

Short comments

from a food security and trade perspective on the UN World Investment Report – 2009 “Transnational Corporations, Agricultural Production and Development”

The World Investment Report 2009 (WIR) provides an interesting reading about the functioning and the impacts of foreign direct investment (FDI) in agriculture. FDI in agriculture means mostly operations by agribusiness multinational enterprises or transnational corporations (MNEs of TNCs) in host countries. The report comments on new trends in FDI such as foreign investment in land overseas for food security in the home country, also called land-grab.

The WIR report itself explains in quite detail the operations of FDI and their impact, including the many problems involved which are reported as “challenges”. Unfortunately these “challenges” are not well covered in the short overview published together with the full WIR report, which gives the impression that the WIR is less critical than the Trade and Development report.

A. How WIR assess the impact of FDI on food security

The WIR does not explicitly cover food security but reports on the different aspects correlated to food security in relationship with FDI such as:

(1) Food production and availability in developing countries:

- Agribusiness MNEs are mostly not producing food crops for the host country. Most agribusiness MNEs are involved in export crops which nevertheless do not exceed 10 % of food production in the world. However, a few Asian agribusinesses producing food are now belonging to the top food producing MNEs (see WIR table III.12).
- It is not clear whether agribusiness MNEs that are involved in food production will transfer technology and knowledge – often cited as an advantage of FDI- which is useful for domestic food production and food security.
- New infrastructure for attracting and facilitating the operations of agribusiness MNEs might, but not necessarily, improve transport of domestic food crops, which is important for the availability of food in local markets and for food sales (fresh products capture better prices and result in more purchasing power)

(2) Purchasing power to buy food, through good prices for farmers and sufficient income:

- Concentration by a few MNEs in trade and retail (big supermarket chains who increasingly sell ‘house brands’) of most food crops results in less bargaining power for small farmers and plantation workers, which reduces their income.
- Concentration by a few MNEs in agricultural production for exports reduces the bargaining power for producers, including by contract farmers who have little power to have their contracts enforced. Nevertheless, the WIR encourages contract farming with the argument that it provides longer term market access, financing and technology transfer while ignoring that this is not always the case and that the negative consequences of contract farming, about which there is little information, still need to be fully assessed.

(3) Healthy food

While retailers have forced their value chain to adopt higher food safety standards, these have been especially strongly applied to export crops and less on domestic food crops in developing countries so far.

Foreign MNEs active in processing and retailing in developing countries are crowding out local processors and small producers. The latter might have to turn to even less healthy production and distribution, e.g. local (wet) markets, in order to survive.

B. Can FDI be replaced?

FDI is often promoted as a way of financing because of the lack of aid and governmental resources in developing countries. However, attracting FDI includes many pitfalls and costs that are often not being assessed by governments, such as tax holidays offered or damage to the environment while the food is being exported. Current ODA commitments, also for agriculture, are supporting foreign investment promotion. What is often overlooked is that other financial mechanisms for small (processed) food producers and family farming who produce for local consumption need to be made available (beyond micro-finance) and that banks should offer much more affordable financial services to those producers. Foreign banks who have been increasingly operating in developing countries have shown little interest in providing financial services and credit to poor farmers. It needs to be remembered, there is no lack of money in the world: the global market in over-the counter derivative trading in food commodities for hedging and speculation was US\$ 4.4 trillion notional amount outstanding in December 2008, compared to the average FDI in agriculture of US\$ 3 bn a year (2005-2007).

C. Selected set of recommendations

(1) Dealing with the concentration of agribusiness MNEs in trade and retail, which marginalises and undermines the bargaining power of small and family farmers and domestic food processors or traders:

- establish cooperation among states to move towards an international regulation of competition, international concentration, international cartels and abusive dominance of international markets, and implementation of international contract law, beginning with international arrangements that allow suppliers in one country to complain about abuse of dominant positions by traders or supermarkets from another country;
- provide for enforcement of fair contracts and prevention of unfair commercial practices between small farmers in poor countries and buyers/ buying supermarkets in rich countries, through (trade and investment) agreements and cooperation mechanisms (including complaint and remedy mechanisms).

(2) Increasing the role of the home country of MNEs which are now only interested in negotiating agreements that promote and protect their home-based (agribusiness) MNEs, including easy transfer of profits out of the host country. The host countries have lost much room of manoeuvre to implement necessary measures to protect all aspects of food security and are involved in a rat race to attract foreign investment at any costs. What is required is changes in bilateral investment agreements, WTO agreements on agriculture, trade related investment measures, distribution and banking (included in GATS under the WTO), bilateral and regional free trade agreements. The above measures (C.1.) for cooperation could at least be included. In addition, governmental

measures on corporate social responsibility, such as the non-binding OECD Guidelines for multinational enterprises should be strengthened and given more teeth.

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