Corporate Concentration Limits Growth in Sustainable Agriculture[1]

By

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One of the highlights of my career in agriculture and food systems work was an invitation from Iowa State's Leopold Center to give the 2009 Shivvers Memorial Lecture. I chose the topic "Why Don't We Have Sustainable Agriculture Now?"[3] I answered the question, in part, like this:

Not only does money talk in our food system, more and more it shouts. It shouts when farm bills are discussed, when University research projects are established, and when global policies are determined. The reason is that the steady march of mergers and acquisitions throughout agribusiness and retailing have left the remaining players very powerful.

In my time with you today, I would like to talk about corporate concentration in the food system and why it matters to everyone in this room. The more we know about food system structure, the easier it is to answer the question, "Why don't we have sustainable agriculture now?" And, I hope, the easier it is to answer the question, "What must we do to effectively advance sustainable agriculture?"

I see you have chosen the title "Too Big to Fail" for our workshop. I understand why you have done so, but I think "Too Big to Succeed" might be more apt. We have done much to research sustainable practices and to educate farmers on the findings of that research. We have done much to educate consumers on the consequences of their food choices. But a great wall of business concentration stands between farmers and consumers. That wall is so strong and so high that farmers and consumers can no longer see each other in ways that are meaningful.

Here's an historic first for my 40-year career in farm management--I will quote Ronald Reagan favorably. We need to "tear down this wall." Competition and redistribution of power are the keys to significantly advancing sustainable agriculture.

It was my good fortune to participate in the Food and Water Watch project that led to the report "The Economic Cost of Food Monopolies." If you haven't had a chance to review it, I

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[1] Paper presented at Sustainable Agriculture and Food Systems Funders 11th Annual Conference, Providence, RI, June 27, 2013.

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[3] http://www.leopold.iastate.edu/news/calendar/2009-03-01/2009-shivvers-memorial-lecture-richard-levins-why-dont-we-have-sustainable-

recommend you do so. It is posted on your web site. The report gives five examples of important ways corporate concentration has become a speed bump in the road to sustainable agriculture.

First, corporate concentration drains value from rural communities and transfers it to distant investors. The communities left behind are treated more as rural industrial parks than the vibrant places to live that will attract the innovative, younger farmers that sustainable agriculture requires. How bad can it get? We asked agricultural economists at the University of Tennessee to assess the contribution of additional hog production in Iowa. Their conclusion was shocking even by my jaded standards: "Adding an additional 1,000 hogs in a county reduced total income in that county by $592." You heard that right. *Reduced*.

Second, food companies can become so large that they own most of the market for certain products. This, in turn, allows them to redefine those products in ways that work against us. A good example is the way Dean Foods stopped using organic soybeans in the production of Silk Soymilk a few years ago. According to the report, the change to a self-defined "natural" product translated into a loss of 32,400 acres of organic production.

Third, the study's investigation of dairy farming in New York documented what I have observed first-hand in recent years. Very large processors can, and do, pay more for milk produced by industrial-scale dairy farms than by family-sized farms. The advantage thereby given to very large farms means fewer family-sized farms. The report also clearly shows something else I have seen throughout my career: family-sized farms lead to more vibrant rural communities. Once again, the "industrial park" model of rural areas rears its ugly head.

Fourth, an investigation into fruit and vegetable production in California's central valley showed the toll large corporations, acting globally to beat down farm prices, takes throughout the food system. In a 15-year period, one out of eight of the large freezing and canning plants in California closed. Fewer plants meant fewer workers but also fewer outlets for California farmers to sell their crops. Fewer outlets meant more demands for standardization of farm products by corporate giants.

Fifth, some areas can become so dominated by a single corporate entity that alternative production becomes virtually impossible. Our study found this to be the case on the Eastern Shore of Maryland. Here, an area of diversified vegetable farmers was taken over by very large corporations pushing broiler chicken production. While profitable for the owners of those corporations, farming in the region suffered. According to the Food & Water Watch report, had the diversified truck farming model stayed in place, total farm sales for the Eastern Shore would be $137 million higher than they are now.

Now let's turn our attention to food retailing. My wife Jane and I belong to three food coops and look forward to our summer Saturday mornings at the farmers market. But we also recognize that most food consumers, most of the time, venture into the world of conventional retailing when they shop for food.

In food retailing, the market share of the top four corporations is high and growing rapidly. In 1998, the four biggest food retailers sold 22 percent of groceries. By 2010, retail concentration rose to 53 percent.[4] That's right—retail concentration in the food industry more than doubled in 12 years and is now well above the 40 percent threshold that sparks concern among economists. As retail concentration grew, the market share of independent supermarkets nearly vanished.

Food retail concentration is often even higher in local and regional markets. For example, in some metro areas, the four biggest grocery chains sell more than 70 percent of the groceries. In 29 metro areas, Wal-Mart alone has more than a 50 percent market share.[5]

Many organic farmers believed that the organic sector was immune to the effects of consolidation, but the movement that was once formed as an alternative to agribusiness-as-usual is now in danger of being absorbed by the system it was intended to replace. This is especially true for food retailing. Traditional supermarkets have largely eclipsed food cooperatives and specialty stores as primary outlets for organic food. In 2009, more than half of organic food was sold at mass-market retailers.[6] Many of the largest grocery retailers and distributors also offer private-label, store-brand organic processed foods.

Preliminary work I am involved in with Food & Water Watch tells me that the hyper-concentrated food retailing system standing between consumers and farmers won't work as a way to expand sustainable agriculture. Furthermore, it is already putting consumers at a disadvantage despite often-repeated claims about how we all benefit from mega-retailers' efficiency.

Classic economic theory tells us that as markets become concentrated, corporate giants gain what is economists call "market power." Market power can be used to raise prices above the levels we would expect to find in a more competitive economy. A study of 143 food product categories and 59 geographic markets concluded: "An increase in retail concentration increases both national brand and private label prices."[7] Concentration encourages such practices as

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[4] Food & Water Watch. The Economic Cost of Food Monopolies. November 2012. Page 4.

[5] Martinez, Steve W. USDA ERS. "The U.S. Food Marketing System: Recent Developments 1997-2006." ERR-42. 2007 at note 11 at 18; UFCW. "Ending Walmart's rural stranglehold." 2010 at 6.

[6] Food & Water Watch. The Economic Cost of Food Monopolies. November 2012. Page 31.

[7] Cotterill, R. W. and Jr Putsis W.P. 2000. "Market Share and Price Setting Behavior for Private Labels and National Brands." *Review of Industrial Organization* 17 (1): 17-39. P. 36.

asymmetric pricing, slotting fees, and manipulation of tens of thousands of national and store brand pricing in ways that increase the amount consumers pay for food.

Concern for high food costs is usually dismissed with data representing the cost of food as a percentage of total income. This explanation works well enough for the wealthy—the top 20 percent of Americans spent only 6.8 percent of their total income on food in 2011. But on the other end of the scale, we see a much different story. Food spending for the lowest quintile was 36.2 percent of total income in that same year. Households below the poverty level struggled to meet even the austere guidelines in USDA's Thrifty Food Plan.[8]

There are other, more subtle, issues that also arise from the incessant drive to replace whole foods with processed ones better suited to national distribution systems. For example, demand for the type of products we encourage our sustainable farmers to produce falls when Flav-R-Bites replace real blueberries in packaged mixes. This is one of many ways in which "using real ingredients is not only more expensive, it's often ineffective, since Mother Nature's volatile and fragile flavors don't fare well during journeys through the assembly line."[9]

The tyranny of cheapness driven by the giant retailer's market power quickly works its way throughout the food system. Corn and soybeans find the best homes in laboratories and processing plants. The quality of those crops is less important as their end use becomes unrecognizable to the consumer. Fruits and vegetables are bred for shelf life, processing potential, and low cost. I could go on, but for now, ask yourself this: how can a sustainable agriculture system expect to prosper in such a hostile environment? I don't think it can. Nothing in my farm management experience leads me believe that "cheap" and "sustainable" are the least bit compatible.

I see my time is drawing short, so let me now take a shot at a question I was asked to address: "How can we most effectively use our foundation resources?" From my perspective, we are at a possible tipping point where rising consolidation throughout the food system may drive sustainable agriculture to become permanently marginalized as a specialty enterprise. The environmental, health, and economic consequences are frightening. I therefore recommend that we move quickly and forcefully in two directions: (1) we must know more, and (2) we must do more.

First, we must know more. Action must have focus, and that focus must come from accurate information about the extent of the problem. I think the weak spot in our knowledge concerns

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[8] Kumcu, Aylin and Phillip Kaufman. "Food Spending Adjustments During Recessionary Times." Amber Waves. September 2011. USDA, ERS. Washington DC.

[9] Warner, Melanie. Pandora's Lunchbox: How Processed Food Took over the American Meal. Scribner. 2013. Page 172.

the retail sector of our food system, and I would like to see more in-depth work to identify the changes we must have if whole foods from sustainable farms are to have a safe journey from farm to consumer.

Second, we must do more. Knowledge without an organized power base will not get us where we need to be. We must find ways to focus the energy of all of our citizens in ways that will lead to a sustainable food system. We must build coalitions that can take us beyond conventional farm bills and into food system issues that have broader concern and appeal. Doing anything less in a world turned upside down by the Citizens United ruling won't get us where we need to be.

I'll close my talk with a question: To what extent is sustainable agriculture compatible with a hyper-concentrated food system that is rapidly tilting toward highly processed foods from laboratories rather than whole foods from farms? There will always be benefits to a sustainable agricultural system, but those benefits will always be in proportion to the type of food system that lies between farmer and consumer.

As I look ahead, I see two choices. The first is one to which our present path will take us, one of fewer choices, higher food prices, increasing health problems, and fewer farmers producing sustainable and organic products. The second is one in which we work together to learn more about the many ways food retailing affects our food system and what we can do to make the system better serve both consumers and sustainable farmers.

I thank you for the opportunity to be with you today, and hope to have many more opportunities to work with you in ways that advance our common goal of a more sustainable food and farming system.