FACT SHEET

THE GRAIN AND OILSEED SECTOR

INDUSTRY OVERVIEW

Grain and oilseed crops are a mainstay of American agriculture. The primary U.S. grain crops consist of corn, wheat, rice, sorghum, and barley. Grain crops are split between "food grains," which are primarily grown for use in human food, and "coarse grains," which are primarily grown for livestock consumption but can also be processed into a variety of food, fuel, and industrial products. Corn is the primary coarse grain, accounting for nearly 95% of annual U.S. feed grain production; wheat is the principal food grain produced in the U.S.; and soybeans are the country's predominant oilseed crop, accounting for roughly 90% of annual U.S. oilseed production. Overall, corn and soybeans are the dominant grain and oilseed crops in the U.S., followed by wheat at a very distant third.

Distribution and Marketing Channels

After harvest, farmers can sell their grain and oilseed crops to one of three categories of buyers:

1. **End users** purchase the crops from farmers and process them into various usable products. This category includes wet corn mills, soybean crushing plants, flour mills, ethanol plants, and animal feed mills.
2. **Independent elevators** are technically intermediaries, but they operate only so-called "country" elevators, which lack cost-competitive access to navigable rivers and railway networks and, therefore, cannot market their inventories to buyers far beyond their local regions.
3. **Merchandisers** act as intermediaries between farmers and end users, typically with much broader market access than independent elevators. They operate country, rail, river, or port elevators — or any mix — which enables them to purchase, store, market, and ship grain and oilseed crops to buyers in domestic or international markets.

Once harvested, grain and oilseed crops require specialized aggregation and transportation equipment. Access to this infrastructure dictates where and how crops can be marketed, giving large, vertically integrated merchandisers a significant advantage.

- **Country elevators**, which may be independent or affiliated with a merchandiser, serve as grain collection and buying points in rural communities, offering a variety of transportation, storage, and payment terms to their suppliers. Country elevators sell their grains or oilseeds to nearby end users or nearby train or river elevators.
- **River elevators** can receive crops by rail or truck and load them onto barges for freight to down-river destinations. They typically purchase crops from farmers and country elevators within their draw areas and sell most of their inventories to downstream port elevators, with small amounts marketing to domestic end users located along navigable rivers as well.
- **Train elevators** are divided into "subterminal" and "terminal" categories. Terminal elevators receive most of their grain from other elevators and load it out either for on-site consumption (e.g., if the elevator is at a mill) or for short-haul delivery to end users nearby. Subterminal elevators are designed to aggregate large quantities of grains from nearby farmers and elevators and efficiently load them onto unit trains for shuttle delivery to distant elevators in domestic consumption centers and port regions. As such, subterminal elevators can market their inventories over much wider geographic regions than country elevators.
- **Port elevators** have specialized equipment to transfer grains and oilseeds onto ocean vessels for shipment to foreign ports. Port elevators typically procure grain and oilseed inventories from river and rail elevators and market them to international buyers. Generally, port elevators are owned by large merchandisers and large processors of grains and soybeans, which operate them exclusively to originate, store, and transload their own crops.

HISTORICAL CONTEXT

After World War II, the global grain trade was primarily the domain of four firms: Cargill, Continental Grain, Bunge, and Louis Dreyfus. Cook Industries joined the five majors in the 1960s, and together, this old "Big Five" group made up about 85% of U.S. grain export sales for the next decade. Each operated a fairly integrated logistical chain hauling grains from farming communities in the interior to port terminals on the coasts to foreign markets worldwide.

Before the 1970s, the power of this grain-exporting oligopoly was held in relative check by three critical policies:

1. The New Deal's supply management programs, combined with restrictions on grain imports and international controls on grain price fluctuations, stabilized grain prices both at home and around the world.
2. Antitrust laws were enforced to preserve competitive opportunities for new and small traders (like Cook Industries) to enter the grain trade and compete for supplies and sales on a level playing field.
3. The utility regulation of railroads ensured equal access to rail freight for all shippers.

In this context, although the Big Five held a privileged position in the grain export trade during the post-war decades, their dominance did not extend far beyond that trade — leaving the domestic merchandising and processing industries dynamic and competitive from the 1940s well into the 1970s.

In the 1970s, however, this began to change. The weakening of the New Deal supply management programs, coupled with the liberalization of trade restrictions on agricultural commodities, dramatically increased the volatility of grain and oilseed markets throughout the 1970s. This created new opportunities for dominant grain and trading firms to use their size to manipulate the marketplace and maximize profit at the expense of the farmer and consumer.

This was further exacerbated in the 1980s following the passage of the Staggers Rail Act and the 1982 New Merger Guidelines. By deregulating railroads, the Staggers Rail Act further enhanced the ability of large grain and oilseed trading incumbents to leverage their size for unfair advantage by allowing the largest merchandisers and processors to extract sweetheart freight contracts from railroad companies. The passage of the 1982 New Merger Guidelines, which signaled the federal government's intention to stop antitrust enforcement, was immediately followed by a wave of horizontal and vertical consolidation that completely transformed the grain and oilseed sector by the end of the 20th century.

U.S. Grain and Oilseed Merchandiser Concentration

Dominant Merchandisers: Archer Daniels Midland (ADM), Bunge, Cargill, and Louis Dreyfus, also known as the "ABCDs."

- ABCDs control of global food trade: **70%**
- ABCDs control of the U.S. port elevators: **60%**
- ABCDs control of U.S. river elevators: **45%**
- ABCDs + CHS, Viterra, and CBG control of U.S. river elevators: **85%**
- ABCDs control of subterminal rail elevators: **22%**
- ABCDs + CHS, Viterra, and CBG control of U.S. grain storage capacity: **41%**

U.S. End User Industries Concentration

- Wet Corn Milling:
  CR4 **89%**
- Soybean Crushing Capacity
  CR4: **80%**
- Wheat Milling Capacity
  CR4: **63%**
- Ethanol Manufacturing Capacity
  CR4: **45%**
- Animal Feed Capacity
  CR5: **30%**

DIGGING DEEPER: THE ABCDS

The ABCDs have become colossal system integrators, involved in all phases of production and trade in basic agricultural commodities – from origination to processing, marketing, financial instruments, risk management, and distribution to consumers. Either directly or indirectly, each of the ABCDs now operates a vast global network of crop elevators and port facilities; fleets of railcars, barges, and ocean vessels; as well as mills and plants around the world. The ABCDs have also more recently capitalized on the deregulation of financial markets to build highly lucrative businesses in farm credit and insurance, speculative agricultural derivatives trading, and third-party investment management.

The ABCDs Dominate Grain and Oilseed Merchandising and Exporting

In addition to handling the overwhelming majority of America's foreign trade in grains and oilseeds, the ABCDs now also own or control a predominant share of the key distribution channels for these crops – including sub-terminal, river, and port elevators – and substantial portions of the domestic grain milling, oilseed crushing, feed manufacturing, and biofuel-refining industries. Outside of the ABCDs, there are very few merchandisers to which farmers (and independent country elevator operators) could potentially sell their grains and oilseeds. Research indicates that besides the ABCDs, there are only 64 merchandisers in the country; of those, only a small portion own or control sub-terminal or river elevators.

The ABCDs Dominate the Grain and Oilseed Processing Industries

Beyond merchandising, the ABCDs also dominate most of the major domestic end user industries that are supposed to provide grain and oilseed farmers with an alternative outlet for their crops. ADM, Cargill, and Bunge now control a substantial majority of the country's corn milling, oilseed crushing, and wheat milling capacity.

The ABCDs Exercise Substantial Influence Over Their Putative Rivals

While concerning as is, these concentration figures understate the ABCDs' power to dictate outcomes in U.S. grain and oilseed markets. These figures do not fully capture the leverage and influence the ABCDs have over their putative rivals in grain origination and merchandising. They also do not account for the history of collusion among ACBDs and between ABCDs and other large players in grain processing and merchandising.

The ABCDs Have the Power to Manipulate Grain and Oilseed Markets

In this context of depressed competition and growing inequality among grain merchandisers, evidence suggests that the ABCDs have the power to set prices and shape activity in grain and grain futures markets, both in the U.S. and around the world. In the 1990s and early 2000s, the deregulation of commodity exchanges and derivative markets opened the door for the ABCDs to use financial instruments and engineering to manage market volatility. Each of the four has exploited its central position in agricultural chains to speculate on its own account and offer investment products to third parties. These financial operations have become increasingly significant in the profit structure of the ABCDs. Evidence suggests that the ABCDs routinely engage in a version of insider trading, leveraging abnormal intragroup transfers and nonpublic intelligence from their commercial operations to exploit – and possibly create or exacerbate – market volatilities. The concern that these activities reflect the exercise of market power or abuse by the ABCDs is sharpened by the fact that the ABCDs make profits on their financial operations that far exceed those made by other firms in the same industries.

WHAT THIS MEANS FOR FARMERS AND THEIR COMMUNITIES

The rise of the ABCDs — combined with the shift from New Deal agriculture policy to the "Get Big or Get Out" agriculture policy that the ABCDs lobbied for in the 1990s — created a market environment in which large, industrial-scale grain and oilseed agribusinesses are entrenched by government largesse. At the same time, family-scale farms are driven to extinction. Since the 1996 Farm Bill, federal farm subsidies have been geared toward stimulating the overproduction of a handful of key commodities, particularly corn, soybeans, and other grains and oilseeds. Simultaneously, competition for these commodities has dwindled as dominant merchandisers and processors have taken advantage of antitrust atrophy to acquire major rivals, customers, and suppliers. Because of these two dynamics, the prices for grain and oilseed crops have fallen to unsustainable levels over the past two decades — in real, inflation-adjusted dollars, they are at their lowest levels since the turn of the 20th century. Along the way, government subsidy programs have been used to prop up agribusiness incumbents, but beginner, small, and midsize grain farms have been hung out to dry. As these policies have driven more farmland out of nutritious food crops and into coarse grain and oilseed production, our food supply has also grown less diversified, less nutritious, and less resilient to disaster and disruption.