

## The Chains of Agriculture

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**If the WSSD is to succeed in providing a course correction for agriculture and rural development, we have to get to grips with the relations of power along the agri-food chain. The key to less exclusionary, more equitable and more sustainable relations between farming and the evolving market structures is a new relationship between the state, civil society and the private sector, which supplements the outputs of UNCED and oversees the *terms of trade* between farming and the agri-food system.**

**M**igrant labourers from rural Mexico and Central America harvesting strawberries for minimum wage in the fields of California are icons of global agriculture and rural development. Most of the labourers are themselves farmers, perhaps obliged to temporarily migrate in the face of falling maize prices and cheap imports at home. The owners of the multi-million dollar strawberry farm are minimising their labour costs in order to keep the harvest competitive on the world market.

The way that globalisation and trade liberalisation have brought these two very different rural worlds together mirrors the tensions which are causing a rapid divergence between and within rural communities. A minority of the rural population is connected to the global agrifood economy through contracts with agribusiness and even directly with supermarkets. At the other extreme is a world marked by the struggle for food security and survival, of livelihoods fractured into diverse mixtures of off-farm work, temporary migration and subsistence agriculture against a backdrop of depleting human and natural resources. In between is a 'shrinking middle' of family farmers and landed peasants producing undifferentiated commodities with low and declining returns. Large swathes of agriculture, North and South, are in crisis and sliding into poverty. This is happening despite public funding for agriculture in

the North amounting to US\$ 330 *per person* across the OECD.

The polarisation and economic marginalisation of much of global agriculture is paralleled by a decline in agriculture's ability to serve its multiple roles in sustainable development. Agriculture as a sector is expected to provide a whole range of economic, social, and environmental services. These functions include the management of natural resources, conservation of biodiversity, alleviation of poverty, rural employment and enterprise development, generation of trade and foreign exchange, and food security. Addressing the causes of economic marginalisation is key to making the multifunctional role of agriculture a reality, and to building the resilience of agriculture and rural communities.

Liberalisation of trade in agriculture and the withdrawal (at least in the South) of governments from intervention in domestic markets means that price and quality standards are set by international markets. Agriculture which is oriented towards both the export sector and internal markets must increasingly turn out products at a similar cost and quality as those that can be bought on the world market.

Those markets are undergoing rapid change, with closed commodity chains rapidly replacing wholesale or spot markets. Highly concentrated food processing, retail and food service industries at the end of

### KEY CHALLENGES:

- **A responsive and accountable state should be a partner with an economically and politically organised rural civil society, to overcome exclusion from policy making and from markets**
- **OECD countries should dismantle all forms of intervention that distort world prices hurting the opportunities of many developing countries and, in particular, of poor rural communities.**
- **An ethically reinvigorated private sector should commit itself – individually and as industry associations – to its own form of Agenda 21, in which supports national rural development policies**
- **Civil society groups should use benchmarks and sustainability indicators to monitor performance of food processors, retailers and food service companies, especially regarding fair terms of trade.**

these chains are reducing their supply base and demanding increasingly stringent levels of quality, compliance with standards and codes of conduct (including proof of 'sustainable agriculture' production techniques!) and post-production service from their suppliers. As buyer power increases, so barriers to entry for smallholders become more daunting. Only a small competitive fraction of the rural world has the capitalisation, infrastructure, technical expertise and market information to meet the requirements of shippers, processors and retailers. And even for this highly capitalised group, it is very difficult to prevent bargaining power (and therefore profitability) from being eroded as downstream agribusiness becomes ever more concentrated.

The transition of the agri-food chain into a vertically co-ordinated 'demand chain' with privatised standards, and the rise of contracts and specialised intermediaries, is proving to be a powerful driver of divergence and marginalisation within farm communities. Under these closed contract production systems of 'cooperative capitalism', market access has less to do with production efficiency, and everything to do with meeting large processor and supermarket demands for consistency of supply and compliance with standards. Buyers preferentially contract with larger farms and firms that can meet these demands, because they deliver lower transaction costs and risk.

The restructuring of markets and power relations beyond the farm gate has been underreported in the debate about sustainable agriculture and rural poverty. The trends were considered to be typical of industrialised country agriculture rather than peasant systems. Agenda 21 reflects this, with an agricultural chapter dedicated mostly to calling on governments to invest in agricultural research, extension, land tenure programmes and the like, with the objective of sustaining production through conservation and management of natural resources and germplasm. The private sector and the market hardly figure.

The phenomenal pace of change during the decade since UNCED, and its spread beyond middle income countries to poorer regions, is demonstrated by the following observations in Latin America by an international research network:

- In the 1990s, the share of the retail sector controlled by supermarkets in Argentina increased from 20% to 80%
- Between 1994 and 1999, the share of the retail sector in Brazil controlled by the top 10 supermarkets grew from 23% to 44%
- 14 of 15 main food products in Chile are now sold through contracts between farmers and supermarkets and processors, rather than through spot markets
- 20–35% of the rural retail sector in Central America is already controlled by supermarkets
- One firm controls 60% of chicken purchases in Central America

Liberalisation of domestic agriculture and direct exposure to world markets is of course also an *opportunity* for smallholders. Some groups of smaller scale farmers have successfully developed local and export markets, often generating capital and ideas through the flow of goods and people between rural and urban worlds. But the market gives neither direction nor course towards sustainable agriculture. Some recommendations to alter that course in a positive way include:

A responsive and accountable *state* should be a partner with an *economically and politically organised rural civil society*, to overcome exclusion from policy making and from markets, improve bargaining power, and access technical assistance to meet standards and consistency of supply. State intervention in local markets can create viable alternatives to export markets. State intervention to increase the transparency of national markets, and to support the development of capacities of small farmers to access such markets, can in many cases create viable alternatives to export markets.

OECD countries should dismantle all forms of intervention that distort world prices hurting the opportunities of many developing countries and in particular of poor rural communities. These countries should also see industrial policy – especially competition (anti-trust) policy – as a legitimate tool of agricultural and rural development, ensuring that excessive buying power is not concentrated in too few hands.

An ethically reinvigorated *private sector* should commit itself – individually and as industry associations – to its own form of Agenda 21, in which support for national rural development policies, capacity building, and preferential sourcing from smallholders, land reform beneficiaries and other marginalised groups is integrated into core business policy. These companies look beyond the doggerel of 'customer focus' to educate their customers on the connections between consumption choices and rural livelihoods.

Powerful alliances of civil society groups should expose food processors, retailers and food service companies to careful scrutiny of their performance against benchmarks and indicators of sustainability, especially regarding their commitments to source from smallholders with fair terms of trade.

Only when the terms of trade between agriculture and the rest of society are better secured can we expect the supply of multiple benefits from a sustainable and resilient countryside to be ensured. ●