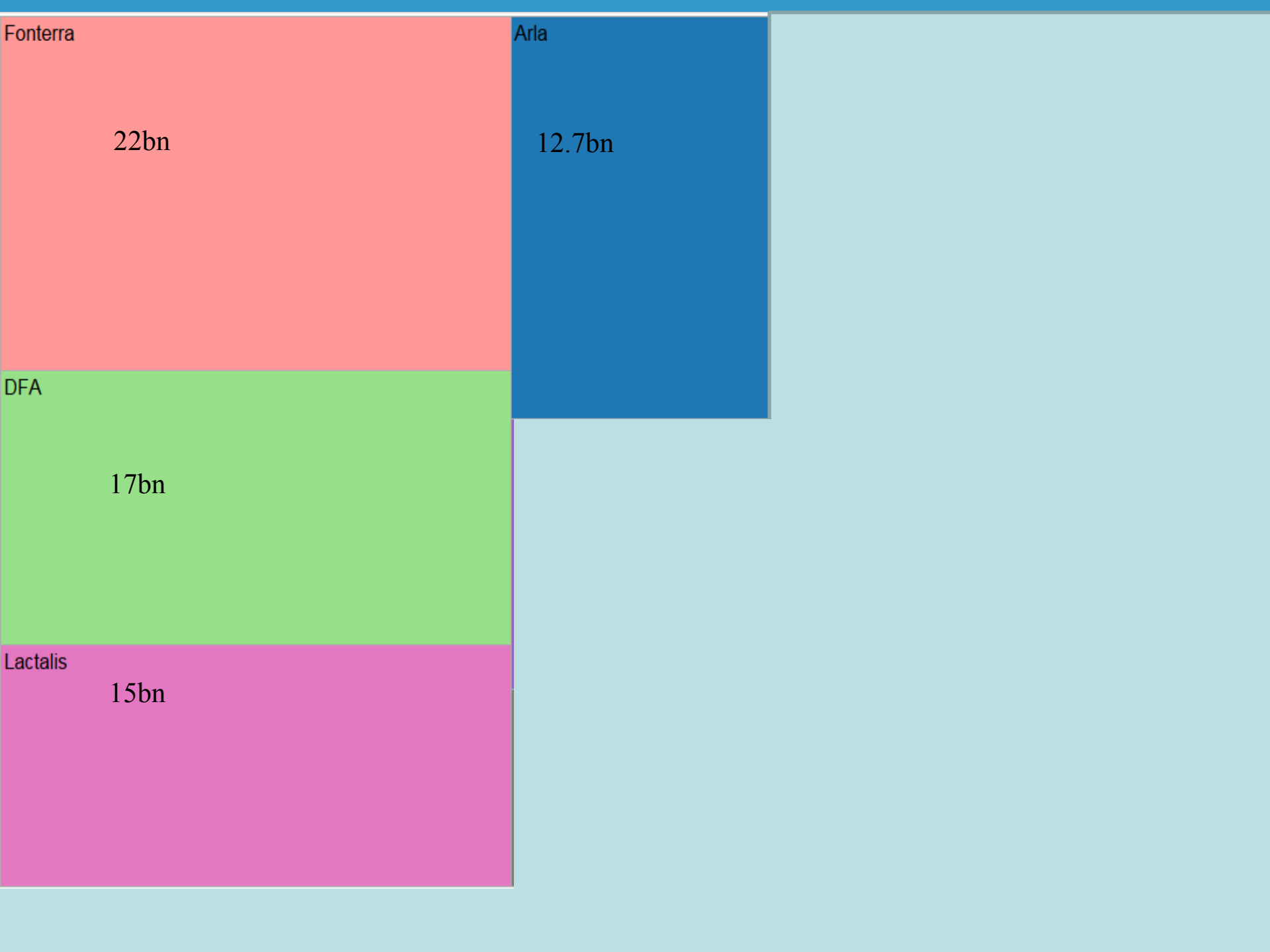
22bn

DFA

17bn

Lactalis

15bn



Fonterra

22bn

Arla

12.7bn

DFA

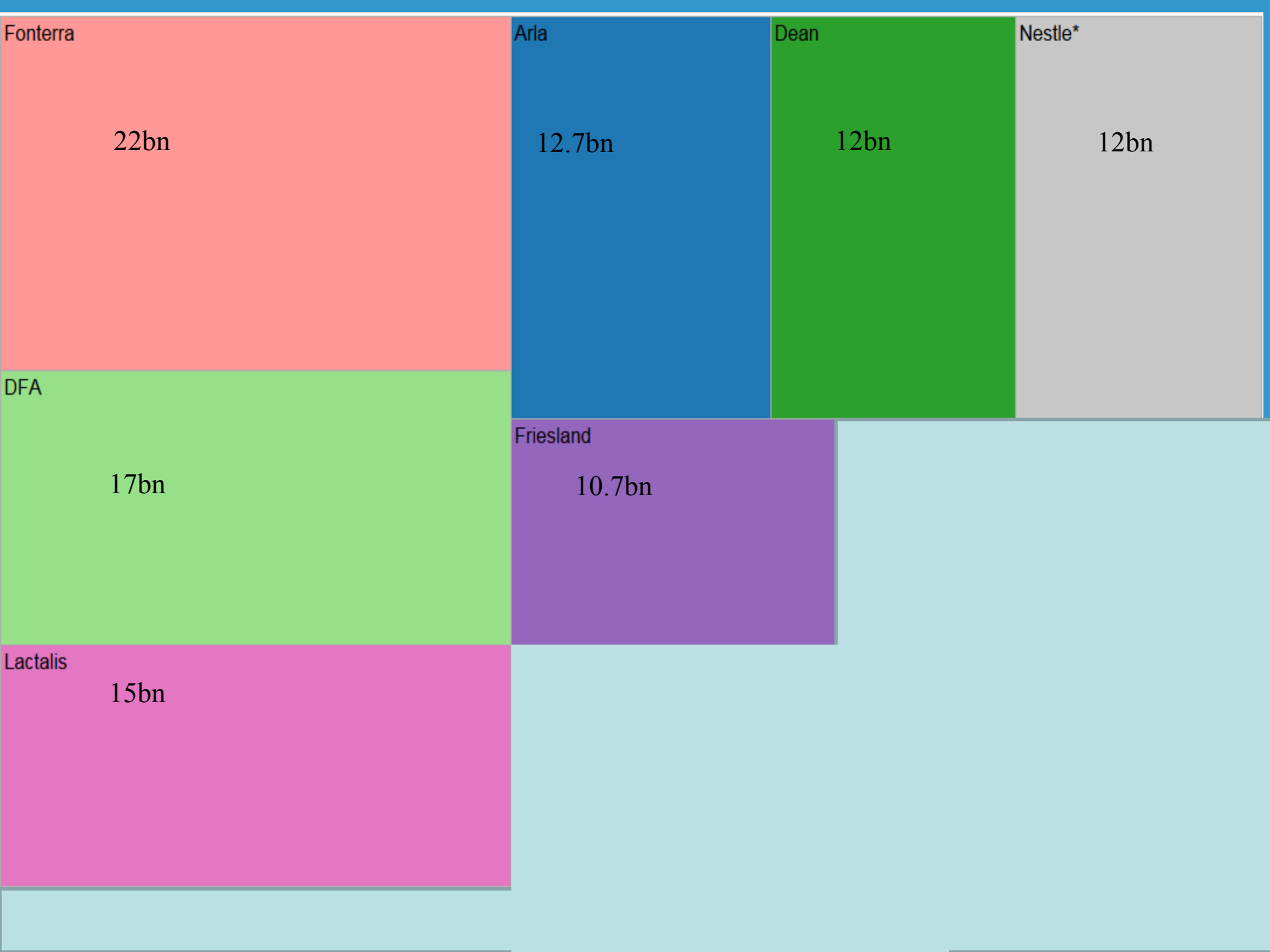
17bn

Lactalis

15bn









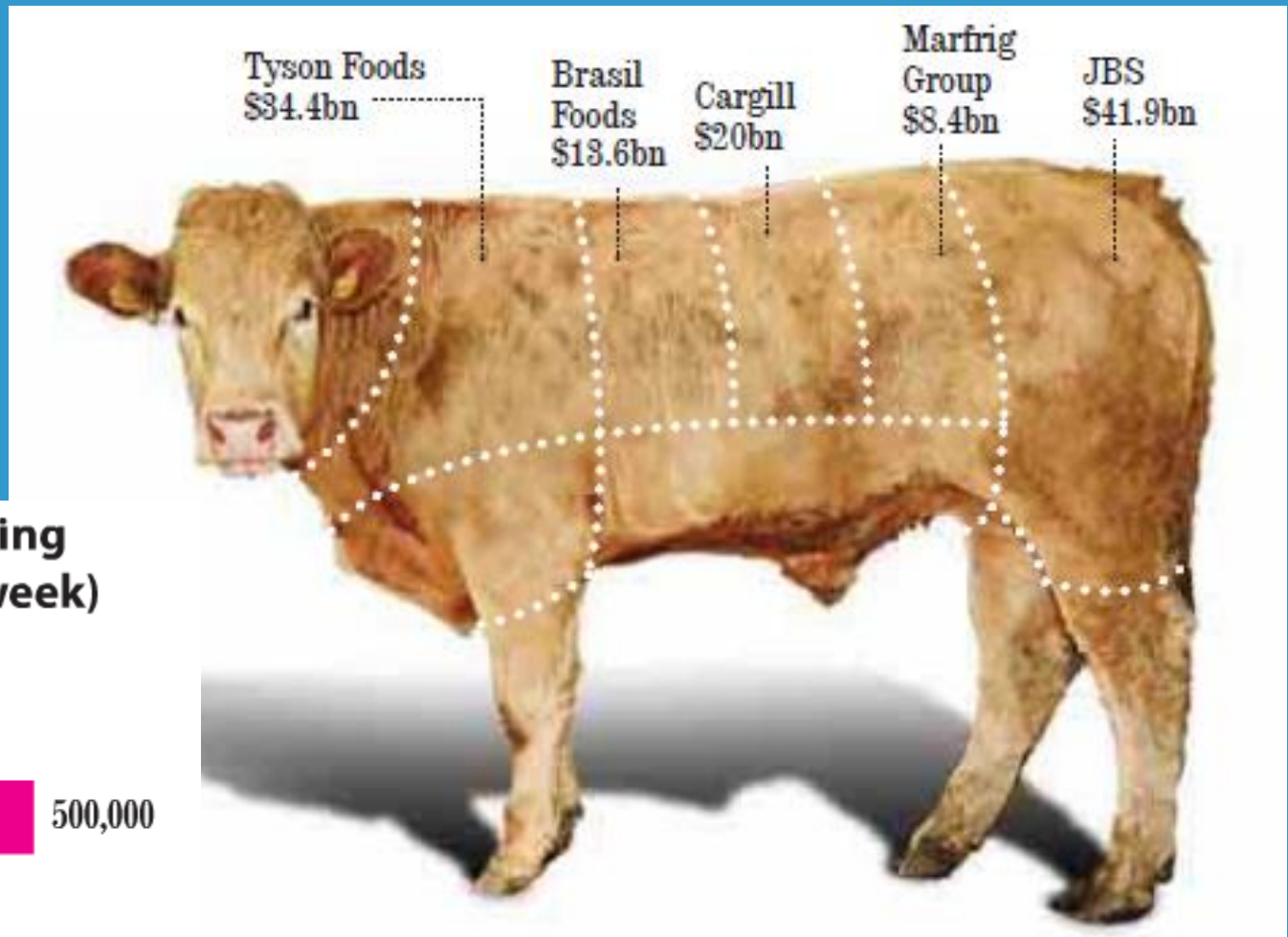




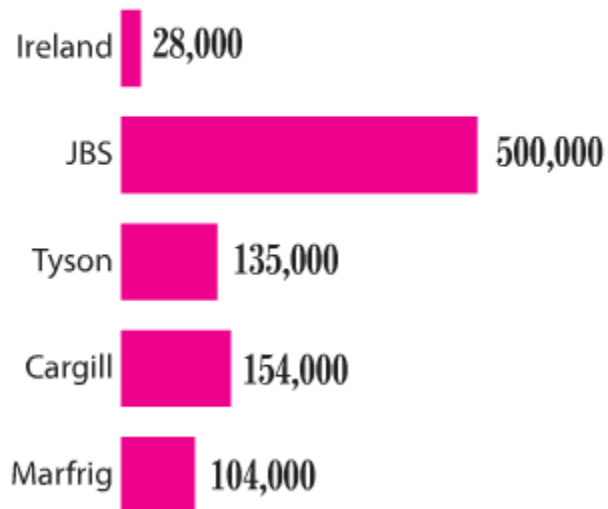




Again countries or companies?



Beef slaughtering capacity (per week)

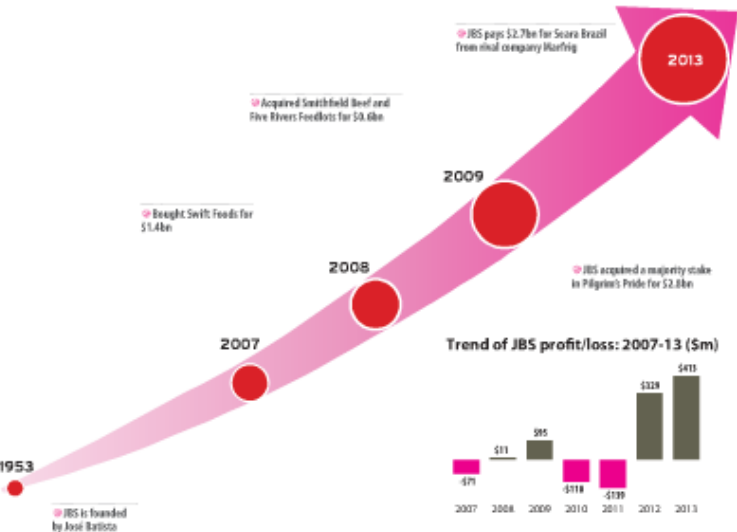


Very Dynamic Situation

AGRI
BUSINESS
BEEF

Words: Eoin Lowry & Lorcan Allen

JBS THE SECRET TAKEOVER?



CASE STUDY

JBS is now the world's largest processor. One in 10 cattle in the world is slaughtered by the meat giant

RACE: Poultry firm Doux coy over JBS, BRF "interest"

Dean Best | 18 June 2014

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French poultry processor Groupe Doux has refused to be drawn on reports suggesting Brazilian meat giants JBS or BRF are interested in buying the business.

Reports in *Reuters* and *Les Echos* have claimed JBS and BRF have registered interest in Doux, which is owned by French investment fund D&P.

However, a spokesperson for Doux told just-food today (18 June) the company has "no comment".

Nevertheless, Doux plans to hold a press conference on Tuesday to, among other things, address the rumours surrounding the business, the spokesperson revealed.

Reuters report, citing an unnamed source, said JBS and BRF had shown a "moderate interest" in Doux, which is owned by French investment fund D&P.

Reuters report followed an article in *Les Echos* that suggested JBS and BRF had both separately asked to hold talks to buy Doux.



Doux set to hold media conference next week on trading conditions and "rumours" surrounding business

An unnamed source told *Les Echos* both companies had "asked for exclusive negotiations with a view to an acquisition".

Officials at JBS and BRF could not be reached for immediate comment.

Doux's press conference on Tuesday will also discuss trading conditions for French poultry exports, which have suffered since the end of EU subsidies last year.

Doux is said to be prepared to merge with local rival Tilly-Sabco, which has come under particular pressure and was publicly critical of Brussels'...



Source Irish Farmers Journal (2014)



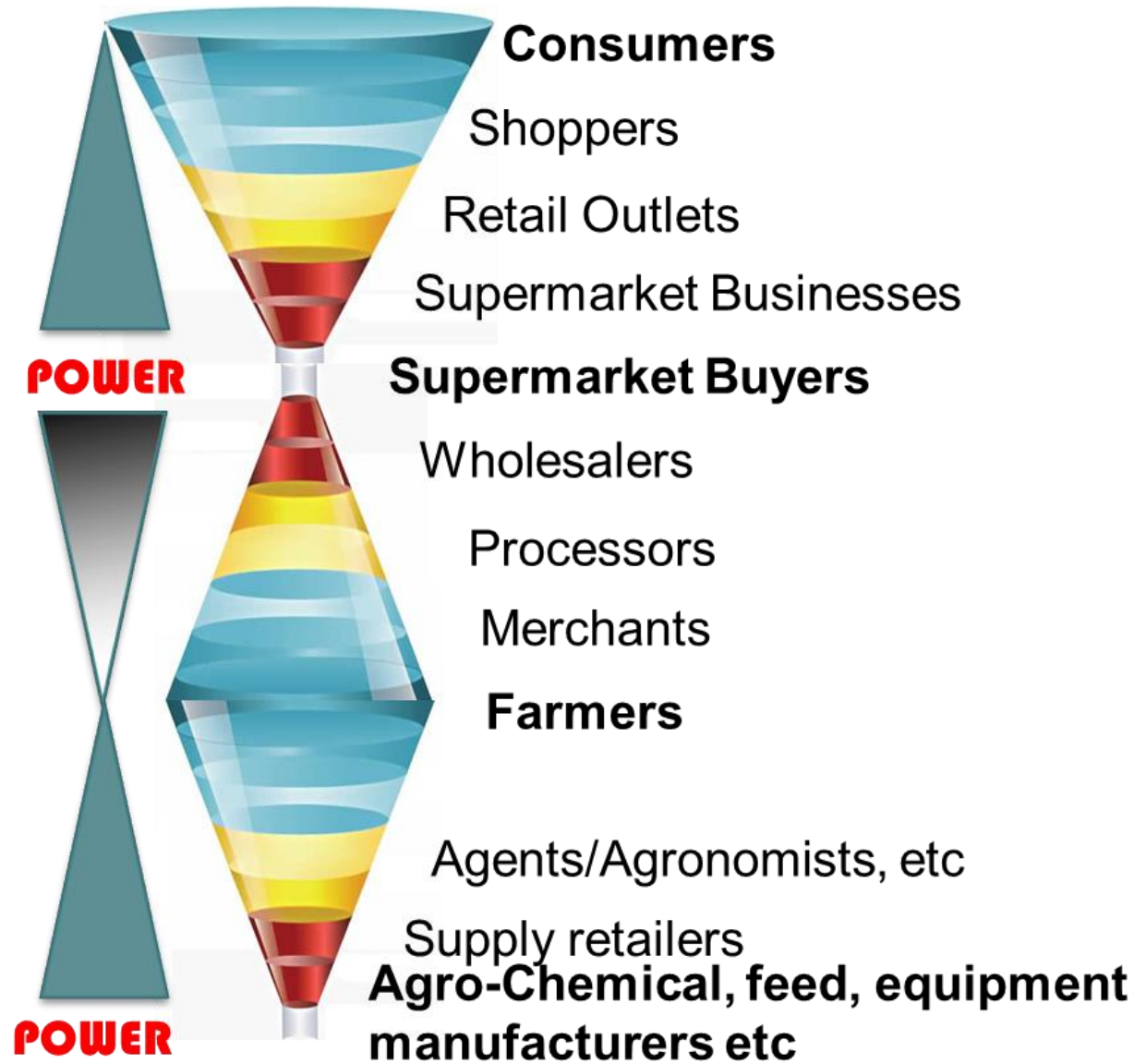
What Does it Mean for Producers?

Some Challenges

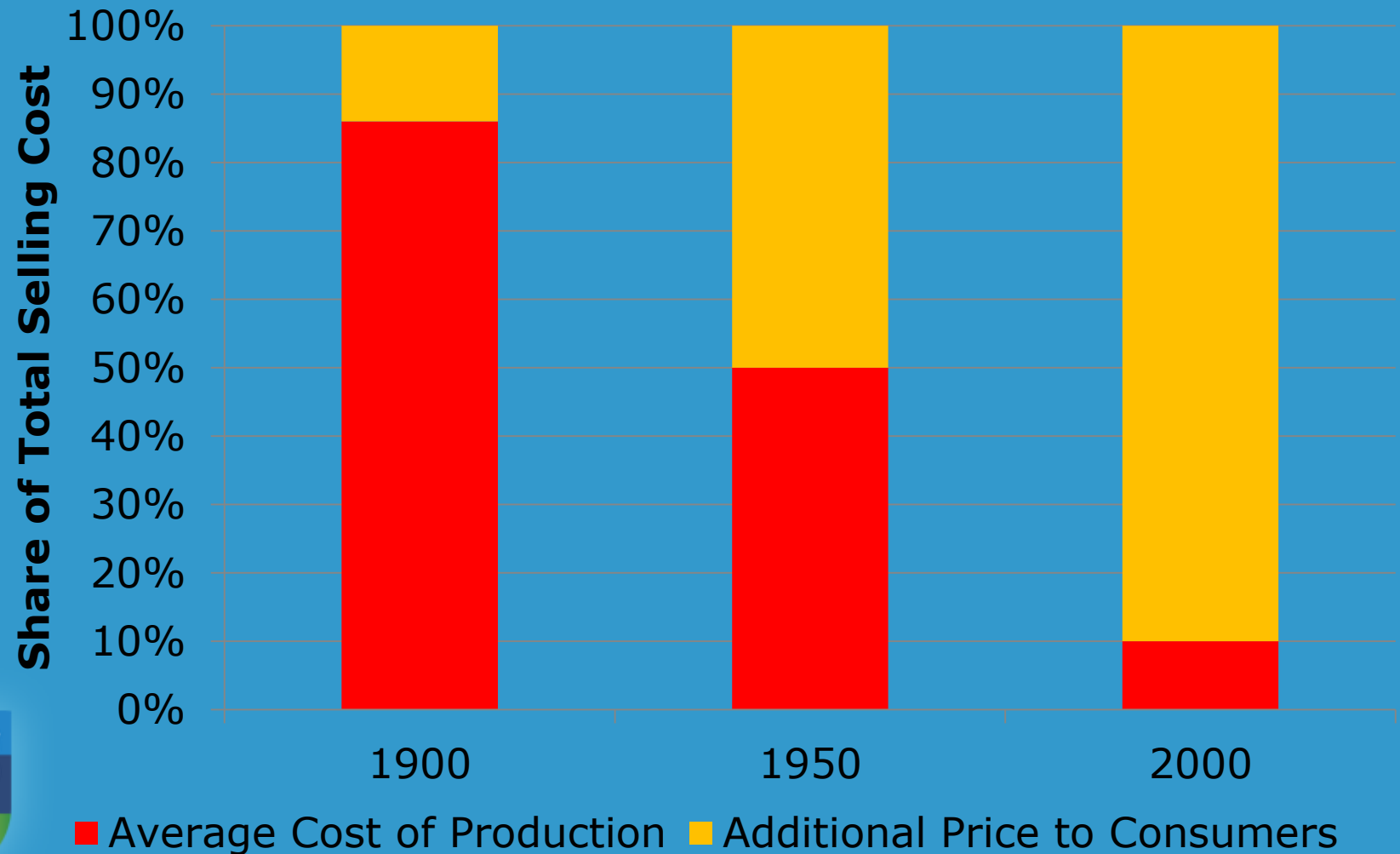
- Power
- Share of Final Expenditure
- Unfair Trading Practices
- Risk
- Resources

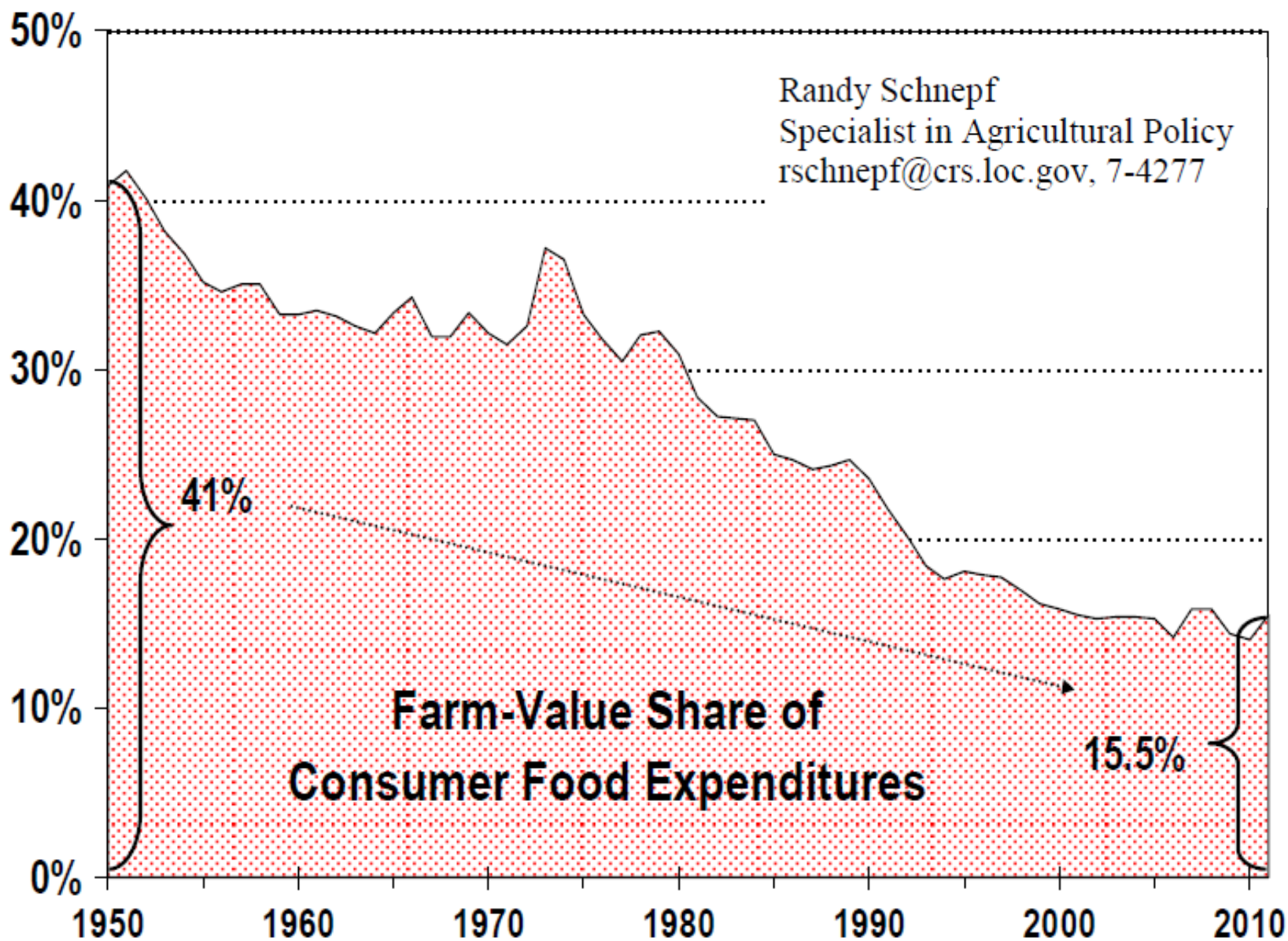


Power in the Supply Chain



Share of Final Price: General Trends





Source: Derived from multiple ERS data sets: Food Expenditures and Food Dollar Series, USDA, downloaded Sept. 20, 2013; at <http://www.ers.usda.gov/data-products.aspx>.

Farm & Agribus.

Food Processing

Packaging

Transportation

Retail Trade

Food Services

Energy

*Finance & Ins.
Advertising
Legal & Acct.*

Farm & Agribusiness 10.8¢

Food processing 22¢

Packaging 4¢

Transportation 3.5¢

Retail trade 12.2¢

Foodservices 31.2¢

Energy 5.5¢

Finance & Insurance 6.1¢

Advertising 2.4¢

Legal & accounting 2.1¢

10.8¢

22¢

4¢

3.5¢

12.2¢

31.2¢

5.5¢

6.1¢

2.4¢

2.1¢

Farm & Agribusiness

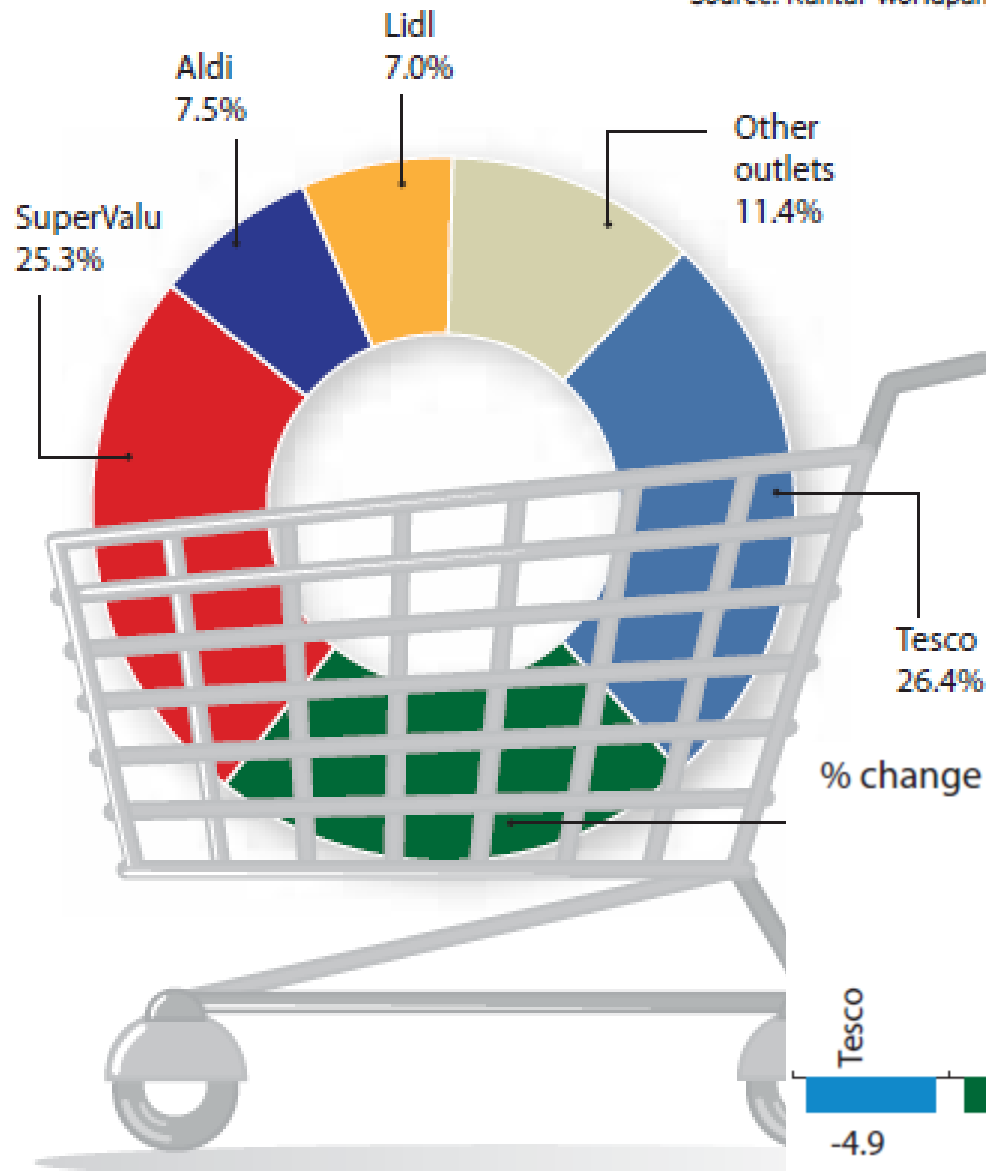
Other Industry Groups



Market share of supermarkets in Ireland

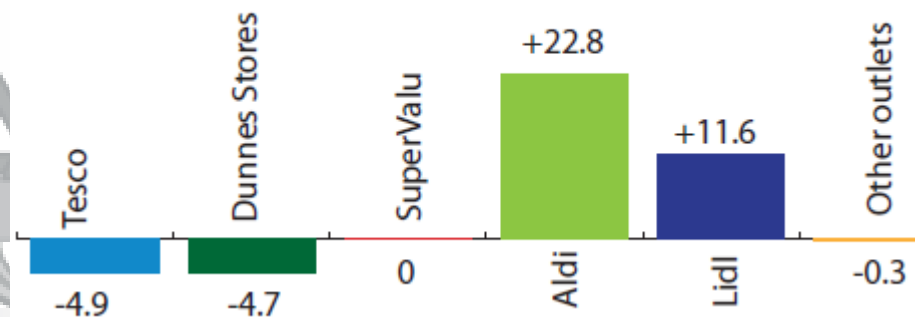
Total grocery for 12 weeks to 2 March 2014

Source: Kantar Worldpanel



Source: Irish Farmers Journal (2014)

% change on same period last year



Market power and distribution of value along the chain

- According to McCorriston (2002) anti-competitive behaviour comes in many forms and does not need to be related to horizontal or vertical competition.
- These practices may include:
 - Paying for access to retailer's shelf space,
 - The penetration of own-label products .
 - Committing purchases of one good to the sales of others.



What are Unfair Trading Practices

- UTPs can broadly be defined as practices that grossly deviate from good commercial conduct, are contrary to good faith and fair dealing and are unilaterally imposed by one trading partner on another.



- While UTPs can, in principle, be present in any sector, stakeholder feedback to the Green Paper suggests that they are particularly problematic in the food supply chain.
- The main categories of UTPs identified in the Green Paper and confirmed by a number of stakeholders can be described as follows:
 - - a trading partner's retroactive misuse of unspecified, ambiguous or incomplete contract terms
 - - a trading partner's excessive and unpredictable transfer of costs or risks to its counterparty
 - - a trading partner's use of confidential information
 - - the unfair termination or disruption of a commercial relationship.

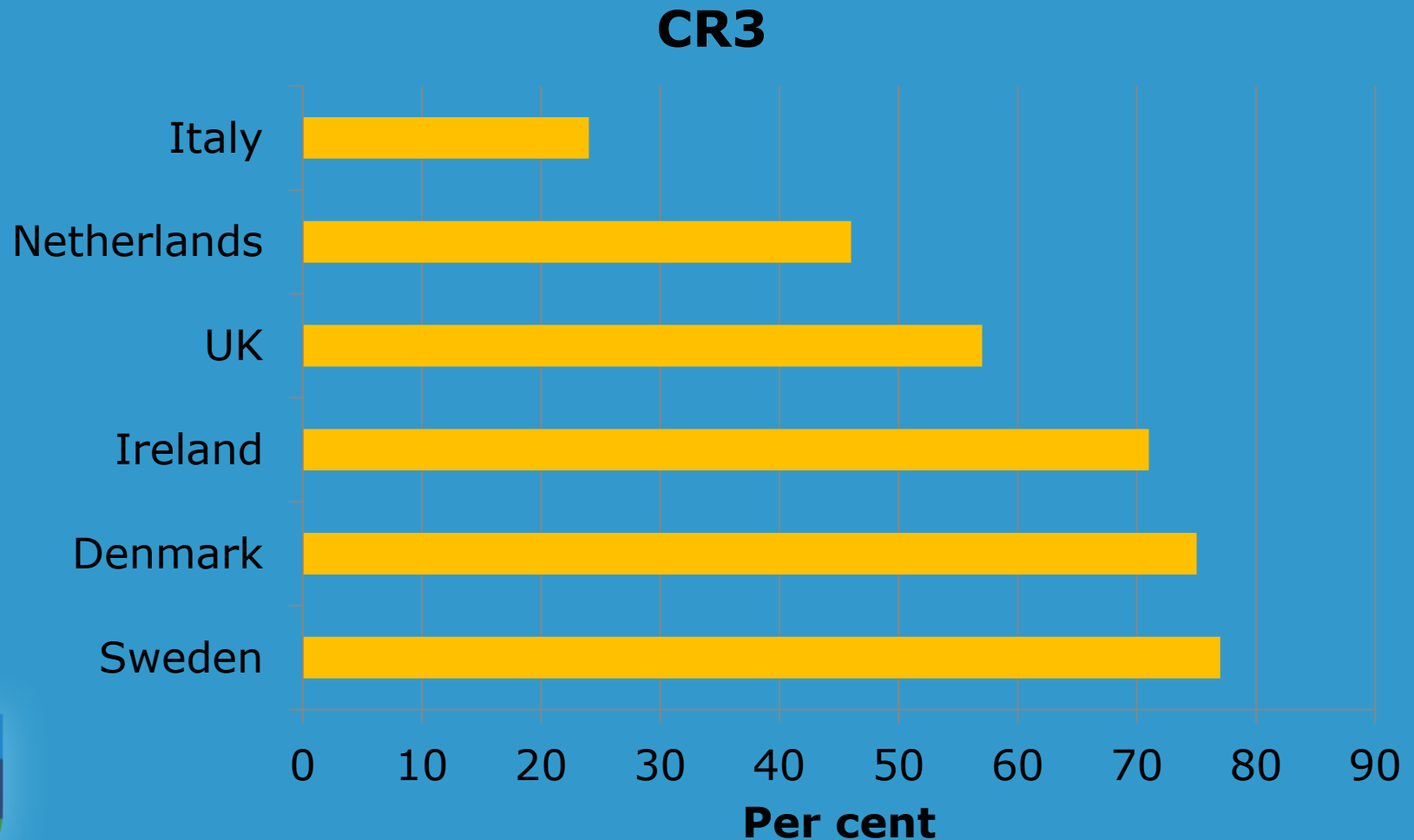


Direct effects of UTPS

- The direct effects of UTPs, in particular when they are applied in an unpredictable way, can result in undue costs or lower-than-expected revenues for the trading partner in the weaker bargaining position.
- Unpredictable changes of contract terms may also lead to overproduction and result in unnecessary food waste.
- Being subject to UTPs, or even the prospect of being exposed to UTPs in the future, may impact the weaker trading partner's ability or willingness to fund investments.

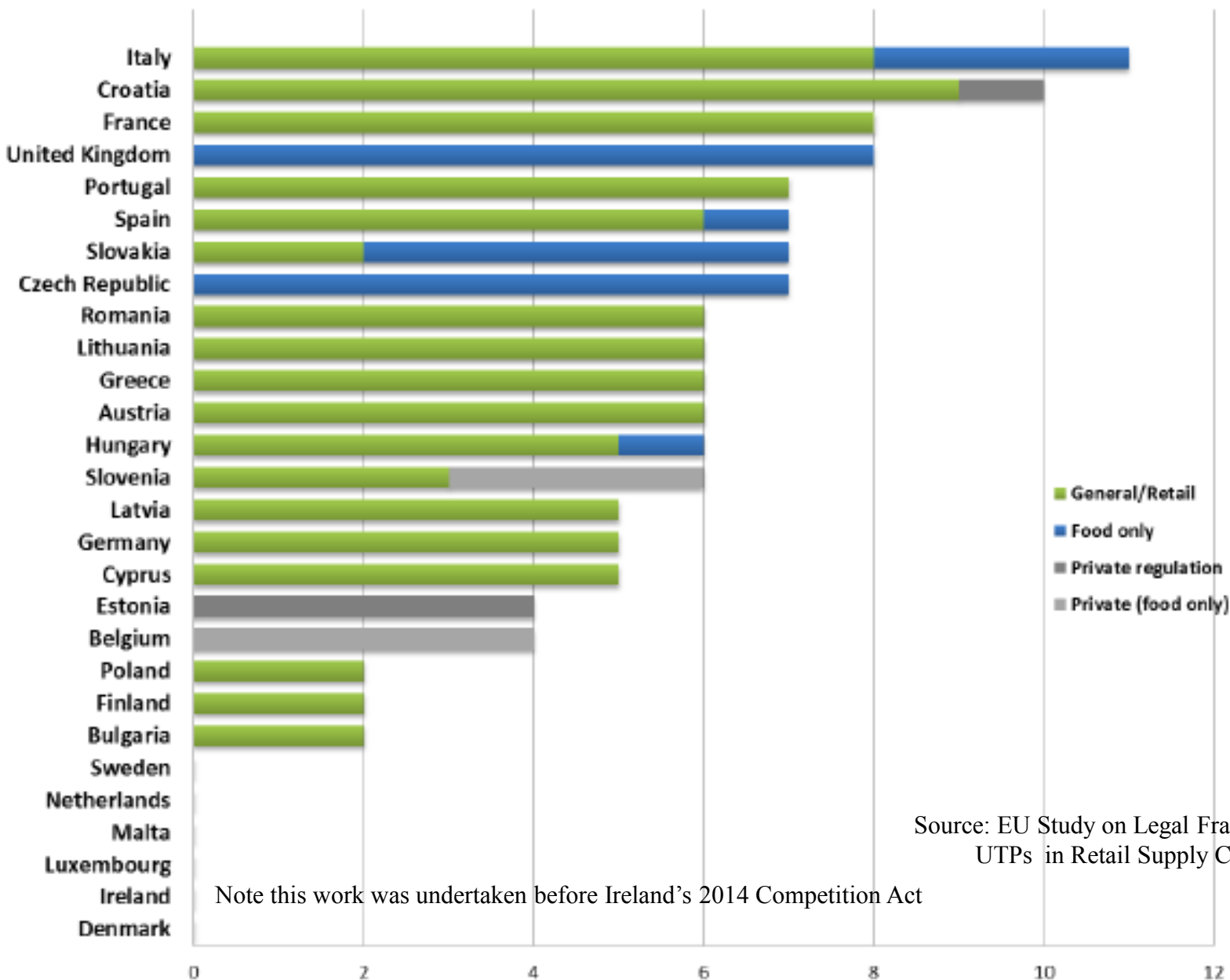


Concentration Ratio of Top 3 Retailers: Selected EU countries



Source Food and Drink Europe

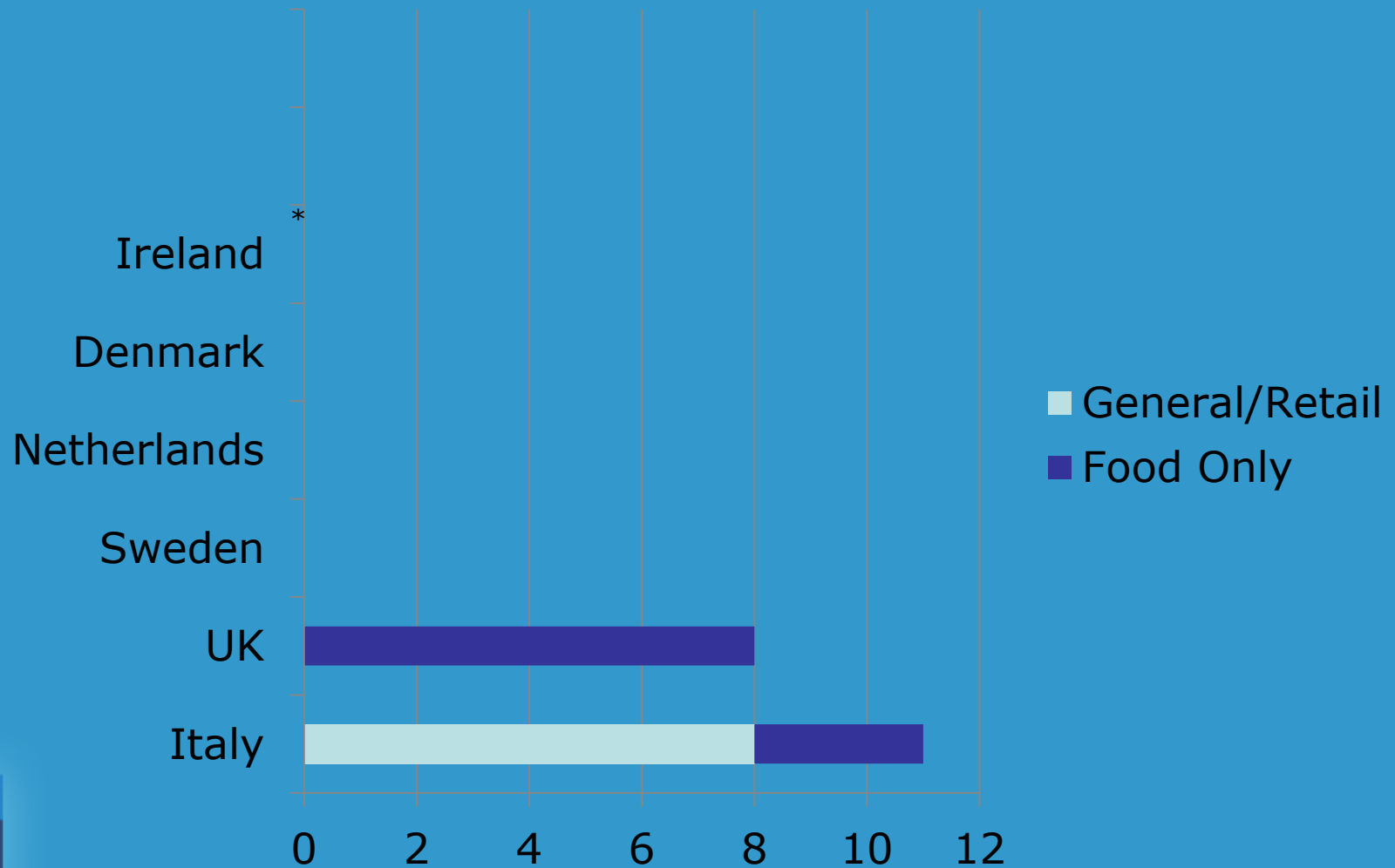
Figure 2 – UTPs covered by general and food-specific legislation, and private regulation, EU28



Source: EU Study on Legal Framework on B2B UTPs in Retail Supply Chain(2014)

Note this work was undertaken before Ireland's 2014 Competition Act

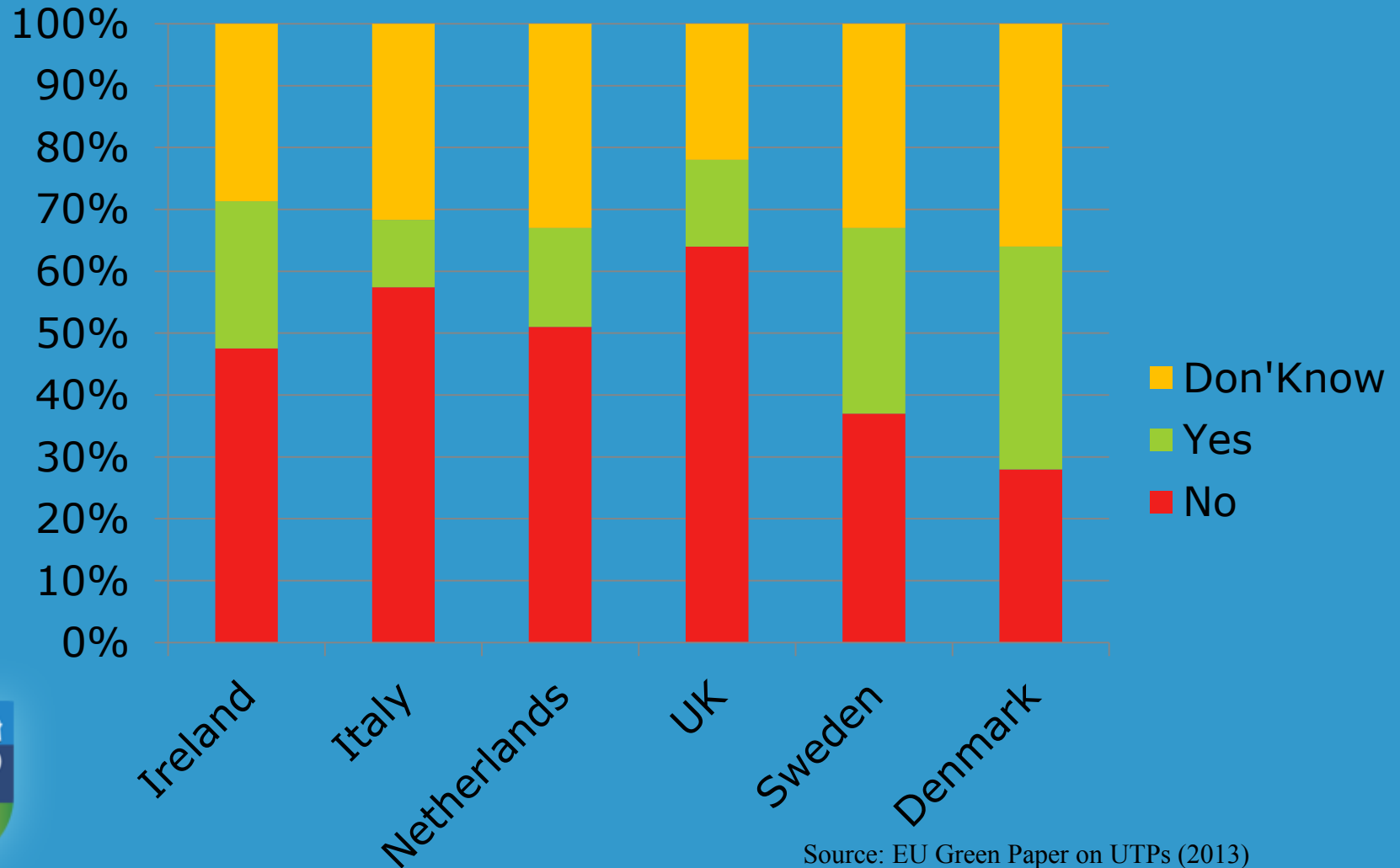
Coverage of Selected UTPs by National Legislation



* Note this work was undertaken before Ireland's 2014 Competition Act

Source: EU Study on Legal Framework on B2B UTPs in Retail Supply Chain(2014)

Do Businesses Feel Protected by Legislation? *



Source: EU Green Paper on UTPs (2013)

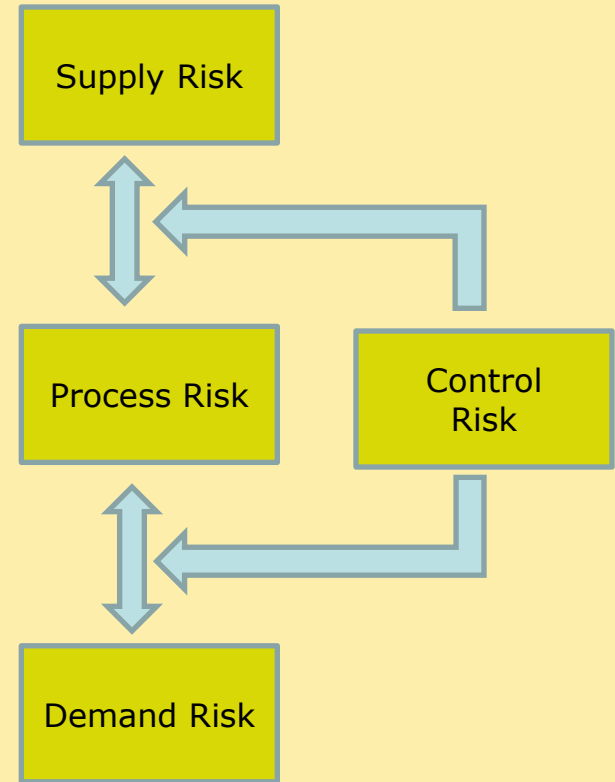
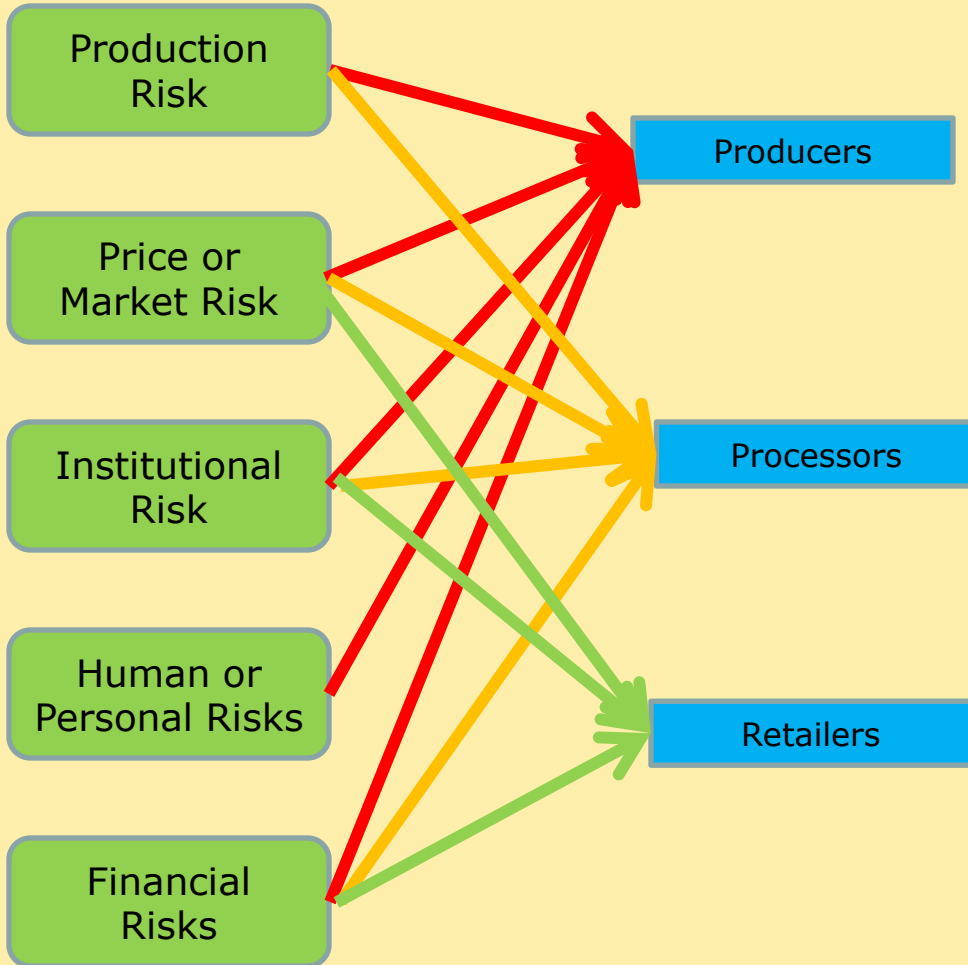
*Question – Are there sufficient enforcement mechanisms to protect businesses from UTPs

Risks at Individual Level

Who Bears the Risk?

Open markets > Volatility?

Supply Chain Risks



Source: Revoredo *et al* (2012)

Environment Risk

Who will pay the price?

Tesco continues to lose market share

By Eoin Lowry on 04 September 2014



IFA President Eddie Downey and IFA National Livestock chairman Henry Burns lead a march, as over 500 IFA members protested at Tesco in Naas Co Kildare, as livestock

Tesco, who buy 42.5 million litres of milk every year from Irish farmers continue to lose market and share and have cut its earnings forecast by 12%.

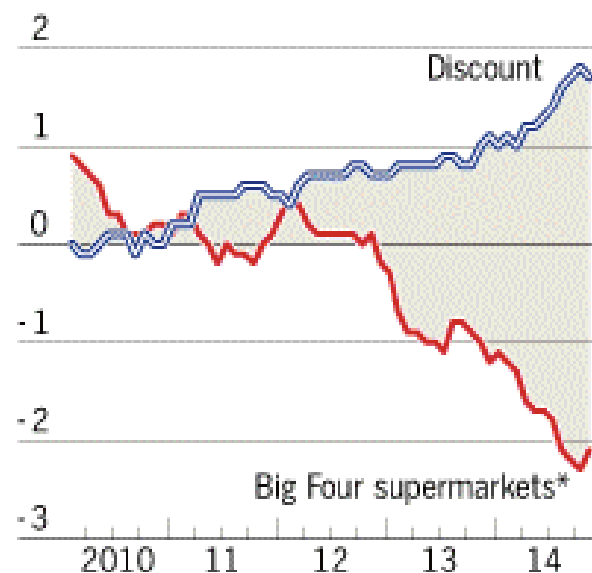
It has not been a good month for Tesco. Latest results from Kantar Worldpanel show that Tesco has seen its market share drop to 25.4%.

This time last year the sales have fallen by continuing the fall since

What is most worrying is that the company is faring better.

UK supermarket share

Change over one year (percentage points)



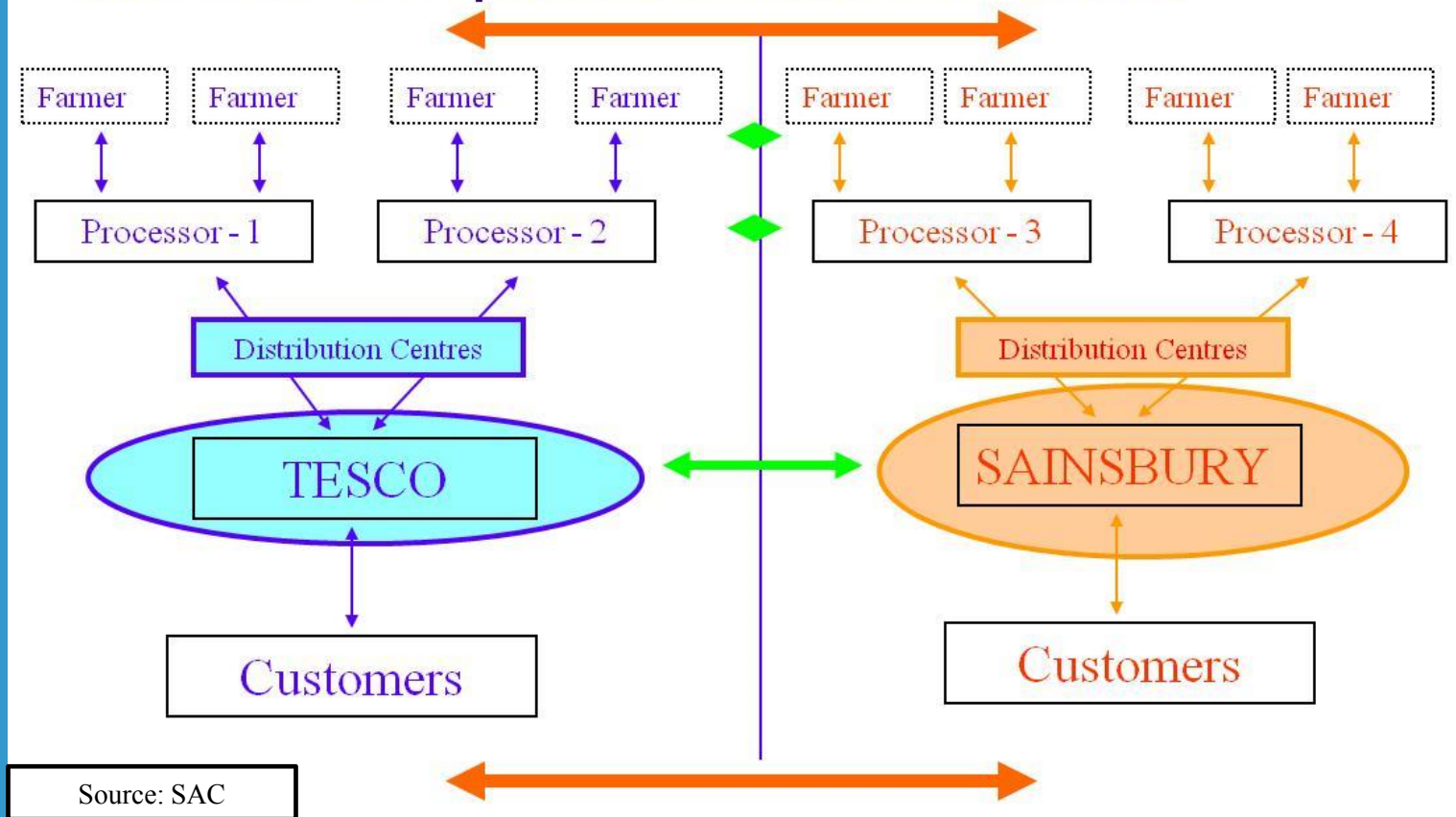
* Tesco, Sainsbury's, Asda & Morrisons

Sources: Kantar Worldpanel; PlanetRetail; companies

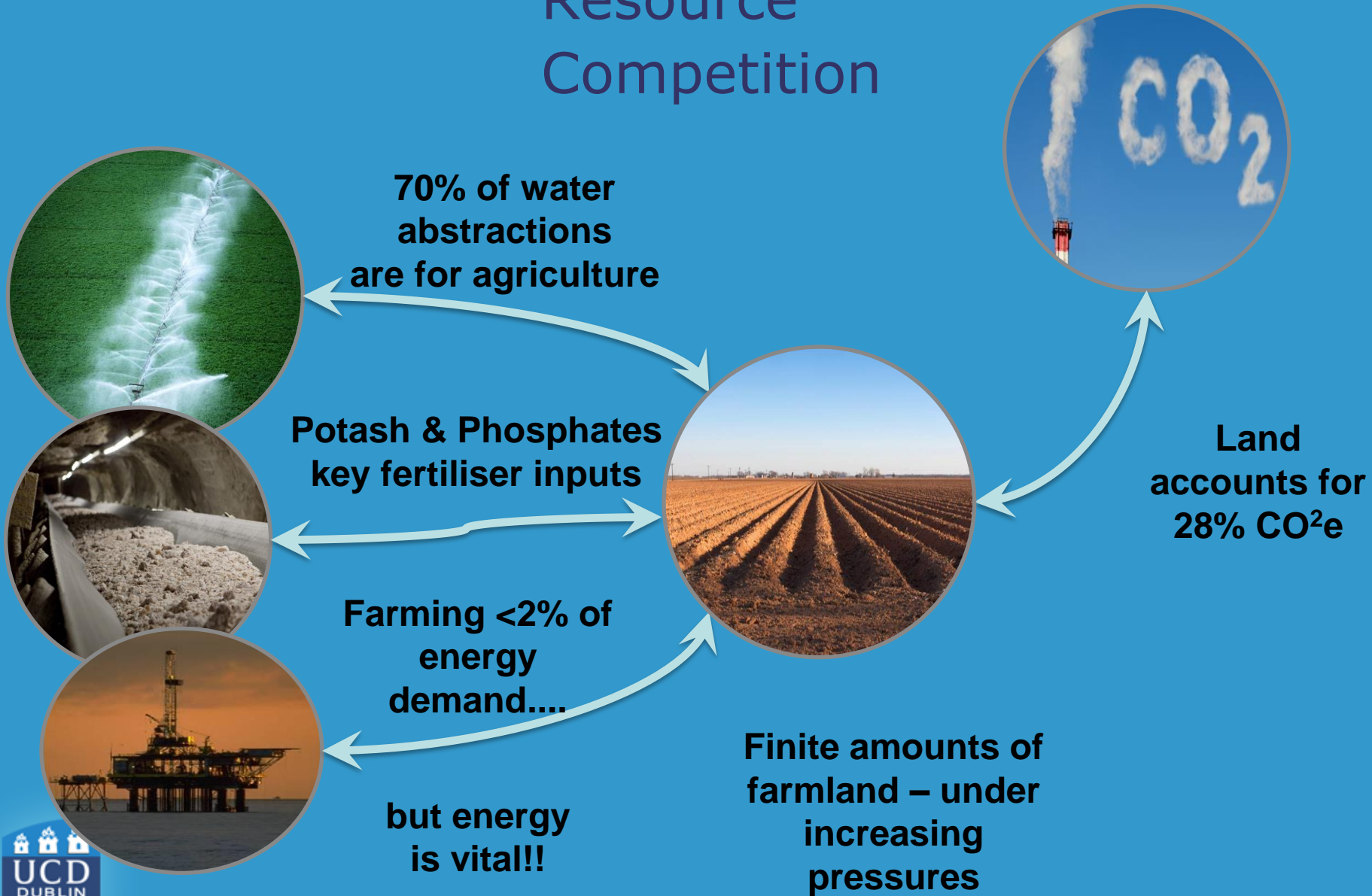


Retailing competition

The new competition: Chain v. Chain

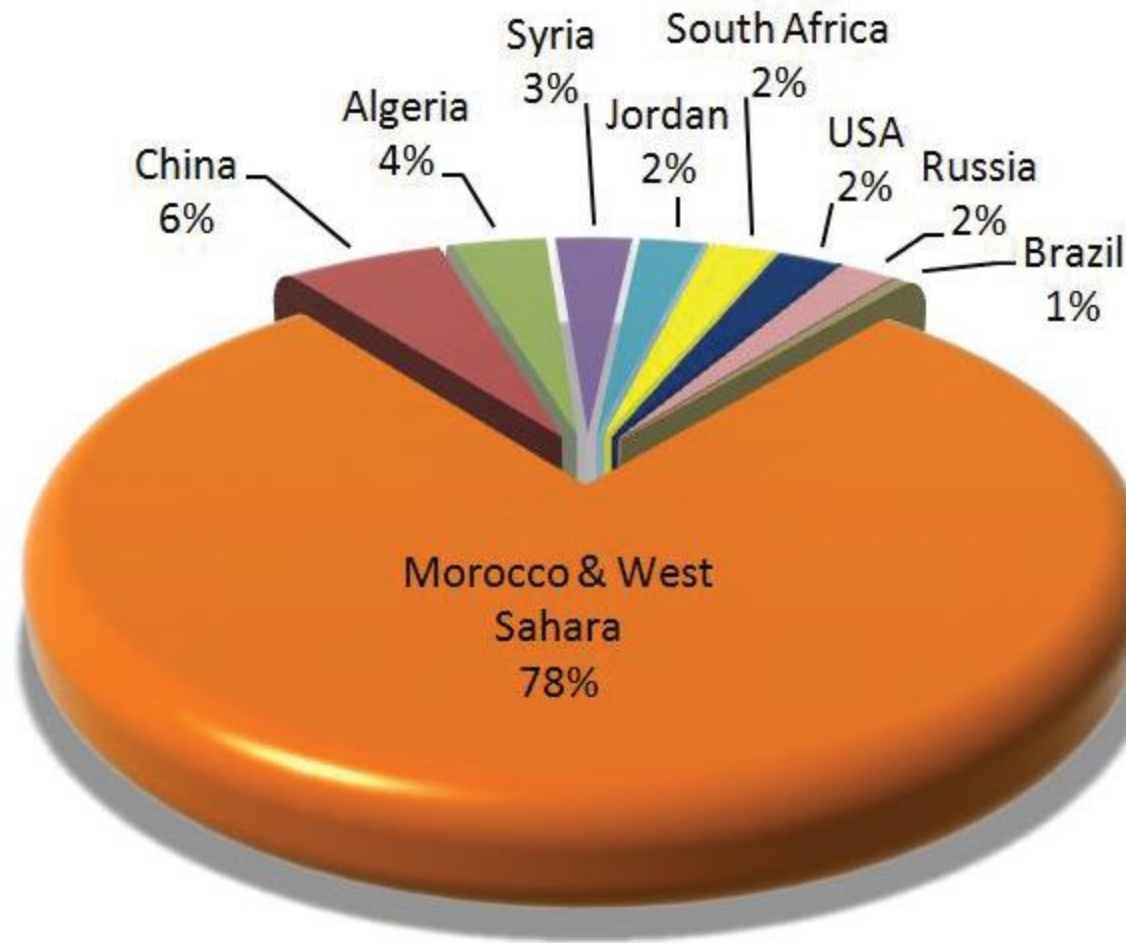


Resource Competition



Those who control resources will control the market

Figure 4.4 World's phosphate rock reserves (Source: USGS, 2011)



Resource Implications

- Globally there will be increased competition for resources.
- In the shorter term, further improvements in resource use efficiency (water, fertiliser and energy) are needed to sustain current levels of production.
- As traditional resources become more scarce, alternative practices will need to be developed and adopted.



Conclusions

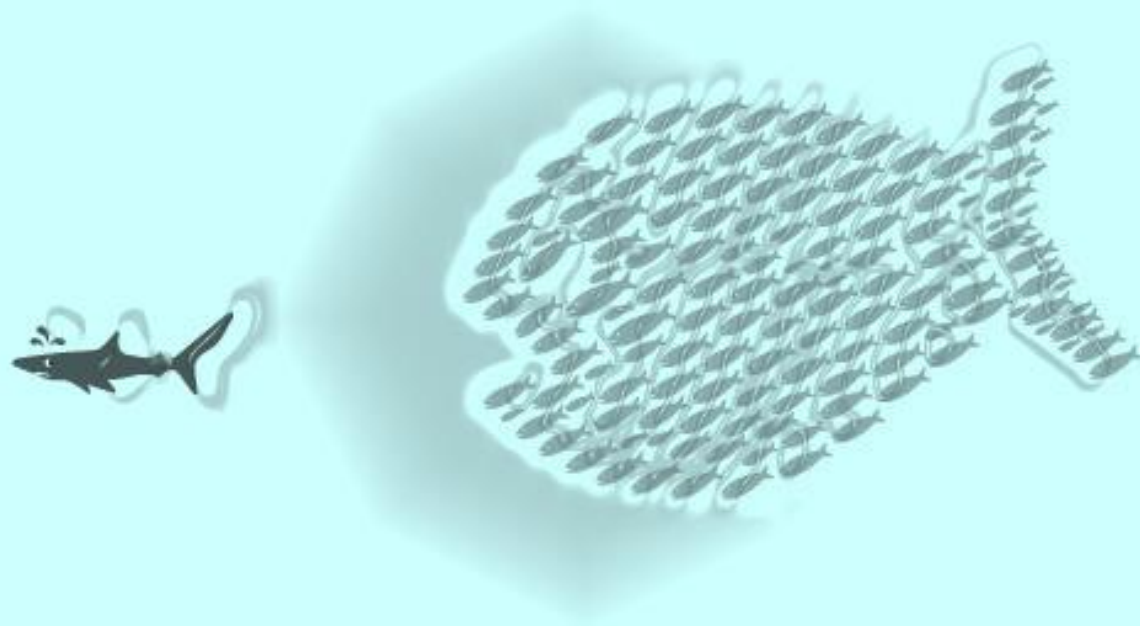
- 'Arguing against globalisation is like arguing against gravity' Kofi Annan
- Wide ranging implications for agrifood producers
- Key challenge is whether it is possible to increase resilience through collaboration and co-operation



On our own we are prey to the sharks



Together we may be able to change the
balance of power



But watch out there may be some very big sharks out there!

