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How big companies are profiting from inflation

Inflation is driving up food prices. But beside the war in Ukraine, a primary cause for price increases is big companies' eagerness to make a profit

Due to recent price increases, heavy burdens on European citizens have increased significantly. Government intervention in the market did bring a brief respite through direct support for households and the mild early autumn temperatures also played a positive role with regard to heating costs. Nevertheless, the precarious living situations in which many citizens find themselves intensified in numerous European countries. This is because inflation in the eurozone rose from 3.6 to almost 11 per cent within one year. Consumers are clearly feeling the effects – especially when it comes to food. Between September 2021 and September 2022, the price of food items rose by 18.7 per cent on average, some by as much as 49 per cent.

Higher energy costs for fertilisers and animal feed as a result of the war in Ukraine have been identified as one of the causes of the price increases. However, trade unions suspect that, although many price hikes are justified by the rise in energy costs, to some extent, they are being used as a pretext to achieve even higher profits.

For example, grain and milk prices were rising sharply even before the war, at a time when electricity prices were still at normal levels. The reason for this was the high price quotation on the commodity exchanges. This is reflected in the case of specialised grain farmers, with incomes up to 40 per cent higher in 2021 compared to the previous year. Overall, agricultural incomes rose by an average of 15 per cent, as agricultural prices rose sharply in the second half of 2021.

An ancient practice

We need to take a look at the commodity exchanges for an explanation. There, a standardised process is used to negotiate the price of raw materials. In so-called futures contracts, raw materials are purchased at a

certain price before they are available, for example before they are harvested. The underlying theory is that the agricultural producer can count on a fixed income from this future harvest, and in return the buyer receives a delivery commitment at a fixed price, thus securing his supply of the raw material.

This type of business has been practiced informally since ancient times. The first formal commodity futures exchange was established in Chicago in 1848. Commodities are traded using standardised contracts, with the exchange taking on an additional safeguarding role by guaranteeing the fulfilment of the contract. Until the early 1970s, there was a direct relationship between commodity producers (farmers) and commodity traders via futures contracts. With the deregulation of the commodity exchanges which began during this time and then expanded in the early 21st century, a financialisation of commodities trading took place.

Financial market players now participate on a large scale as intermediaries on the commodity exchanges. They buy futures contracts that entitle them to receive raw materials at a certain price. They then wait for a time when the agreed price of the futures contract is significantly lower than on the spot market – a market, in which a transaction is settled at the current fixed price within two days. The larger the price margin, the more desirable the futures contract is to other speculators, because it can be sold at high prices. Commodities are traded this way many times before they reach the processor.

The dominant commodity traders in the agricultural sector are profiting from the uncertainty of the financial players and the supply shocks in the real economy.

The original purpose of commodity exchanges, namely to ensure price and supply security for farmers and processors of raw materials, is now overshadowed by other interests: commodity exchanges are controlled by actors who generate profits through strong price fluctuations. Their decisions are therefore not dependent on real economic considerations, but on financial ones. This means that supply and demand fundamentals are irrelevant because the financial players are not involved in the direct trading of the commodity. Their limited access to market information about the real economy creates a lack of information, which is compensated for by so-called ‘herd behaviour’. Financial market players orientate themselves towards other market participants. As a result, trends that occur due to real economic causes are reinforced by speculation, as demonstrated

by the exponential inflation caused by the war in Ukraine.

The dominant commodity traders in the agricultural sector, the so-called ABCD group (ADM, Bunge, Cargill, and Louis Dreyfus), which cover 70 to 90 per cent of the global grain trade, are profiting from the uncertainty of the financial players and the supply shocks in the real economy. ADM increased its profit by over 20 per cent over the previous year, while Cargill's rose by nearly 30 per cent. And they have been able to expand along the entire food supply chain. 'Global grain markets are even more concentrated than energy markets and even less transparent, so the risk of profiteering is high,' says a member of the *International Panel of Experts on Sustainable Food Systems*.

The suppliers of seeds and fertilisers have similar market power. Starting in 2020, well before the war in Ukraine, fertiliser prices have risen by 300 per cent. The price increase ran parallel to the monopolisation of the fertiliser suppliers and the seed market. Within the last 10 years, this market has narrowed considerably, as the 'Big Six' of seed production were reduced to the 'Big Four' – most recently due to the 2018 merger of Bayer and Monsanto – made up of Bayer-Monsanto, DowDuPont/Corteva, ChemChina-Syngenta and BASF. DowDuPont/Corteva grew by 8 per cent and increased profits by 27 per cent, despite higher energy prices.

Raising prices systematically

Large food processors also play a central role in the system, with Nestlé, Unilever and Coca-Cola, in particular, occupying a strong position. Nestlé grew by 8.5 per cent in the first nine months of 2022. This was achieved through the art of correct 'pricing' – setting prices that are optimal for the company's success. In view of rapidly increasing transport and raw material costs, this means the ability to raise prices significantly, without driving customers to cheaper competitors. With well-known brands ranging from Nespresso to San Pellegrino to Kit Kat, the group succeeded in increasing sales compared to the previous year and thus generated a corresponding profit, despite price increases averaging 6.5 per cent.

Thus, there is much to suggest that strong brands like Nestlé can raise prices without losing customers thanks to their market position. Unilever also reported a 17 per cent year-on-year profit increase in the second quarter of 2022 – despite rising energy prices. 'Numerous corporations are trying to ride the current wave of inflation,' says one Edeka boss. He observes 'increasingly frequent unfair industrial practices.'

The concentration shown in the agricultural and food sector demonstrates that companies are using their oligopoly or monopoly positions to profit from the resulting dependency. It will be the task of the competition authorities to take a close look at price increases in other markets allegedly induced by energy prices. The Austrian competition authority (BWB) has already done this with regard to the fuel market and is planning further investigations in the sector. In order to ensure that these investigations are not left hanging without consequences, the Vienna Chamber of Labour has submitted an application to initiate price review proceedings. But the BWB is also gearing up for action in the food sector, where it is planning a study of the industry. Germany's Minister for Economic Affairs is also proposing, sector investigations that identify competition deficits to result in mandatory requirements and market interventions.

Trade unions are calling for a rapid implementation in the form of an excess profits tax and the introduction of an anti-inflation commission.

As early as 2019, the EU Commission recognised that high market concentration is not in the interests of employees and consumers. However, plans to intervene in the market and even break up dominant companies – the so-called 'New Additional Instrument for Better Enforcement of Competition' (or Competition Tool) – have disappeared back into the drawer. With his reform proposal for the German Act Against Restraints of Competition, the German Economics Minister has brought back the idea of breaking up oligopolistic market structures into the discussion. But considerations of stronger regulation of commodity exchanges are also becoming louder again. In any case, a first important step has been taken: the EU emergency regulation has ensured that at least in the energy sector, part of the excess profits will be skimmed off.

Trade unions are calling for a rapid implementation in the form of an excess profits tax and the introduction of an anti-inflation commission that would regularly examine prices and price increases to determine their economic justification and, if necessary, request price review examinations under the Price Act. This is the only way to prevent oligopolies from exploiting their market power to the detriment of employees and consumers.



Susanne Wixforth
Berlin

Susanne Wixforth is head of unit in the department International and European Trade Union Policy of the German Trade Union Confederation (DGB).



Kaoutar Haddouti
Berlin

Kaoutar Haddouti studiert Politikwissenschaften und Geschichte in Heidelberg und Paris.

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