Rising Commodity Prices & Food Production: The Impact on Food & Beverage Workers

The dramatic rise in global agricultural commodity prices over the past two years has led to significant increases in the costs of major ingredients in food and beverage manufacturing. These cost pressures have led to a variety of responses by major transnational food and beverage companies, including consumer price increases, cost-cutting, supply chain mergers & acquisitions, and strategic alliances with suppliers, while powerful retailers exert pressure to keep prices down. In this climate of intense competition workers are facing continuous cost-cutting and restructuring and as companies turn to cheaper substitute ingredients, workers and consumers also face new health risks.

The steep rise in agricultural commodity prices is driven by climate change and – ironically - by the bio-fuel boom that is presented as the ‘solution’ to climate change. Far from providing sustainable solutions, the bio-fuel boom is diverting several essential food crops around the world to the manufacture of biodiesel and ethanol, causing shortages as well as fundamental shifts in crop growing. The global bio-fuel market links several food crop prices directly to crude oil prices for the first time, creating a flow-on effect that generates excessive demand for these crops as well as substitute crops. This not only drives up the costs of raw materials for the food industry, but displaces several other food crops that have no direct use in the bio-fuel industry. Everything from animal feed to cotton and bananas is affected. This transformation has an even wider impact on food prices and access to food, threatening to undermine the right to food and exacerbate world hunger and malnutrition.

Food and beverage unions are faced with the urgent task of supply chain organizing, consolidating our bargaining power along the supply chain nationally and internationally, while responding to the new pressures imposed by employers in an industry grappling with rising costs. With prices set to rise for the next decade, this is a longer-term challenge that must respond not only to changes within the industry, but also tackle the critical issue of the right to food in an era of hyper-inflationary food prices.
1. Rising Agricultural Commodity Prices

Over the past two years the prices of several major agricultural commodities have increased dramatically, driving up production costs in the food and beverage industry globally and fuelling inflation.

In the last 12 months alone the world market prices of maize [corn] and barley increased 30% and 50% respectively, while the price of wheat rose 65%.\(^1\) Maize prices were already on the rise for the past three years and it is expected that prices will continue to rise for the next decade, as global cereal stocks fall to their lowest level in 24 years.

These global price shifts were reflected in far sharper price increases in national markets, with the price of wheat doubling and the price of maize quadrupling in some countries. The rising cost of cereals and grains has driven up production costs in food processing as well as breweries. Financial analysts predict that grain prices will rise by another 40% by 2020, concluding that: “Food and beverages processors will be fighting it out for an increasingly dwindling supply of grains sourced at even higher prices.”\(^2\)

At the same time edible oils – crucial ingredients in the food industry – have reached record highs. Prices of rapeseed [canola] oil, soybean oil and palm oil are setting new records. Soybean prices rose by 56% to hit the highest level in 20 years and will continue to rise as Chinese imports surge, consuming 45% of the total global trade in soybean. At the same time both China and India – the two largest consumers of edible oils in the world – have increased imports of palm oil.\(^3\) Crude palm oil prices exceeded RM 3,000 (US$909) per tonne in January, before falling to an average RM 2,500 per tonne. This is still 65% higher than the previous year. With shortages of soybean oil, palm oil and rapeseed oil, the price of sunflower oil has increased by 56% - its highest level in 19 years.

Food and beverage manufacturers have also been hit by higher prices of cocoa, coffee and milk. Global milk prices have risen 50% this year and are expected to rise another 30% next year. According to the FAO skim milk powder (SMP) and whole milk powder (WMP) prices are 125% higher than last year, while cheese prices are 88% higher and butter 125% higher.\(^4\)

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\(^1\) FAO Food Outlook, November 2007.
\(^2\) “Grain prices could rise by another 40 per cent says ING”, Food Production Daily, 27 November 2007.
\(^3\) FAO Food Outlook, November 2007; William Bi, “Chinese demand to boost soybean, palm oil prices”, Bloomberg, 20 November 2007. China is the single largest consumer of palm oil, purchasing mainly from Malaysia. In 2006 China imported 3.57 million tones of palm oil and palm oil products valued at US$2.5 billion. This was equivalent to 25% of Malaysia’s total production of palm oil. Imports of palm oil into India reached 2.62 million tones, an increase of 32% over the previous year.
\(^4\) FAO Food Outlook, November 2007. For an explanation of this rise in global milk prices, please see the briefing “Global Milk Prices” prepared by the New Zealand Dairy Workers Union (DWU).
In 2006 Asia became the world’s largest milk production region, accounting for 34% of global output. New Zealand and Australia are the two largest global milk exporters and India is the world’s largest single milk producing country.\(^5\) China is the third largest milk producer in the world following the US and India. While dairy consumption rose 20% in China over the past five years, the Dairy Association of China estimates that consumption will rise 15 to 20% annually in the coming years.\(^6\) Pakistan – where Nestlé has just opened the company’s largest milk processing facility in the world with a capacity of two million litres a day - is the world's fifth-largest milk producer.

Rising milk prices is fuelling inflation in several countries in the region. In Sri Lanka a 20% jump in consumer prices in 2007 was largely driven by rising milk prices, specifically the higher price of imported SMP. In other countries it was the combined effect of higher vegetable oil prices and milk prices. Food prices rose by 18.2% in China, 8.4% in India, and 13% in Indonesia and Pakistan in 2007. It is significant that while in the EU food prices account for 15.6% of consumer price inflation, in Asia food prices account for 55%. Thus rising food prices – and energy prices – mean that living costs have increased sharply. Even where countries are major exporters of edible oils, domestic prices are rising. In Indonesia, the world’s largest producer of palm oil, where palm oil has become the main cooking oil and a food ingredient in staple foods such as instant noodles, domestic palm oil prices rose by 50% in the first 10 months of 2007.\(^7\)

So how long will it last? While some food companies have treated these price increases as a short-term phenomenon, the OECD-FAO Agricultural Outlook 2007-2016 report suggests we are facing a much longer-term rise in prices. The reason is that rising prices are due less to temporary or seasonal or cyclical factors than deeper structural changes in agricultural production and consumption. Changing consumption in developing countries – particularly China – will keep prices of milk and other agricultural products high for the next decade. But a more fundamental change is driven by the bio-fuel industry.\(^8\)

### 2. The Bio-fuel Boom

There are two major bio-fuels in use today: biodiesel and ethanol. All the major edible oil crops are now used to produce biodiesel: rapeseed [canola]; palm nut; coconut; sunflower seed; groundnut; and cotton seed; as well as staple food crops such as soybean.

Ethanol is made primarily from food crops such as sugar cane, maize, wheat, sugar beet and cassava. The largest market for maize-based ethanol is the US, which used almost 54 million tonnes of maize for this purpose in 2006/07, with maize

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5 “Asia is the world’s largest milk production region”, FAO, 3 January 2007. India overtook the US as the world's largest milk producer in 1998.
6 “Farmers jubilate as milk prices rise to record highs”, Associated Press, 12 August 2007.
planting covering the largest area since 1944. The US is forecast to increase its use of maize to 81.3 million tonnes in 2007/08. In China too maize-ethanol is the main bio-fuel, with industrial use of maize expected to reach 40 million tonnes by 2020.

The increased demand for food crops to manufacture biodiesel and ethanol has driven up crop prices, with a spill-over effect on the cost of other edible oil crops as substitutes in food production. The diversion of rapeseed to biodiesel production in Europe has led to increased demand for imported edible oils, further driving up global prices. In the US the diversion of soybean to biodiesel production has also raised global prices.

As the bio-fuel industry develops a voracious appetite for edible oil crops and maize, the cost of raw materials and food ingredients derived from these crops is rising dramatically. Palm oil, now used widely in food products ranging from instant noodles to biscuits and ice cream, has become so integrated into energy markets that its price moves in tandem with crude oil prices.

The impact of bio-fuel demand for food crops has both direct and indirect effects. The massive shift in use of maize and wheat for ethanol production has led to increased costs of animal feed which in turn translates into higher costs in the meat and dairy industries. At the same time the desire to cash in on the bio-fuel boom has led to the conversion of land to grow maize for ethanol instead of other food crops.

As the OECD-FAO Agricultural Outlook 2007-2016 observes:

Growing cereal use for ethanol leads to a reduction in planted acreage to oilseeds, particularly in the US, in favour of maize. Increasing cereal prices relative to those for oilseeds caused this land reallocation. As a knock-on effect, oilseed prices then also increased as a result of tightening supplies and this price strength was enhanced by rising demand for meals as a cereal feed substitute and increasing demand for vegetable oils for bio-diesel production.

The effects are felt well beyond the US where heavily subsidized maize has been dumped on world markets for decades. Until the bio-fuel boom diverted maize to ethanol production, US maize exports accounted for more than half the global trade in maize. Under the North American Free Trade Agreement (NAFTA), Mexico – a country in which maize is a traditional food crop - has become dependent on imports of heavily subsidized animal-feed grade maize from the US. The shift to ethanol

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9 FAO Food Outlook, November 2007.
10 Xie Chuanjiao, “Ethanol output has corn prices popping”, China Daily, 6 December 2006.
14 US maize was dumped on world agricultural markets at 25 to 30% below the cost of production and in 2002 5.55 million tonnes was dumped in Mexico using NAFTA rules. Institute for Agriculture and
production in the US had an immediate impact on maize prices in Mexico, fuelling inflation and exacerbating hunger and starvation among the urban poor, leading to food riots.

The massive increase in palm oil production to feed the bio-fuel industry has had a devastating effect in Asia and the Americas. The *Emergency Resolution on bio-fuels* adopted by the 25th IUF Congress held in March 2007, points out that bio-fuels “are produced in poor social conditions, demand extensive use of pesticides and water, [and] cause deforestation.” The *Resolution on defence of the food sovereignty of peoples* also condemns the destructive impact of palm oil plantations on the environment, family farming and agricultural employment, and observes that “… the production of bio fuels based on sugar cane, the African palm and soya is giving rise to an intensive process of agrarian counter reform.”

The UN Special Rapporteur on the right to food, Jean Ziegler, issued a stern warning against the bio-fuel boom in his report to the UN General Assembly on 25 October 2007:

> Rushing to turn food crops – maize, wheat, sugar, palm oil – into fuel for cars, without first examining the impact on global hunger is a recipe for disaster. It is estimated that to fill one car tank with biofuel (about 50 litres) would require about 200 kg of maize – enough to feed one person for one year.

Arguing that “it is a crime against humanity to convert food crops to fuel”, Ziegler called for a five year moratorium on bio-fuels to assess their social, economical and environmental impact.\(^\text{15}\)

### 3. Transnational Corporate Strategies

How have transnational food and beverage companies responded to higher commodity prices and the bio-fuel boom? There are for main corporate strategies:

i) passing on higher costs to consumers  
ii) mergers, acquisitions & strategic alliances to secure supplies  
iii) absorbing higher costs & cost-cutting  
iv) using cheaper substitute ingredients

#### i) Let the consumers pay

The short-term response of most companies has been to raise end-product prices with the expectation that consumer loyalty to strong brand names will ensure that sales won’t suffer. This was Nestlé’s strategy when raising prices of Kit-Kat and

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Trade Policy (IATP), *United States Dumping on World Agricultural Markets*. Cancun Paper Series No.1, 203, pp.3; 9
Nescafe branded products. Similarly Danone raised the price of its strongest yoghurt brands twice in 2007.\textsuperscript{16}

However, there are limits to raising supermarket shelf prices, even if brand loyalty is certain. One reason is that retail concentration over the past decade has significantly increased the power of major supermarket chains vis-à-vis food and beverage companies. So raising prices is only viable if companies can still secure shelf space for their branded products. This applies not only to developed countries, but also developing countries such as Thailand (Tesco-Lotus) and Indonesia (Carrefour).

The impact of this retail concentration is far-reaching. As the Composite Resolution on concentration, competition and own brands in the retail sector adopted by the 25\textsuperscript{th} IUF Congress noted:

\begin{quote}
... cut-throat price competition in the retail sector and below-cost selling, together with the increased use of practices such as strict return policies and the levying of sales promotion and distribution centre fees, stymies fair retail transactions, forces the food and other industries to reduce prices and, through the pressure exerted on suppliers, jeopardizes food safety and quality as well as the health, job security, training and terms and conditions of workers generally as well as those employed by suppliers.
\end{quote}

The power of retailers means that food and beverage companies must find and secure cheaper of raw materials and/or manage these costs internally.

\textbf{ii) Securing Supplies}

Major transnational food and beverage companies are implementing global supply chain management strategies that involve strategic alliances with suppliers, exclusive long-term supply contracts, as well as takeovers and acquisitions along the supply chain.

For example, Indonesia’s largest food company and the world’s largest manufacturer of instant noodles, Indofood, bought the 100-year old plantation company London Sumatra (Lonsum) for US$922 million. This secured access to palm oil supplies, as well as cocoa, tea and coffee.\textsuperscript{17}

Through its €1.7 billion acquisition of National Foods, Kirin, Japan’s second largest brewery, will secure access to Australian dairy products including processed milk, cheese and butter.\textsuperscript{18} This will in turn strengthen the strategic partnership that Kirin formed with Yakult in June 2005.

In addition to supply chain acquisitions, food companies are signing long-term supply agreements and forming strategic partnerships. The Japanese confectionary

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\textsuperscript{16} “Two yoghurt makers hike prices, others to follow”, Reuters, 11 October 2007.
\textsuperscript{17} “Indofood gets shareholder nod for Lonsum deal”, just-food.com, 23 October 2007.
\textsuperscript{18} “Kirin targets dairy for global expansion”, Dairy Reporter, 8 November 2007.
manufacturer Morinaga signed a long-term supply agreement with Barry Callebaut, the world's largest chocolate maker\textsuperscript{19}, for 9,000 metric tonnes of chocolate a year for the next 10 years.\textsuperscript{20}

Earlier this year Nestlé formed a strategic partnership with Barry Callebaut to secure a long-term supply of chocolate mass for Nestlé's Russian operations. As part of this deal Nestlé transferred its chocolate factory in Dijon, France, to Barry Callebaut, effectively outsourcing production. Barry Callebaut also took control of Nestlé's Italian cocoa liquor and liquid chocolate facility in Italy.\textsuperscript{21} Such deals illustrate how corporate strategies to secure supplies of raw materials have a direct impact on workplace restructuring, including ownership change and outsourcing.

Supply chain strategies such as these aren't new. In 1998 Coca-Cola India created an International Trade Group (ITG) based in Bangalore to purchase commodities from India. The direct purchase 18,000 tonnes of green coffee annually now accounts for 90% of all transactions, making Coca-Cola Far East (the entity that operates the trading company) one the largest buyers of Indian coffee.

Similar strategies are evident in milk. For the past 18 years Nestlé has developed an extensive network of direct purchasing from farmers, and now has contracts with 140,000 farmers in Punjab alone. In March 2007 Nestlé opened its largest milk processing facility in the world with a capacity of two million litres a day. This is expected to be increased to three million litres per day in the future.

But in India Nestlé now faces an intense battle with other transnational and local food companies trying to secure milk supplies.\textsuperscript{22} The three companies that dominate the chocolate market – Cadbury, Nestlé and Amul – are faced with a 20% rise in production costs that must either be absorbed or passed on to consumers. Cadbury, which has a 72% market share, is in a better position to absorb higher milk prices, while the other companies are likely to raise consumer prices.\textsuperscript{23} Meanwhile Danone is trying to secure a majority stake in a massive new dairy project in Rajasthan, India, which will have a capacity of three million litres per day.\textsuperscript{24}

The reason for this intense competition is that local milk suppliers can get much higher prices for their produce on global markets. In India SMP sells locally for Rs.105/kg compared to a global price of Rs.200/kg. In response to this price difference two dozen dairies in Punjab, Haryana, UP and Rajasthan have shifted to

\textsuperscript{19}“Meet the world’s biggest chocolate maker”, The Financial Times, 18 July 2007.
\textsuperscript{20}“Barry Callebaut and Morinaga to form strategic alliance”, Food Business Review, 26 September 2007.
\textsuperscript{24}“Danone seeks majority stake in Kenventer dairy project”, Economic Times, 29 November 2007.
exporting SMP. This caused a shortage of liquid milk and higher milk prices locally. In response the government banned SMP exports in February 2007, but lifted the ban only seven months later. As global prices for SMP continue to skyrocket, so too do Indian exports.

The battle over milk supplies in India illustrates the way in which major food companies are up against powerful suppliers. This is no different at the global level. As the New Zealand Dairy Workers Union (DWU) briefing on global milk prices shows, Fonterra has become a “price fixer”:

Fonterra is succeeding in its strategy of moving from being a price taker to being a price fixer. It now influences over 50% of global trade in dairy through its own exports, its joint ventures (e.g. DPA with Nestlé and the partnership with Dairy Farmers of America) and its marketing arrangements with companies like Sancor (Argentina).

Suppliers of other agricultural commodities have also become price-fixers in global markets and in doing so have tremendous bargaining power vis-à-vis food and beverage manufacturers. Today more than half of all cocoa grindings worldwide are conducted by just five corporations: Archer-Daniels-Midland (ADM), Barry Callebaut, Cargill, Hamester and Blommer. Cargill and ADM control 65% of the global cereals market and together with Bunge dominate oilseed crushing. Bunge is the world’s largest oilseed processor.

In response some food and beverage manufacturers are trying to reduce their dependence on agricultural commodities by diversifying their product lines. Nestlé, for example, is diversifying into nutritional foods through US$8 billion in acquisitions and is “seeking brands less threatened by surging commodity costs.” Now chocolate and candy make up only 10% of Nestlé’s revenue, less than pet food. Similarly, as Kirin expands its acquisitions in the global dairy industry, it is also developing its range of non-milk dairy products in alliance with Yakult.

However such moves will have a limited effect, since most companies must still focus on their core brands, and these brands generally depend on agricultural inputs, particularly products derived from oil crops and oilseeds.

As a result food and beverage companies remain caught between the powerful retailers who are resisting product price increases and suppliers who are able to determine prices and effectively restrict access to raw materials.

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29 “Hershey gets hurt by milk costs; Nestlé raises prices”, Bloomberg, 18 October 2007.
iii) Absorbing higher costs & cost-cutting

Squeezed between retailers and suppliers, most major food and beverage companies are being forced to “absorb” higher commodity prices at different stages in the production and marketing process. Precisely how these costs are absorbed is unclear. In most cases “absorbing costs” actually means cost-cutting.

Most transnational companies attempt to minimize the impact on global profit levels by using internal price transfers and internal treasury funds. This means that losses caused by higher commodity prices can be transferred between subsidiaries, reducing profits at some operations and thus “absorbing” these costs. Through intra-company trade higher commodity prices can also be passed down to specific production sites which are then forced to absorb these costs. This in turn leads to cost-cutting that directly affects workers, even in worksites which did not use these raw materials in the production process.

Under centralized supply chain management directed from corporate headquarters, the tendency is to extract profits from raw material purchases by imposing higher costs on subsidiaries and local joint venture partners. In the same way lower sugar prices are not passed on to beverage manufacturers, but are exploited by the transnational company’s own supply chain management or its internal trading company.

The same logic applies to royalty payments transferred from national subsidiaries to headquarters. Intra-company royalty transfers in Nestlé and Unilever have undercut profits in their wholly-owned subsidiaries as well as joint venture partners and third-party contractors. So while there is talk of higher raw material costs, few concessions have been made by corporate headquarters in the form of reduced royalty payments on brand names, including locally developed brand names.

The real impact becomes clear in workplace restructuring and closures. Hershey, for example, attributed falling profit levels to higher milk and cocoa prices and responded by slashing 1,500 jobs in North America and moving production to Mexico.30

In other companies like Cadbury, Unilever, Kraft and Nestlé ruthless restructuring programs have been explained in terms of inflationary price pressures and the need to cut costs. Yet the kind of continuous restructuring we see today, involving increased outsourcing and casualization and a decline in permanent employment (and with it union membership), started more than a decade ago. It started well before the surge in commodity prices and so must be seen as part of the broader, long-term strategy of ‘flexibilization’ than as part of the corporate response to milk and palm oil prices.

Therefore while employers attempt to justify cost-cutting through outsourcing and casualization as a necessary evil brought on by extraordinarily high commodity

prices, trade unions tend to view these changes as a broader attack on trade union rights.

According to the *Resolution on defending employment standards and trade union rights in the face of outsourcing & casualization* adopted by the 25th IUF Congress, precarious employment arrangements are used to undermine union strength in the workplace and deprive a growing number of workers of the benefits won by trade unions, including decent wages and safe working conditions. As such “precarious employment practices are a trade union rights issue, having a direct and far-reaching impact on union membership levels and the collective bargaining power of trade unions.”

**iv) Using cheaper substitute ingredients**

A fourth corporate response to higher commodity prices is to seek out cheaper substitutes. Indeed, the report by ING financial analysts cited earlier specifically recommends that food and beverage companies deal with higher grain prices by substituting expensive input materials with cheaper ones. Nestlé has already announced it will “use cheaper packaging and ingredients to compensate for the cost of milk.”

The shift to cheaper ingredients refers not only to relatively cheaper natural ingredients (for example moving from palm oil to sunflower oil in margarine) but also the use of synthetic substitutes. This is the reason why several major food companies have formed strategic partnerships with chemical and biotechnology companies in the last two to three years. This rush for synthetic substitutes should be viewed critically, since there is a significant risk that these new ingredients may have a detrimental effect on the health of consumers and workers.

This is illustrated by the use of artificially synthesized diacetyl to produce an artificial butter flavour. It is used in a wide variety of food flavourings employed in the manufacture of frozen and snack foods (including microwave popcorn and potato/corn chips), confectionery, baked goods, dairy products including processed cheese, sour cream and cottage cheese, commercial baking mixes, icings, salad dressings, sauces, marinades and other processed foods and beverages.

Diacetyl is linked to the crippling lung disease *bronchiolitis obliterans*, now widely known in the US as 'popcorn workers lung.' The disease can quickly destroy the bronchioles, the lung’s smallest airways, resulting in significant restriction of respiratory capacity. It is debilitating, progressive, untreatable and potentially fatal. The only remedy is a lung transplant. Food workers risk exposure to diacetyl as vapours, droplets or dust in the manufacturing process.33

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31 “Grain prices could rise by another 40 per cent says ING”, Food Production Daily, 27 November 2007.


33 For more information see the IUF circular and fact sheet on diacetyl: [www.iuf.org](http://www.iuf.org)
The rising cost of animal feed caused by the bio-fuel boom has led to a search for cheaper alternatives in the meat and dairy industries. Just last month the French meat industry association, SNIV, called for permission to use “animal fat and slaughter waste in animal feed to counteract the crisis ensuing from soaring feed prices.”\textsuperscript{34} This call to allow slaughterhouse waste to be fed to herbivores raises serious concerns about the resurgence of BSE or any similar Transmissible Spongiform Encephalopathies (TSEs). In fact the European Food Safety Authority has just reported that using pig meat and bone meal in chicken feed and chicken meat and bone meal in pig feed poses no risks to animal or human health, opening the way to a cheaper source of animal feed and setting in place a biological time bomb that again puts public health at risk, as well as farm and food industry jobs.\textsuperscript{35}

In this regard we should recall that the \textit{Resolution on sustainable food production} adopted by the 25\textsuperscript{th} IUF Congress warns of “the real risk of a loss of consumer confidence in food producers and the catastrophic consequences this would have for the food industry and everyone employed in it” while the \textit{Resolution on food safety} notes “the threat to food safety not only undermines consumers' trust in food safety, but also exerts great influence on workers’ health, employment and working conditions in the food-related industry”.

\section*{4. The Crisis in Context}

There is no doubt that agricultural commodity prices are on the rise and that this driving up production costs. Employers are already talking of necessary and inevitable cost-cutting measures. But trade unions still need to ask: How serious is this crisis?

It is important to look at the price dynamics of specific commodities. For example in the confectionary industry higher milk and cocoa prices are partly offset by falling sugar prices. And while coffee prices are indeed rising, they are still recovering from a global price collapse in the late 1990s.

A far more important question is why major food and beverage corporations are paying record dividends to shareholders and buying back their own shares (to boost share prices) at a time when raw material costs are so high.

In July 2007 Nestlé announced that higher raw material costs and inflationary pressures – forces beyond the company’s control – necessitated another round of plant closures and job cuts.\textsuperscript{36} Over the past five years the number of factories worldwide has fallen from 500 to 481, but the most aggressive attack on employment involved a dramatic increase in outsourcing across the company’s global production system, eliminating tens of thousands of permanent, unionized jobs. Yet the inflationary pressures used to justify these new closures and job cuts did not prevent

\textsuperscript{34} “France: Use slaughter waste in animal feed”, \url{www.allaboutfeed.net}, 21 November 2007.
\textsuperscript{36} “Nestlé to cut plants, products as prices soar”, \textit{Reuters}, 12 July 2007.
the company reporting an 18.4% increase in net profit and 8.4% sales growth on 15 August 2007. On the same day Nestlé CEO Peter Brabeck announced the release of US$21 billion to shareholders through a three-year share buyback scheme.37

In August 2006, the Unilever vice-president, Alan Jope, warned that current bio-diesel plans in the EU would require 50-80% of total rapeseed production, thereby driving up the cost of food products like margarine.38 Again we must ask whether the €1.5 billion in cost savings involving the elimination of more than 20,000 jobs or 11 per cent of the company’s global workforce in 2007/8 is the result of rising palm oil prices or Unilever plans to release €30 billion in “surplus cash” to shareholders and raise shareholders’ rate of return on capital to 17% by 2010.39

5. Trade Union Responses

Food and beverage unions are faced with the urgent task of supply chain organizing, consolidating our bargaining power along the supply chain nationally and internationally, while responding to the new pressures imposed by employers in an industry grappling with rising costs. With prices set to rise for the next decade, this is a longer-term challenge that must respond not only to changes within the industry, but also tackle the critical issue of the right to food in an era of hyper-inflationary food prices.

Clearly it’s important that unions have access to comprehensive data on the actual costs of raw materials and the impact on production costs. But having access isn’t enough – unions must be in a position to compare this information to independent data and assess its validity. Only then will unions be able to dis-entangle the actual production costs in the workplace and the financial situation of the company from talk of brutally high milk and palm oil prices and the need to cut costs.

This is one of the reasons why supply chain organizing is an urgent and essential task for food and beverage unions. By linking up with unions along the supply chain we are able to share information and data on costs, as well increasing national and transnational bargaining power.

Through the IUF food and beverage unions have the opportunity to be pro-active in establishing links with agricultural workers’ unions and sharing information that would further strengthen their position in bargaining. These linkages across the supply chain - through to plantations and farms – would enhance the ability of unions to challenge the information/data used by employers and to negotiate alternative strategies to deal with rising commodity prices. In addition, unions would be in a better position to intervene politically, making proposals to governments on food price regulation and progressive reform of the food and beverage industry.

38 “Food prices would soar in biofuels switch, says Unilever”, The Times (UK), 7 August 2006.