Title

Foreign Investment Adaptations to the Changing Political and Economic Environments of the Agro-Food Sector: a Case Study of Cargill Russia

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Abstract

This paper focuses on the newly developing area for Russia of food processing and trade activities downstream of the farm which, according to Jeremy Hobbs, Executive Director of Oxfam International, is a "powerful, unique and poorly understood sector" (Murphy *et al*., 2012: 3); it is a sector which needs to be made 'visible' "if food is to be susceptible to democratic regulation" (Friedman, 1995: 29). The paper looks to identify the well-known criticisms made in the literature of agro-food corporations, specifically foreign multinational corporations (MNCs), examining their relevance in the case of Cargill Russia, one of the global four 'ABCD' traders. Further, attempts are made to ascertain the country-specific nature of Cargill's operations, and how the company responds to these general criticisms.

The 2010s have seen a shift in the Russian Government's policies, and an attempt to move towards national self-sufficiency – as indicated by the 2010 Food Security Doctrine – and this has combined with the new import substitution drive accelerated as a result of the geopolitical crisis surrounding Russia's annexation of Crimea; although this seems restrictive for international business, companies well placed and rehearsed in the practice of domestic sourcing and supply stand to benefit. The findings indicate that Cargill has modified its operations according to the unique and peculiar political and economic environment of Russia, and that its actions are mediated by country and cultural processes, resulting in variance in the way that the company's business is conducted compared to elsewhere in the world; in some cases, this contrasts with the findings of more macro, global academic studies of corporate behaviour. Further, this research finds that the Russian context has led Cargill to adopt 'soft power' strategies of conducting business with farmers, develop local supply chains, and embrace an attitude of non-preference towards export or domestic supply, contradicting the global corporate ethos of the corporation.

This paper posits a 'third school' of competing discourse pervasive amongst employees of Cargill surrounding the cause of global food price volatility: that non-agricultural actors on the financial markets, as well as supply and demand dynamics, are responsible. This displays a form of exclusivism as 'Cargill the *agricultural* financial player' – a 'qualified' company that is 'other' to non-agricultural speculators, and one that is, therefore, supposed to be involved in financial markets – abstracting the company from any questionable role in the aforementioned volatility. Juxtaposing this competing discourse against the research of Salerno (2016: 6) – in which some of Cargill's financial subsidiaries are found to act with, and trade on behalf of, non-agricultural investors – seems to support Clapp's (2014: 10) notion that 'distancing' – even distance within a company – has made it difficult to observe the connections between financial actors and the food system, and has contributed to the creation of such competing discourses.

Key Words

Geography; Economics; Russia; Financialisation; Food Price Volatility

Introduction

A food system, or chain, encompasses how food evolves from "food to fork", from entities such as farmers, agricultural companies, consumers, and the food itself, to policies and associated regulatory frameworks (Ericksen *et al.*, 2010: 26). On a global scale, these systems are vast and complicated, and involve many actors. Agriculture at the farming level is "no longer the primary income generating (or labour employing) activity in food supply chains globally"; this instead falls under the provision of processing, packaging, distributing, and retailing (*Ibid.*: 26). 'Downstream' of the farming level lie agro-food corporations that market, process and distribute the food and products that are produced by the farm; some of these downstream corporations also involve themselves 'upstream' of the farming level by supplying 'input technologies' such as tools, fertilisers and seeds (Bernstein, 2013: 22). The form does not necessarily end there, with "vertically integrated agribusiness…[able to control] each level of production, from farming to processing to marketing" (Ioffe *et al.*, 2006: 31).

Attention from the academic world concerning 'food security' is helpful in framing Russia within the future of these global food chains; food security, defined by the Food and Agriculture Organization of the United Nations (FAO) in 1996, concerns "when all people, at all times, have physical and economic access to sufficient, safe, and nutritious food to meet their dietary needs and food preferences for an active and healthy life" (quoted in Liverman and Kapadia (2010: 3)). When the 2007-2008 global food crisis hit, a vast array of actions were taken by national governments in attempts to increase their own food security. Food importing countries were adversely affected as domestic food prices rose, and food became scarce; by 2008, nearly 40 countries had experienced riots as populations voiced their discontent (Branford, 2009: 79). As food importing countries moved to increase their imports (*Ibid.*: 79), many of the exporting countries reduced their exports to control the inflation in domestic food prices (Brown, 2011: 26) and reduce the risk of shortages (Branford, 2009: 79). The main actors in this, amongst other smaller grain exporters, were Russia and Argentina, significant wheat exporters, and Vietnam, the second largest rice exporter (Brown, 2011: 26).

The result was that importing countries were forced, or felt that they were forced, to make quick decisions about the future of their own food security. Many negotiated long-term supply agreements with exporting countries, and more affluent import-orientated countries focused their attentions towards direct foreign investment in agriculture abroad (*Ibid.*: 26-27), something that has been highlighted as one of the factors in a recent trend of increasing 'land grabs' (Brown, 2011: 27; Daniel and Mittal, 2009: 19). Misselhorn *et al.*'s (2010: 89) recognition of food insecurity as a "sustained outcome of a food system experiencing persistent structural failures" summarises the disjointedness of the global response.

Debate is still ongoing surrounding whom or what is best placed to ensure food security for the future, with some advocating "that markets are the most efficient means of achieving food security and adequate distribution of food globally", whilst others favour protectionism and regulation of the market (Eakin *et al.*, 2010: 256). In practice, in an age of industrialised multi-, inter-, and trans-national agriculture, 'market self-regulation' translates into greater influence from the dominant multinational agro-food corporations (MNCs) (Friedmann, 1995: 22; McMichael, 1995: xiv) – now with newfound involvement from financial players such as "pension funds, equity funds and sovereign wealth funds" (Luyt, 2013: iv) – and protectionism translates into the involvement of both

national and international governance institutions, consumers, and social and environmental non-governmental organisations (NGOs) (Friedmann, 1995: 31).

The dilemma, as Friedman (1995: 15) explains, is that "since the rise of industrial capitalism, history can be seen as a pendulum moving between self-regulation by markets and self-protection by society…Food becomes important as the pendulum approaches either pole: self-regulation by the market wreaks havoc on land and labor and, therefore, on the long-term bases of the economy; however, self-protection against the market limits the manoeuvre and, therefore, the short-term profitability of capital". Friedman (1995: 30-31) opinions that it is "important neither to defend present regulation, which is ineffective, nor passively to support the corporate agenda simply to deregulate". MNCs have received a great deal of criticism concerning their operations and the impact that they have, but those organisations in a position to regulate the market, for example the EU (Bernstein, 2013: 3), have not been exempt from reproach either.

This paper is organised as follows: first, the argument is located in a brief discussion of the agrarian transformation of Russia in the past quarter century, and in the role and development of agro-food corporations and MNCs as agents of food security; then, the conventional critique of agro-food corporations is rehearsed, and the case study of Cargill is introduced as one of the global 'ABCD' traders; finally, the research methodology is described, and the findings presented.

The Re-emergence of Russian Agriculture

Russia, in the late 19th and early 20th centuries, was a major grain exporter – the greatest agricultural export force on the European markets (Broadberry *et al.*, 2010: 68) – and was popularly recognised as an historic "breadbasket" (Institutional Investor, 2009; Reuters, 2008). At the end of the First World War, suffering from "post-revolutionary turmoil…and the establishment of a state monopoly in foreign trade" (Ritschl and Straumann, 2010: 174), Russian agriculture was afflicted, and soon after, the newly formed Soviet Union decided to exit the European markets altogether (Buyst and Franaszek, 2010: 215). Exports continued and from 1945 were dominated by trade with the expanding number of communist countries in Eastern Europe, the Far East and the Americas (Medvedev, 1987: 213; Volin, 1970: 343).

In 1957, Khrushchev announced that he wished the Soviet Union to close the gap with the US on the production of milk and meat, instigating an "agricultural race" despite the fact that the livestock sector had not recovered from the losses of the collectivisation drive (Volin, 1970: 343). Khrushchev's agricultural policies – from his maize campaign, and Virgin Lands campaign, to his support of the pseudo-scientist T. D. Lysenko – notoriously had adverse effects on agriculture. In 1963, crop failure resulting in food shortages necessitated the introduction of rationing and emergency imports (Medvedev, 1987: 195; Volin, 1970: 343). Foreign food imports were embarrassing for the Soviet government, especially in light of the 'agricultural race' and the continuing Cold War, and although imports were supposed to be an isolated one-off event (Medvedev, 1987: 195), over the next twenty years, and with 1964-1982 "years of stagnation" under Brezhnev (Vietor, 2007: 174), the Soviet government "quietly…[dropped] the idea of self-sufficiency in grain production and…resign[ed] itself to the necessity of importing vast amounts of food and feed grain annually" (Medvedev, 1987: 237). The economic effect of supporting wasteful and

inefficient agricultural methods and management, meant that total investment in the sector by the Soviet government rose to 35 percent but without corresponding output increases (*Ibid.*: 418). Rising capital to output ratios in agriculture were a contributory factor in the collapse of the USSR in 1991.

The early 1990s marked the slow and imperfect transition of Russia to a market economy (Ioffe *et al.*, 2006: 8), and after a very troubled period, Russian agriculture has now stabilised and is a focus of attention, with the FAO highlighting it as one of four nations that could have a key influence in meeting global food demands (Visser and Spoor, 2011: 300). This stabilisation, however, is not to be confused with a complete recovery, as despite "the image of Russia's emergence as the global breadbasket…[being] based on the idea of growing wheat production,…the increase in production has been rather moderate" (Visser *et al.*, 2014: 1593). As well, the briefest of glances at the FAO statistics during the period of this research, shows Russia to still be a substantial net importer of meat and livestock products (faostat.fao.org).

The enhanced role of the Russian Federation in global agricultural markets, has taken place against the backdrop of far-reaching agrarian and land reforms that have been introduced since the collapse of communism over two decades ago. Although continuities in farm structure have been striking, with the fundamental dualistic structure of very large and very small farms carrying over from the Soviet period, the penetration of market relations into rural Russia, and the freeing up of the land market, have, nevertheless, meant that agriculture is a site of dynamic change. Visser (2008), Wegren (2009), and O'Brien and Wegren (2002), have all discussed the reasoning behind, and outcome of, successive reforms. In the years immediately following the collapse of the Soviet Union, the intention of policy makers was to replace Soviet-era *kolkhozi* and *sovkhozi* with smaller scale units that resembled owner-occupied Western family farms.

If the first phase of reform failed to achieve the destruction of the farm structure inherited from the Soviet era, the second phase – corresponding roughly to the period since the turn of the century – has far greater potential to dismantle the Soviet agricultural inheritance. In this case, the motor for change is the final removal of obstacles to the buying and selling of agricultural land, and changes in bankruptcy laws which have elevated the role of the market in restructuring agriculture. In the last decade, external capital has been able to take over large swathes of Russia's most productive farm land. The new investors, which include some of Russia's large corporations, and a smaller number of foreigners, are primarily motivated by profit and are less constrained by social obligation to rural communities than the previous farm managements. Twenty five years on from the USSR's collapse, the full integration of agriculture into the domestic and global market economy is, finally, on the agenda.

The Western press has reported the Russian government's desire to make the Russian Federation the world's leading grain exporter as it was before the 1917 revolution (Associated Press, 2008; Financial Times, 2010; Reuters, 2009a), with the country aiming in 2009 to double its grain exports level over a 15 to 20 year timescale (Reuters, 2009b, 2009c) to 50 million tonnes (Agence France-Presse, 2009; Bloomberg, 2009). Other grain exporting nations have confirmed Russia's potential dominance – the US Department of Agriculture (USDA), for example, initially estimated that Russia would achieve this by 2019 (Bloomberg Businessweek, 2010) – and with the increase in global temperature, cropping zones are predicted to shift from traditional growing regions towards current cooler zones (Misselhorn *et al.*, 2010: 97), resulting in "increases in agricultural production at higher

latitudes…in countries such as Russia and Canada" (Liverman and Kapadia, 2010: 18). Murphy *et al.* (2012: 5) believe that "the re-emergence of Russia and some of the former Soviet republics as agricultural powerhouses…[is] reshaping the global economy".

Despite the political desire of the 2000s, Russia has since experienced some disappointing years in agricultural expansion. Grain growing area in in Russia fell "during 2001-2005 and since then has remained generally flat", with various analysts becoming "skeptical [*sic*] about Russia's potential to increase cropland substantially" (Liefert and Liefert, 2015: 506-507). The USDA has highlighted "risky marginal areas with high production and reclamation costs" that may question the economic rationale for bringing them into production (*Ibid.*: 507), with Russia's future potential hinging on "whether world grain prices…[will rise to] be sufficiently high to cover the costs of producing on the new land" (*Ibid.*: 510). Visser *et al.* (2014: 1590) are unconvinced that Russia's propulsion to the world's third largest wheat exporter in 2009 is an indication of a "rapid, and ongoing, recovery and promising potential of wheat production in Russia", as the country still suffers from "regularly occurring bad harvests because of droughts" and a persistent yield gap in production. Further, the authors (*Ibid.*: 1590-1591) argue that "a number of incorrect assumptions" have been made with respect to the role of largescale farming returning Russia to a global breadbasket; these mainly concern the persistent yield gap in production, a failure to recognise that "large stretches of abandoned land can[not] be re-cultivated for wheat production without substantial economic and environmental costs", the low "availability of economically (and environmentally) re-cultivable land", and the assumption that future production should follow the megafarm and large agroholding model.

The 2010s have seen a shift in the Russian Government's policies, and an attempt to move towards national self-sufficiency, as indicated by the 2010 Food Security Doctrine – which stipulates "following minimum self-sufficiency targets: 95 percent in grain and potatoes, 90 percent in milk and dairy products, 85 percent in meat and meat products and 80 percent in sugar, vegetable oil, and fish products…[although the Doctrine] does not determine the time frame or means for achieving these targets" (Vassilieva and Smith, 2010: 1-2) – and the Russian Government's agricultural program of 2013-2020 containing the aim of "expanding idled farmland…[as] a priority" (Liefert and Liefert, 2015: 507). The Food Security Doctrine "provides a political blessing and cover for the introduction of future legislation that might restrict trade through tariffs, quotas, and sanitary and phytosanitary measures" (Vassilieva and Smith, 2010: 3), and import substitution has been encouraged through "instruments that include border measures and input subsidies to provide incentives to agricultural producers…[to] boost domestic production" (FAO, 2014: 3).

The import substitution drive has been accelerated as a result of the geopolitical crisis surrounding Russia's annexation of Crimea, Ukraine in February-March 2014: in retaliation for "the United States, European Union, and other Western countries impos[ing] various economic sanctions on Russia, targeting the energy, banking, and defense sectors,…Russia retaliated by banning imports of many agricultural and food products from these countries" (Liefert and Liefert, 2015: 508). Although a reactionary response to economic sanctions, "reflect[ing] the dramatic deterioration in relations with the West,…the food ban announced by President Putin in August 2014 [nevertheless] flows from the 2010 food security doctrine…[and] also brings into focus the importance of food as a political weapon" (Wegren, 2015: 1).

Russian agricultural exports, however, are still on the political agenda, and President Putin – speaking at the 19th St Petersburg International Economic Forum in 2015 – has described how the import replacement programme aims to allow Russian producers "to learn how to produce quality, competitive goods that will be in demand not just here in Russia, but on the global markets too", with the ultimate goal of making "fuller and more effective use of our internal resources to resolve our development tasks" (Global Research, 2015); this speaks of an emerging potential for Russian political leaders to use import restrictions as an advantageous opportunity to spur interest and investment in domestic agricultural production.

Agro-food Corporations and MNCs

On the global scale, there are only a handful of large MNCs who are vertically integrated; these have a "significant presence in a range of basic commodities", operate "from the farm level all the way to food manufacturing", and provide "seed, fertilizer and agrochemicals to growers…[and] financial services in commodity markets", amongst other ventures (Jeremy Hobbs writing in Murphy *et al.* (2012: 3)). These companies are known collectively as 'traders', and the largest four – Archer Daniels Midland (ADM), Bunge, Cargill, and Louis Dreyfus – that control "as much as 90 per cent of the global grain trade", are collectively referred to as the ABCD traders (Jeremy Hobbs writing in Murphy *et al.* (2012: 3)). As Murphy *et al.* (2012: 5) write:

> "The ABCDs matter. They are not alone, nor unchallenged…what they do is central to understanding international markets (and the domestic politics of food in many countries, too)…They are shapers of the world they inhabit, but they are also shaped by it".

Existing studies on large agricultural MNCs mostly offer a macro picture of their global operations, and in-depth studies of the ABCD traders are virtually absent for a few notable contributions by academics such as Kneen (2002), Murphy *et al.* (2012), and Salerno (2016); certainly there has been little assessment of the ABCD traders' activities within Russian borders.

The development of a market-orientated Russian agricultural sector has allowed large domestic agro-food corporations to grow, and MNCs to expand their operations within the country. Foreign agricultural investors were drawn to the region after the collapse of communism by low land prices, improvements in infrastructure, and the potential "of a long-term strategy of investing in food, feedstuff, and biofuels production" (Visser and Spoor, 2011: 311). Although the majority of "financial capital has penetrated the agribusiness sector since the mid-2000s and has caused a rapid process of financialisation of food and agricultural value chains" (Visser *et al.*, 2014: 1590), the 1990s also saw the presence of large agricultural investors, such as is evidenced later in this paper by the history of Cargill's business operations during this time.

Today, the Russian market is still dominated by domestic companies, and foreign players do not, as of yet, have a relatively large market share; however, given the nature of these companies to grow and accumulate large asset bases, the criticism that has been aimed towards them in other regions of the world, and their demonic portrayal in academic debates (see below), the relevance of their

movement into the highly significant region of Russia will (and should) draw more attention in the future.

There has so far been little research conducted in Russia on agro-food corporations, and although interesting work has been published on both foreign and domestic investment in Russian agro-holdings – such as the writings of Visser and Spoor (2011), Visser *et al.* (2014), Luyt (2013), and (Kuns *et al.*, 2016) – the focus has been mainly on the farming level of agriculture within the food system, and upstream and downstream of this level remains largely unexplored; this, no doubt, reflects the relatively recent appearance of agro-food corporations onto the agricultural scene.

This paper focuses on precisely this newly developing area for Russia of food processing and trade activities downstream of the farm which, according to Jeremy Hobbs, former Executive Director of Oxfam International, is a "powerful, unique and poorly understood sector" (Murphy *et al.*, 2012: 3); it is a sector which needs to be made 'visible' "if food is to be susceptible to democratic regulation" (Friedmann, 1995: 29). The size of downstream activities is significant, with Liverman and Kapadia (2010: 6) calculating that "processed food sales…now accounts for about three-quarters of total world food sales", whilst "food processing and retailing…have become the most concentrated stages in the value chain, with only a few processing and retailing companies relative to the number of primary producers and consumers at either end" (Schlipzand *et al.*, 2010: 284). Global supply chains that integrate these downstream businesses, along with other actors such as banks, finance, and insurance institutions, "have emerged as arguably the world's dominant organizational force" (*Ibid.*: 279).

The Conventional Critique

Agro-food Corporations and MNCs in General

Friedman (1995: 22) describes the shift of power that accompanied the emergence of the agro-food corporations (not just MNCs) post-World War II in terms of "strategic power" (control of wealth) and "numerical power" ("individuals who have the potential to act in concert as workers, consumers, or citizens"): "as strategic power shifted from farmers to corporations, numerical power in the food economy shifted from farmers to consumers and to food workers in manufacturing and services" (*Ibid.*: 23). These corporations, with their strategic power, are the embodiment of the self-regulated market, complete with all the incarnate "havoc", mentioned above by Friedman, and negative influence. Schlipzand *et al.* (2010: 276) describe how the corporations "have replaced…the definition of norms and rules" within the food sector, and it is for this reason that agro-food corporations attract the attention of global media and academia. For those opposed to the practices of these corporations, "the challenge is significant: enhancing food security without further compromising environmental and social welfare outcomes" (Ericksen *et al.*, 2010: 25).

There is a rich literature concerning agro-food corporations, with neoliberal support including that of organisations such as the International Monetary Fund (IMF) and World Bank (WB); the latter argues that "both smallholder and large-scale agriculture are necessary to boost productivity and produce enough food to feed the world's poor", and that the investment for this "must come from the public

and private sectors…including foreign direct investment, [which] must rise by nearly 50% (from some $142 billion per year to $209 billion) in order to feed a growing population" (The World Bank, 2014).

However, opinion amongst academic research is more critical of agro-food corporations, and doubts the reassurances given about the protection of small-holder and environmentally-friendly farming. Critical scholarship frames the companies as adversaries on topics including (but not limited to): the displacement of rural workers, peasants, and small farmers (Daniel and Mittal, 2009: 11; Visser and Spoor, 2011: 317); related "social unrest, [and] socioeconomic inequities" (Daniel and Mittal, 2009: 11); "chronic economic marginalization, social exclusion, disempowerment and other forms of indirect violence" (Eakin *et al.*, 2010: 246); the hampering of domestic food security (*Ibid.*: 253); "price volatility resulting from increased corporate control of food trade" (Daniel and Mittal, 2009: 19); 'land grabbing' (Visser and Spoor, 2011: 300); reducing consumer and environmental protection by "lobbying for free trade agreements which…[have removed] non-tariff trade barriers" (Schaeffer, 1995: 260); and the "power to shape and constrain the practices (and 'choices') of farmers and consumers…[through] new organisational technologies deployed…along commodity chains" (Bernstein, 2013: 3).

Agro-food corporations and MNCs have been criticised for their role in a new trend of financial speculation, and agro-food sector financialisation: the latter is defined as the "increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international levels" (Epstein (2005) quoted in Clapp (2014: 2-3)); and the former – in this case agricultural commodity speculation – "simply put, involves betting on fluctuating prices" (Salerno, 2016: 4). Speculation in agricultural markets is not a new phenomenon, and "the modern era of derivatives trading began when the Chicago Board of Trade was established in 1849" (Tett, 2009: 11); this 19th century development was "thought to enable commodity traders and processors to protect themselves against short term price volatility" (Salerno, 2016: 4). Since that time, regulations were put in place "to prevent market manipulation and sharp price shifts,…but those regulations began to be relaxed in the 1980s and 1990s" (Clapp, 2014: 6), and today, rather than acting solely as a protection, speculation can be used to capitalise on fluctuations in the market to generate significant profits (Salerno, 2016: 4); as Salerno (2016: 4) explains, what is a new phenomenon is "the current extent of this speculation".

In 2007-2008, the first of two significant food crises hit (Branford, 2009: 80; Brown, 2011: 24; Heinberg, 2007: 37; Mackintosh, 2008: 19), and academic attention began to recognise linkages between financial speculation on commodity futures markets, and the volatile price swings that have affected global food supply (Bernstein, 2013; Clapp, 2014; Salerno, 2016). The resulting literature has attempted to study the aspects – "from states' embrace of neoliberal economic ideology to competitive pressures and lobbying by specific private interests" – responsible for deregulation and globalisation of financial markets, to identify the interrelationship of these with their actors (Clapp, 2014: 2).

Financial actors – including that of agro-food corporations and MNCs – although having had a "long…role within the food system via futures markets", have increased in size and involvement within the agricultural sector in search of profit (*Ibid.*: 3), encouraged "by the development of financial derivatives that are based on land investment" (*Ibid.*: 7). This has been driven by the development of new investment products connected to the agrarian sector, which "began to be

offered by banks after 2000, including funds that invested not just in commodities, but also farmland and agriculture-based firms" (*Ibid.*: 7). The diversity of these financial actors is large, involving "investment banks, real estate firms, farm management enterprises, large agricultural companies (a broad and diverse category in and of itself), commodity trading firms, hedge funds, and pension fund managers" (Clapp *et al.*, 2016: 2), as well as "sovereign wealth funds,…insurance companies, asset management companies,…family offices, endowment funds, high net-worth individuals and development finance institutions" (Ouma, 2014: 163); further, "intermediaries…such as information services,…placement agents,…consultants,…[and] independent valuers" also play a role (*Ibid.*: 163-164).

Ouma (2014: 163) identifies three main modalities in which these actors are able to invest: firstly, pooling with other finance "in 'non-listed' vehicles such as private equity funds, managed investment trusts or farmland investment funds"; secondly, investing "in privately held or publically listed companies involved in primary production"; and thirdly, "targeted whole value chains from farm-to-fork, comprising companies involved in input production, production, processing, commodity trade, and logistics". Some of these investment structures allow for trading on the stock markets, enabling accessibility to any common investor on the global scene, and providing significant "liquidity" (*Ibid.*: 163). Additionally, the development of these structures have altered the investment strategy of various actors: "commodity trading firms…[have increased] hedg[ing] their financial risks with more complex financial instruments,…banks [have] become more involved in trading physical commodities,…and investors now have more avenues to diversify their asset mix" (Clapp *et al.*, 2016: 3).

For the investing actors, though, Ouma (2014: 164-165) asserts that 'financialisation' of agriculture is not innately straightforward, due an imperfect knowledge of agriculture; firstly, the notion of financialising agriculture in the same way as other sectors of the economy is misleading, as "in practice, enrolling households into financial markets or investing through private equity structures in manufacturing companies (to mention only two prominent examples of financialization) is obviously quite different from agriculture-based investments, which have a specific materiality and temporality, are weather affected, have commodity, reputational and political risks, and need to be physically engineered in the first place".

Due to the diversity of these financial actors, and the integrated modalities in which they are able to invest through, it has become challenging to separate the various actors from one another, as well as the finance sector as a whole from that of agriculture (Clapp *et al.*, 2016). Clapp *et al.* (2016: 2) have found that the historical financial institutions – such as banks, pension funds, and hedge funds – are overlapping with the agrarian sector by becoming more actively involved in 'farming', whilst traditional agro-food corporations are likewise venturing into the financial sector: "pension funds, for example, may be investing in hedge funds, which in turn may be subsidiaries of large commodity trading firms". The phenomenon of this boundary muddling is not only constrained to these examples, and also extends to "blurring…between bona fide hedging and pure financial speculation in agricultural commodity markets,…[and whether actors'] understanding of farmland 'productivity'…refers to agricultural production, the returns on the financial asset, or both" (*Ibid.*: 2).

Clapp (2014: 1) states that financialisation has increased 'distancing' – "which includes the geographical expanse from farm to plate along global commodity chains, as well as knowledge gaps

about the social and environmental impacts of food production" (*Ibid.*: 2) – which as well as allowing the number of actors involved to swell, has resulted in food becoming "abstracted…from its physical form into highly complex agricultural commodity derivatives". Distancing has made it difficult to observe the connections between financial actors and the food system, with "financial investors' funds…often [being] pooled and managed by others" (*Ibid.*: 10); this is important as not only does this affect the "distribution of power and influence over the governance of the food system" (*Ibid.*: 2), but it has also allowed the creation of "competing discourses" that – uncertain of the causes and effects of actors – look to explain the linkages between financial speculation and global food prices (*Ibid.*: 10).

Salerno (2016: 2) describes two 'schools' of competing discourse surrounding global food price increases: the first, consisting of "academics, economists, civil society, government departments, and development organizations", looks to blame financial speculation; and the second, consisting of "financial actors, economists, and some large development organizations (such as the World Bank)" believes that the increases are a matter of supply and demand dynamics (including "transportation costs, gas prices, storage costs, government policies, etc."). Murphy *et al.* (2012: 6) allude to this second school, and "a particularly heated debate among economists over whether the increase in investment in agricultural commodities futures markets via new financial derivatives is a main driver of recent food price volatility", with Clapp (2014: 11) stating that "supporters of this view have made the case that there is little evidence to prove…[a] causal link and they suggest that critics of financial speculation have misunderstood the technicalities of how the markets work". Owing to the complicated nature of creating "effective governance mechanisms", Clapp *et al.* (2016: 3) describe how "voluntary rather than mandatory [governance] approaches" have been adopted, and much has been left to the interpretation and implementation of the various actors. Voluntary accountability inherently has its drawbacks and flaws – including "weak enforcement capacity, low participation rates, a weak business case for sustainability measures, and a confusing array of initiatives that can vary significantly in their requirements and effectiveness" – and as it becomes difficult to decide which actors should be accountable for which actions, ultimately "voluntary responsible investment initiatives for agriculture…shape discourse [more] than actual practice (*Ibid.*: 3).

Further to this, MNCs are seen to have little transparency (Daniel and Mittal, 2009: 19), screening and obscuring their transactions; for example, using tariff reductions to reduce corporate taxes through intra-firm imports and exports (Schaeffer, 1995: 259). Transparency is not aided through the distancing caused by financialisation, and the competing narratives that the actors are able to align themselves to allow for disconnection in social and environmental responsibility (Clapp, 2014). MNCs' 'strategic power' is viewed as enabling 'private rulemaking', giving the companies "responsibility for rules that range from food safety to trade to sustainability" (Schlipzand *et al.*, 2010: 272). Their priorities have also been questioned, with the generation of profit deemed paramount over providing the global food security which they attest to (Daniel and Mittal, 2009: 19; Eakin *et al.*, 2010: 252). An extensive literature also frames MNCs within global environmental change (GEC) (Eakin *et al.*, 2010; Ericksen *et al.*, 2010; Liverman and Kapadia, 2010; Misselhorn *et al.*, 2010; Schlipzand *et al.*, 2010), and the movement towards an agrofuel sector, linked to unwanted social and environmental effects (Borras *et al.*, 2011; Heinberg, 2007; McMichael, 2011; Sindayigaya, 2011; White and Dasgupta, 2011).

There are, however, certain positives surrounding MNCs that have crept into the same literature, mainly: "food system globalization…[bringing] numerous benefits, including increased efficiencies in moving commodities across geographic regions to satisfy emerging demands and to smooth price volatility and supply shocks" (Eakin *et al.*, 2010: 250); the ability of MNCs to provide employment and improve infrastructure (Daniel and Mittal, 2009: 11), although employment positives are contended in the discourse of an industrial "agriculture without farmers" (McMichael, 2011: 38); and the ownership of "global storage and delivery systems that…governments call upon…for example in the delivery of food aid in response to humanitarian emergencies" (Murphy *et al.*, 2012: 12).

Cargill and the Other 'ABCD' Traders

As discussed above, traditional agro-food corporations are now venturing into the financial sector, and within these are included the ABCD traders which are "intimately linked to the world of complex agricultural commodity chains, with different aspects of their business touching all aspects of those chains from production to consumption" (Clapp, 2014: 7-8). Using their 'unique bases of information' – such as harvest predictions – these companies are effectively allowed to speculate (or bet) on the futures and derivatives markets[1], and this has led to the development of financial business lines within the ABCD traders that has prioritised the necessity for having accurate and early information for use on the financial markets. Through these business lines, the ABCDs can hedge risks, both in the markets and within their businesses, generate profits from speculation, and offer financial services to suppliers, customers, and other third parties (Murphy *et al.*, 2012: 28-29).

Cargill transcends both these sectors, and has "recently expanded its activities into the financial realm through the creation of a number of financial subsidiary companies that actively invest in the agricultural sector" (Clapp *et al.*, 2016: 2). As well continuing its "longstanding practice of hedging its own financial risks in derivatives markets" (*Ibid.*: 2), in 1994 – behaving much like a bank – Cargill founded Cargill Risk Management "explicitly to sell individualized [over-the-counter] OTC products for its own purposes and for third-party customers", whilst a decade later, the company created "another independently managed subsidiary, Black River Asset Management, which started to manage the funds of third-party investors" (Clapp, 2014: 8).

Transcendence in this way makes possible what Murphy *et al.* (2012: 27) refer to as a legal – yet unregulated – form of "insider trading", allowing Cargill "to speculate more efficiently than financial actors" by sharing information amongst its subsidiaries (Salerno, 2016: 2); whereas Cargill can make use of its networks and unique bases of knowledge, financial actors are more limited in what information they can use to inform their decisions (*Ibid.*: 2). Although legal, and largely unregulated, there are some conditions placed on traders, such as Cargill, that stipulate that "what…they cannot do…is to deliberately manipulate prices" on the global markets (Murphy *et al.*, 2012: 27).

[1] Whilst a detailed exploration of these markets, and these types of derivatives, is outside of the scope of this paper, Gillian Tett's book *Fool's Gold* is recommended; it provides a detailed history of their conception, and the misuse of certain derivatives markets that ultimately played a role in the 2008 global financial crisis.

Tett, G. (2009) **Fool's Gold: How Unrestrained Greed Corrupted a Dream, Shattered Global Markets and Unleashed a Catastrophe**. London: Abacus.

Quoting from an early draft of this research paper, Salerno (2016: 2) believes that Cargill's position amongst the two schools of competing discourses concerning global food price increases lies "somewhere in the middle", with employees of the company on the one hand stating that price volatility is negatively influenced by the involvement of non-agricultural actors in the financial markets, whilst on the other claiming that speculators are also essential for providing liquidity to the markets. What is important here, though, is that the employees interviewed for this research paper explicitly spoke of *non-agricultural* financial speculators as being both a positive and negative force in the markets, rather than financial speculators as a whole, lending the rhetoric of Cargill to a form of exclusivism as an *agricultural* financial player – a 'qualified' company that is 'other' to non-agricultural speculators, and one that is, therefore, supposed to be involved in these markets – abstracting the company from any questionable role within the first school. The findings of this paper would argue that, in fact, Cargill has created a 'third school' of competing discourse, in which the company blames both supply and demand dynamics, and the involvement of *non-agricultural* players in financial speculation.

Despite this, because of the "blurring…between bona fide hedging and pure financial speculation in agricultural commodity markets" (Clapp *et al.*, 2016: 2), it is difficult to discern which practices Cargill is involved in, and the effect of its actions (even as a 'qualified' agricultural financial player), creating "challenges for traditional regulatory prescriptions" (*Ibid.*: 3). The substantial profits that Cargill has made during times of global food price volatility have been a particular target of criticism; the 2007-2008 global food crisis benefitted MNCs, investors, and agricultural suppliers alike (Branford, 2009: 80; Mackintosh, 2008: 17), but Mackintosh (2008) reported that Cargill were able to increase profits by 86% in the first quarter of 2008, with Branford (2009) stating that Cargill made nearly a 70% increase on its 2007 levels and a 157% increase on its 2006 levels. According to Murphy *et al.* (2012: 25), these record profits in 2008 amounted to $4 billion.

This criticism does not explicitly blame Cargill for any wrongdoing, but shows an association of Cargill – as a significant beneficiary – with a global socioeconomic catastrophe (for a graphical representation of the record profits in a time of increased food prices, please see the Appendix). Murphy *et al.* (2012: 24-25) summarise that the increase in profits for Cargill were helped by the company's "unique base of information…not due to rising commodity prices alone, but rather to its ability to predict price changes in a period of volatility…which enabled it to clean up in futures markets...[whilst] other traders were caught going the other way"; however, the authors have stated that "it is very hard to determine the extent to which the traders' strong profit performance is based primarily on their financial activities as compared to their traditional physical trading".

Daniel and Mittal (2009: 19) state that "price volatility…[has resulted] from increased corporate *control* of food trade" (emphasis added), and this is key, as it makes explicit the implicit suggestion underlying academic debates: that these traders, such as Cargill, can *control* (and possibly conspire to increase), not just influence, the price of global food. Murphy *et al.* (2012: 15) write that because of "the onset of sharp food price volatility…important questions are raised about the role of these trading companies in either sparking or exacerbating food price volatility", adding that "the existence and *control* of…[their] physical stocks can have an important impact on grain prices" (emphasis added) (*Ibid.*: 12).

A diverse literature also frames Cargill within issues surrounding land grabs and adverse impacts on rural communities; for an example, see a recent Oxfam International (2013: 3) report – *Divide and Purchase: How land ownership is being concentrated in Colombia* – which describes how "between 2010 and 2012, Cargill…acquired 52,576 hectares of…land in Colombia's Altillanura region through 36 shell companies,…manag[ing] to evade the legal restriction through a method of fragmented purchases, exceeding the maximum size of land permitted by law for a single owner by more than 30 times". Exploration of these topics, however, are beyond the boundaries of this paper due to research limitations, and the fact that Cargill does not currently own or lease any agricultural land in Russia.

The Research

Methodology

Ouma (2014: 164) writes that much of the academic literature on financialisation of the agricultural sector exhibits an "explicit normative agenda", in which financial actors' actions are treated with "great suspicion or outright rejection". Additionally, this is usually "accompanied by a limited engagement with actors from the financial industry themselves…who may have something interesting to say", and has resulted in "grand narratives on 'bankers-turned-farmers', without any more situated fieldwork – be it interviews or ethnography – sustaining them…often los[ing] sight of the more technical, everyday dimensions of this [financialisation] process" (*Ibid.*: 164). Although the research contained within this paper is concerned with Cargill – an agricultural financial actor, in essence, a farmer-turned-banker – it aims to look beyond the 'grand narrative' of the company in contemporary academic literature to study the 'more technical, everyday dimensions'.

Further, this paper looks to address contemporary academic literature that "has been rather silent on the role of space and place…featur[ing them] as mere stages for financial actors, but not as central elements in the reproduction of capitalist economic processes" (*Ibid.*: 165). By situating the research in such an important agricultural space as Russia, this paper attempts to resolve the 'space and place' oversight that "has resulted in an underestimation of the manifold place-based impediments to capitalizing farmland/agriculture,…[including that of] managing large-scale farming operations in difficult environments" (*Ibid.*: 165).

As Salerno (2016: 11) notes, "researching agro-commodity traders and the financialization of agriculture can be very difficult due to barriers in access to information"; despite this difficulty, research in this area is "crucial to explore in order to gain more insight into the changing scope of the agricultural system, the possible impact on food prices, and the place of agro-commodity traders in all of this". As "essentially [a] family-owned [private] business" (Murphy *et al.*, 2012), Cargill fall into this category of being 'difficult' to research – indeed, the title of Kneen's (2002) book *Invisible Giant* alludes to the company's desire not to draw attention to its corporate actions – and gaining access to its Russian component required the involvement of a large number of well-positioned gatekeepers. Additionally, during February-March 2014 – through the timeline of the research interviews – Russia annexed the region of Crimea in Ukraine; although economic sanctions against Russia took time to materialise, and the retaliatory food import ban by Russia was only implemented

in August 2014, Cargill was nonetheless in the process of preparation for perceived impacts on its businesses, which complicated the access to interviewees and the issues that they were permitted to discuss.

The research on Cargill's operations and business strategy in Russia has specifically targeted its senior management level employees, enabling data to be produced on the nine separate businesses (listed below) that Cargill operates within the country. The employees participated in a series of semi-structured interviews, carried out over a period of six months, between November 2013 – April 2014; at the request of Cargill, the identities of the interviewees have been anonymised. The interviewees were chosen specifically because of their experience and unique knowledge as key decision makers in the company, and their awareness and understanding of Cargill's policies and approaches both globally and within Russia.

The purpose of the interviews has been to confront Cargill with the critique of agro-food corporations detailed above. Of interest was how Cargill employees chose to respond to, and argue against, academic reproach; as such, analysis of the 'truth' behind the corporation's words is of less importance than how it answers to its perceived stereotype. What is important for the research, is to partly analyse how Cargill employees engaged with the topics discussed, which topics they did not want to cover, and where their 'silences' fell. As Poland and Pederson (1998: 293-294) explain, "silence is frequently overlooked in qualitative research…[and] one could argue that in many cases, what is not said may be as revealing as what is said".

Representativeness, therefore, is key in such a study as this: the interviewees – as benefitting employees – may well not have been impartial in their opinion of Cargill and its operations. As discussed below, Ouma (2014: 164) has found how companies involved in the financial sector, such as Cargill, are "often convinced [that] they do good by contributing to global food security", and this paper will analyse later how Cargill seem to occupy a 'third school' of competing discourse surrounding food price volatility, both of which most likely affected the interviewees opinions and responses during the research. The research, therefore, is not naïve in recognising this bias, and agrees with the sentiments of Clapp (2014: 10) on how "narratives typically emanat[ing] from financial actors themselves as well as powerful organizations that support them…often portray financialization as a solution to problems in the food system…instead of seeing the rise in financial investment in agriculture as a potential problem".

Designated as 'off-limits' by Cargill in the research were topics such as detailed finances, and supplier contracts, due to commercial sensitivity and the complications surrounding the crisis in Crimea. Cargill also expressed concerns about an early draft of this paper, asking for redaction of information regarding local sourcing percentages of food inputs, and details of how contracts work with regards to export shipments. Additionally, there was unease expressed at highlighting the difference in Cargill's global corporate ethos to that of its Russian strategy; this is discussed in more detail below.

Murphy *et al.* (2012: 10-14) have researched the motivations of the ABCD traders, and have listed certain points that they believe map the traders' business model; this paper analyses five topics in detail, four of which are drawn upon from the work of Murphy *et al.* (2012: 10-12)[2].

1. Food Security

As Ouma (2014: 164) states that companies, such as Cargill, are "often convinced [that] they do good by contributing to global food security", it is, therefore, important to comment on Cargill's role with respect to Russian food security, whether it is producing for the domestic market, or exporting Russian produced food to other regions of the world. Additionally, it is vital to understand Cargill's motivations for domestic supply or export, what drives its decision making processes, and in which direction the company wishes to develop its businesses in the future. With respect to the FAO's definition of "physical and economic access to sufficient, safe, and nutritious food" (quoted in Liverman and Kapadia (2010: 3)), it is interesting to explore where Cargill believes the responsibility for this lies: whether it is with Cargill, the Russian government, or with any other actors.

2. The Power to Shape and Constrain

Murphy *et al.* (2012: 10) believe that the ABCDs aim to be "originators of bulk commodities…so dominant…[that] they play a central role in the decisions that producers make about what to grow, where, how, in what quantities, and for which markets…by providing inputs and other services directly to farmers, and by securing the sale of those products to traders at harvest". Further, the authors write that "the strategy is about more than sourcing from the farm,…it is also about deciding what the farm should grow" (*Ibid.*: 10). Liefert and Liefert (2015: 510) explain how "input suppliers, on the one side, and wholesalers and processors, on the other, are typically large and concentrated, such that they can use their market power vis-à-vis farms in determining the prices at which they sell to and purchase from the farms". Therefore – although referring to "organisational technologies" – Bernstein's (2013: 2-3) declaration that MNCs have the "power to shape and constrain the practices (and 'choices') of farmers" is broadly examined in the Russian setting.

3. Setting the Purchase Price

The same authors believe that the ABCDs look to increase their market power, "setting the purchase price, particularly with farmers…[and] with the grain elevators to which farmers in industrialized production systems deliver their grain" (Murphy *et al.*, 2012: 11).

[2] Murphy *et al.* (2012: 10-14) list ten points that they believe map the traders' business model, six of which either lie outside of the scope of this paper's research, or are beyond this paper's research capabilities.

4. Impact on Grain Prices

Murphy *et al.* (2012: 12) explain that the ABCDs have developed global transportation, storage, and delivery systems, requiring effective logistical management. They believe that the ABCDs have "begun to hold more physical stocks", and that the control of these stocks can impact on grain prices, as well as helping the companies on the derivatives markets (*Ibid.*: 12).

5. Speculation, Priorities, and Early Information

Finally, Murphy *et al.* (2012: 11) position that – as a priority – the ABCDs look to uphold large volumes in commodities trades, even in times of falling global grain prices. Although grain price is "certainly important to them,…these companies profit from other activities that surround and relate to the bulk grain trade, such as financial speculation on agricultural commodity markets and index funds, transportation, and storage" (*Ibid.*: 11); therefore, the access to early information that high volume trading in these commodities gives is more important to the traders than the actual trading of the commodities themselves. As Murphy *et al.* (2012: 11) explain, financial speculation, transportation, and storage allow the traders to "profit regardless of whether [world market grain] prices are rising or falling".

Salerno (2016: 11) asks for more analysis of companies such as Cargill "to analyse…whether Murphy et al. (2012) are right to hypothesize that in the current financialized agricultural system, the information itself is more lucrative than the actual trading of commodities", and so it is of interest to explore the drivers for investment of Cargill's business lines in Russia.

A Background to Cargill in Russia

Cargill – a family-owned private company founded in the US by William Cargill in 1865 (Salerno, 2016: 5) – is the largest of the ABCDs, "with sales and other revenues of $119.5bn in 2011" (Murphy *et al.*, 2012: 9). Since its early conception "mostly as a trader – collecting, storing, and shipping grain and other commodities around the US", the company has transformed and diversified into "various branches and subsidiaries in 68 different countries" (Salerno, 2016: 5). Three key financial subsidiaries include Black River Asset Management, Cargill Risk Management, and Carval Investors, that use the company's global knowledge and access to early information to engage in numerous financial activities, including that of "arbitrage, speculative trading, and equity positions" (*Ibid.*: 5). Such is the scale of Cargill's reach, that "the former U.S. Secretary of Agriculture, Bob Bergland, described the company's present-day ability to acquire political and economic intelligence as exceeding that of the Central Intelligence Agency" (*Ibid.*: 7).

According to its website, Cargill "began furnishing grain supplies to the USSR in 1963", but only opened a representative office in the newly-formed Russian Federation in 1991 (Cargill.com). Once the Soviet Union collapsed, it was clear to Cargill that opportunities in Eastern Europe and former-Soviet countries would emerge. The decision to explore these opportunities was thought of as both strategic and visionary, with one interviewee describing the adopted mentality as, "*go east and see what you can figure out*".

Cargill initially created business teams in the region – for example in Poland – and the headquarters that had housed Cargill from 1963 became the centre for business in the former-Soviet republics. It was soon revealed, however, that this was impractical due to the vast size of the regions, and the operations were split, with one business unit set up in Kiev, Ukraine, and another that stayed in Moscow. An interviewee explained that Cargill's presence in Russia since 1963 had given the company some comfort, enabling it to build up contacts, and although these contacts did not constitute a large base – they were only in the grain business – they were enough to help with the initial construction of the new operations, and act as "*friends*".

The Moscow office hired ethnic Russians into the business; some with experience of the industry, and others who needed training in the necessary skills. Cargill initially was only concerned with trading, and did so in seeds, grains, sugar, 'food in general' (which became the foundation for the businesses that exist today), and even steel and petroleum; after some time, Cargill moved into financial trading. Nowadays, the office is the company's "coordinating center", which, amongst other responsibilities, provides "consulting and auxiliary services to foreign branches of the company that deal with imports and exports of various agricultural and food products…on the Russian market" (*Ibid.*). Speaking of the 1991 expansion, one interviewee describes it thus:

> "*We…didn't know the size of the opportunity, but we knew that…with this number of people, and…agricultural base…there should be opportunities. Seed was very important; we used seed as a way to learn the agriculture in both Ukraine and Russia. We subsequently sold that business, but that really was a very good…starting point.*"

Expanding into Russia so soon after the collapse of the Soviet Union was considered 'risky', and for Cargill, it was "*as important to learn and have a foothold…from which we could grow fast when the conditions were right, as oppose to…being gigantic from the word go*". After three years, Cargill felt that it had learned enough – the company had been able to hire and train employees, build a legal understanding of Russia, and learn the principles of accounting in the region – and concluded that it had the "*guts and the knowledge*" to start buying fixed assets, mainly principled on a long-term, rather than a short-term, view of Russia.

Cargill began its asset search by scouting for a glucose facility, as Mars (a manufacturer of chocolate and other foods) had looked to Cargill to secure a domestic supply chain for its products, and the company eventually settled on an existing former-Soviet facility in Efremov, Tula Oblast, which it purchased in 1994. The procurement of the Efremov site took several years; Cargill hired the Russian bank *Troika* to buy the privatisation vouchers that were handed out to employees of the facility following the collapse of the Soviet Union, and then bought the remaining shares from the Tula Oblast regional authorities themselves. By the time Efremov was in ownership, Cargill's base in Russia had grown, employing fifty workers, mostly Russian, in two offices. Efremov was a testing venture for Cargill, and required careful public relations management, and levels of transparency:

> "*When we bought Efremov, we had to stand in front of people…hundreds of people, explain who we were, what we would do, and so forth. They were very afraid that we would fire a large number of people, 'cause that's what they knew about the Western world, that…we were ruthless in terms of…labour relations and so forth. We*

told them, 'No, that's not the intention…People will be fired if they steal or if they sleep'. That worked, both of which happened."

Even though Cargill realised that it had more employees than it needed for the Efremov site, it felt that it had delivered on the promises that it had made, eventually shrinking employee numbers through "*attrition*" when workers retired.

Globally, Cargill operates five "business segments": agricultural services; food ingredients and applications; origination (procurement of grain) and processing; risk management and financial; and industrial (Murphy *et al.*, 2012: 9). Within Russia, Cargill operates various sub-units of these business segments, including: grain and oilseed trading; oilseed crushing, oil refining, bottling, and hardening; malt production; meat and poultry; animal feed formulation, production and distribution; production and sales of syrup, starches and starch derivatives; food and feed ingredients sales; vital wheat gluten production; and specialty food ingredients (Cargill.com).

Since the initial glucose business began in Efremov, other operational lines have been added so that now, the starches and sweeteners, malt, complex wheat processing, vegetable oil and fat refinery, native wheat gluten production, and mixed feed businesses are all housed on the site (*Ibid.*). Efremov also houses a "*non-dedicated*" poultry further processing plant, producing for various customers, such as MacDonald's ventures in Russia (Reuters, 2010).

Cargill's grain and oilseeds business began in 1993, operating in the Krasnodar region, "selling seeds and delivering consulting and financial services to local agricultural producers" (Cargill.com). Only since 1998 has the company sold and exported grain, utilising Cargill-owned elevators for drying and storing of crops, and a river terminal for grain shipment in Rostov-on-Don (*Ibid.*). In 2011, Cargill acquired Provimi – "a global animal nutrition company" (*Ibid.*) – along with its Russian facilities and employee base of 1200 workers, and as of 2013, Cargill has been constructing a new $200 million oilseed crushing plant in Volgograd.

The Efremov site, along with investments in grain infrastructure elsewhere, has brought Cargill's total investment in Russia to over $900 million, with the new oilseed crushing plant in Volgograd expected to push this over $1 billion (*Ibid.*). One interviewee revealed that by Cargill's standards, this investment in Russia is "*reasonable*", indicating that expansion in Russia may well continue to grow in the future. At the time of the research, Cargill did not own or lease any agricultural land in Russia for the purposes of production.

Analysis

1. Food Security

As mentioned above, the Efremov site now houses a number of businesses, all of which supply the Russian domestic market with the exception of the vital wheat gluten business (a bi-product of the sweeteners and starches process); the vital wheat gluten is used in Europe in the baking and aqua-feed industries, and there is currently not a market for it in Russia. For all of these businesses, Cargill's goal is to source 100 percent of the inputs from within Russia, except where the inputs are

not available on the Russian market, for example, with the sourcing of palm oil, or coating ingredients for its poultry further processing products.

This goal, however, is not being met in some situations, as with the poultry further processing facility, which currently is only able to source less than half domestically. The driving factor, in this example, is that the food safety, quality, and animal welfare standards set on the chicken products by Cargill's customers, render much of the available Russian supply unusable. These standards far exceed those that are deemed acceptable under Russian legislation, and although Cargill try to entice suppliers to adopt these standards in their production by offering a premium, the suppliers do not deem the alterations economically sensible when there is a current demand for their products on the Russian domestic market. This seems to be a positive when considering the provision of "sufficient, safe, and nutritious food" (quoted in Liverman and Kapadia (2010: 3)): whilst the 'nutrition' of processed food can be debated outside of this paper, the use of stricter standards and quality demands than those enforced by the Russian government, would seem beneficial to the Russian consumer. Cargill's role in this, however, could be questioned, as the requirements are being driven by the demands of Cargill's customers, rather than the corporation itself. Likewise, for the malt business, the aim of 100 percent sourcing can sometimes not be met if unforeseen weather and droughts impact on the Russian barley harvest, rendering it substandard to Cargill's customers' specifications. In some bad years, Cargill has only been able to source 10-15 percent locally, and has been forced to import the remainder from abroad.

The reasons behind Cargill's goal of 100 percent sourcing are that it is more cost-effective, requires less logistics and costs associated with transportation, builds shorter and more sustainable supply chains, and reduces the likelihood of politically-related complications. The remaining chicken that Cargill sources for its poultry further processing facility – standing at more than half of its quota – in 2014 was being imported from Brazil, an unsustainable food chain that Cargill sees as a "*window of time*". As well, the potential for political impact on food imports, such as trade embargos, is a real concern for Cargill; as discussed above, the Crimea crisis developed during the period of this paper's research, and as part of the ongoing 'sanctions row', Russia has targeted food import bans at the US, the EU, Norway, Canada, and Australia (BBC News, 2014).

The advantages of local supply chains were made clear to Cargill in 1998, when a financial crisis hit Russia; the foreign exchange rates dropped dramatically and rapidly, which made imports expensive, so that local production became increasingly attractive. Cargill adapted the Efremov plant to produce a sweetener that was used in the production of beer as a substitute for malt, and after imports of beer decreased following the exchange rate difference, the demand for locally produced beer rocketed. These events were not foreseen by Cargill, but played into its hands, and confirmed to it the necessity for localisation. The goal is so important for Cargill, that even if import prices were to become more favourable than domestic prices in future years, Cargill would still source locally:

> "*We have to look at it long-term, and we can't screw the local supplier this year just because there's a bumper crop over there. You can imagine the signal we'd send to the suppliers if we, you know, bumped them off the seed for one season, and you can imagine how excited they would be to come back to us the following year to sign that contract. That short-term behaviour wouldn't get us very far.*"

Cargill additionally imports certain products that lie outside of its processing capabilities at Efremov, and supply them to the Russian market, such as olive oil, chocolate, cocoa, and beef. The company also used to import sugar, but Russia has now become self-sufficient in sugar production, and Cargill was forced to close the business after the demand for imported sugar fell.

Like the Efremov site, Cargill's Russian Grain and Oilseeds Business aims to have a 100 percent local supply chain. The business is part of a larger 'Business Unit' called 'Grain and Oilseeds Supply Chain Europe', and has "*two heads*": one that deals with export or domestic supply of the crops, and the other that ensures that Cargill's other domestic operations are supported. As such, the Grain and Oilseeds Business is responsible for sourcing malting barley, wheat, corn, and sunflower oil for the Efremov site. The crops are sourced from 'European' Russia, mainly from the Krasnodar, Stavropol, Volgograd, and Voronezh regions. Between 80-90 percent of the suppliers used are local Russian producers, and the remaining 10-20 percent are foreign producers; Cargill has stated that for the grain, it does not have a priority with respect to export or domestic supply. Typically, Cargill's suppliers own farms that are between 3000-4000 hectares, which in Cargill's experience, is comparatively large.

It would appear, then, that the goals to source 100 percent domestically, and supply the domestic market (with the exception of a few products and export grains, see below), enables Cargill to positively influence the food security of Russia, reducing the country's dependence on imports, and aiding domestic production. Whilst Cargill's motivations are not centred on Russian food security – with the main drivers being costs, logistics, and related to politics – the effect is positive for Russia nonetheless. This may well be a controversial finding for academic fields that are concerned with Cargill, but attention should be paid here to the specific nature of Cargill's operations in Russia: Cargill has been keen to point out that 100 percent domestic sourcing is not a corporation-wide policy, and is country-specific, in this case to Russia. The corporation's fundamental view concerning food security, is that food should (and must) move from areas of surplus to areas of deficit, with no barriers to trade. However, this finding is not to say that Cargill as a global corporation is having a 'net positive' effect on the food security of Russia: as has been discussed above in detail, Cargill's role in the financialisation of the agrarian sector, and its dealings within the financial markets, may well be negatively impacting Russian food security through the process of global food price volatility.

2. The Power to Shape and Constrain

It is important to define exactly how Cargill interacts with the farmer in Russia. The assertion of Murphy *et al.* (2012: 10) that Cargill plays a "central role in the decisions that producers make about what to grow, where, how, in what quantities, and for which markets" is correct, but this does not explore the relationship between Cargill and the farmer, and the statement that "the strategy…is also about *deciding* what the farm should grow" (emphasis added), seems open to interpretation in the Russian context; Cargill would argue that a more accurate term would relate to *soft power*.

'Soft power' is a term coined by Joseph Nye of Harvard University – initially to discuss international relations – and the application of the term here seems appropriate in the context of US and Russian businesses. Writing for the Harvard Business School (2004), Nye explains:

> "Soft power is not merely the same as influence. After all, influence can also rest on the hard power of threats or payments. And soft power is more than just persuasion or the ability to move people by argument, though that is an important part of it. It is also the ability to attract, and attraction often leads to acquiescence. Simply put, in behavioral terms, soft power is attractive power."

Cargill purchases crops as per the demand of the customer, and, like with the poultry further processing facility described above, it will only purchase if specifications are met and approved. These specifications are conveyed to the farmer, along with approved crop seeds, inputs (such as fertiliser), protections (such as pesticides, and financial models to protect earnings), new market opportunities, and pricing options. Cargill, therefore, has a role in the decisions that a producer/farmer makes about what to grow, but, for a number of reasons, indicates that it cannot *decide* for the farmer: firstly, Cargill says that it "*market[s] the grains of the farmer*" no matter their choice, whether for export or domestic supply, which would then alter the need for adopting certain specifications on the crops; secondly, Cargill maintains that it has a low market share in Russia, compared to Russian and other foreign competitors, which means that farmers do not have to choose to supply Cargill (as is the case with the chicken suppliers described above); and thirdly, with the significant risk of farmers defaulting without legal accountability in Russia, *deciding* could potentially backfire if a better opportunity consequently appears for the farmer. The low market share of Cargill is important when considering the opinion of Liefert and Liefert (2015: 510) whereby a company, such as Cargill, "can use their market power vis-à-vis farms in determining the prices at which they sell to and purchase from the farms", and shows how this market power is not (yet) realisable for Cargill in the Russian context. For these reasons, Cargill's "power to shape and constrain" (Bernstein, 2013: 2-3) within Russia would seem to be more *soft power*, with the company's strategy built around attraction and co-option for the farmer, rather than coercion.

> "*It is all driven by the consumer, mainly, to make sure you are sustainably delivering what they want…So, we don't go to farmer and say 'we want this, we want that'; it's rather…we say 'consumer wants this, consumer wants that', and try to partner with the farmer to make sure we supply the needs.*"

Cargill demonstrates this *soft power* through its business arrangements with the farmer: if the farmer decides to supply Cargill with a crop, there is nothing contractually in the purchase agreement that states that the crop inputs have to be bought from Cargill, just as long as it meets the specifications; and, on the reverse, if the farmer decides to buy crop inputs from Cargill, there is nothing contractually in the purchase agreement that states that the crop has to be sold back to Cargill (unless Cargill have supplied the inputs on credit, which would require the crop to be sold back to the company). The company has recognised, though, that in adopting this model, there is a high correlation with farmers who bought crop inputs from Cargill selling the finished crops back to the company. Cargill identifies that this correlation negates the risk of farmers purchasing inputs only to sell the finished crops to Cargill's competitors.

> "*We don't put it as a prerequisite. It's just sell the seeds, sell the fertiliser. If they want to sell the grain and oilseeds, as far as we are there to buy at the market price…it's not a barter. We try to avoid that concept because…it then becomes like a contract farming, and it's a little bit different than what we want to achieve.*"

However, as with food security, this paper must point to the uniqueness of the Russian context in guiding the actions of Cargill, and recognise that *soft power* may not be reflected in the corporation's global activities. Cargill "has intensified private equity investments in suppliers" (Clapp *et al.*, 2016: 2), and this could be viewed as creating supplier dependency on the corporation: Salerno (2016: 8) describes how "Cargill first distinguishes its suppliers who are not able to meet the demands of Cargill, and then has Black River [one of its financial subsidiaries] invest in the company to boost their output, and finally (in most cases) the company in turn sells back the increased supply to Cargill". By "help[ing] them to grow" (*Ibid.*: 8), Cargill may well have more of a "central role in the decisions that producers make about what to grow, where, how, in what quantities, and for which markets" (Murphy *et al.*, 2012: 10).

3. Setting the Purchase Price

As Cargill does not have a priority with respect to export or domestic supply of grains and cereals, the company's priority is to simply "*market the grains of the farmer*". Originally, Cargill was more export-orientated; however, upon adoption of its new company motto, "Thrive", it claims solely to seek out the best price for the farmer. As well, Cargill has stated that sole export-orientation only allows it to be 'in the market' when export prices are better than domestic ones, and so it seeks better "*optionality*" instead. In the south of Russia, the majority of the grains that it secures, or "*originate[s]*", are exported due to the access of the international market through the Black Sea, and relatively favourable transportation costs. Better prices for the domestic market are usually found in the Central Region of Russia, south of Moscow, and so grains originated here usually enter these domestic flows. In years where there are deficiencies in the Central Region, resulting in better domestic prices, or when export demand or prices are low, then grain is moved away from export and redirected domestically. Additionally, the recent developments surrounding the ongoing 'sanctions row' and food import bans may well affect this import-export decision.

The logistics surrounding the export of grain from Russia involves Cargill's centralised trading business, which coordinates all of Cargill's global grain and oilseed flows, and creates the contracts with the customers who are seeking to purchase grains and oilseeds. The prices of these contracts are dictated by both the Russian farmer, and the customers of Cargill; Cargill does not set the purchase price itself. A customer will approach the central business with a price that they are willing to pay for grains or oilseeds; this is then relayed to Cargill Russia, who consequently approaches the Russian farmer. If the farmer deems this price acceptable, then the transaction is secured; if the price is not deemed acceptable, then Cargill Russia feeds back that a better price is needed, and the central business negotiates with the customer. It is for this reason, that Cargill says that it does not control the price of the grains or set the purchase prices; the company points to the market dictation between the supply (farmer) and the demand (customer). It is, however, logistically difficult for Cargill Russia to approach each individual farmer whenever the central business are approached by a customer looking to bid for a contract, and so Cargill Russia looks to build a "*stock*" of grain at the beginning of each season for use in the contracts; the size of this stock is strongly linked to the demand, and Cargill will not purchase grains unnecessarily.

Sometimes, however, the purchasing of grains can be difficult, especially if the farmer decides to be "*bullish*" and chooses not to sell on the belief that the market price will increase. Cargill can also be

"*bullish*", and if it believes that the market price will increase in the future, it can look to 'buy early' and store the grain for future use; Cargill calls this "*position taking*". If the prices do then increase, Cargill is able to capture the saving. The grain is stored in Cargill's silos, or, ironically in the case of future price increases, in the farmer's own storage. An alternative swing on 'position taking' is when Cargill believes that the market will go down, and sells grain to a customer before it is originated from the farmer; the grain is then bought from the farmer at a later date. This alternation, obviously, carries a risk, and Cargill does not implement this in Russia very often, opting to avoid the risk of defaulted contracts and contractual financial penalties. As with any trading company, Cargill makes decisions on whether to 'spot trade', whereby Cargill approaches the farmer and buys grain 'on the spot', or whether to follow 'deferred book trading', whereby Cargill purchases grains a number of months in advance; however, exploration of this topic lies outside of the scope of this paper.

4. Impact on Grain Prices

Although Cargill sees itself as "*one of the top five exporters*" in Russia – with the others being "*multinationals like us...Glencore, Dreyfus, Bunge…little bit Noble*" – it explains that it is not the largest, and has a low domestic market share compared to its Russian competitors. As such, its ability to hold physical stocks would have no impact on the supply of grain within Russia, and, therefore, no impact on grain prices. Moreover, Cargill claims that its silo capacities are not large enough to stockpile grain, with much of its grain still stored "*on-farm*", and that it owns "*very old fashioned*" ex-Soviet silos that are in need of upgrading for longer-term grain storage. Additionally, storage in silos carries operational costs, and it ties up working capital in grain that is not being sold on; Cargill does not look to stock past that necessary for the creation of its 'buffer'.

Cargill claims that United Grain Company (OZK) – the Russian state-owned trader – is the only company within Russia who can "*influence*" the price of food. As Cargill explains, United Grain Company build up large stocks of grain, and when the government deem domestic prices to be too high, reaching the "*intervention price*", it releases its stocks to bring the prices back down, and relieve domestic demand and inflation in the food sector. When the cost of grain is below this intervention price, then the company begins to stockpile again. Cargill believes that this creates speculation on the markets, and also restricts the 'free market'. Furthermore, Cargill consider the Russian government to be the only entity capable of *controlling* food prices through export bans, which it has employed in the past.

5. Speculation, Priorities, and Early Information

Given the already discussed issues and controversies surrounding financialisation of the agricultural sector, financial speculation, and global food price volatility, it is essential to evaluate the priorities of Cargill. It can be seen that "since Cargill began financializing its strategies, the company has not only grown but has flourished" (Salerno, 2016: 6), and in light of significant profits of the ABCDs on the financial markets in times of global food crises, it is understandable why Murphy *et al.* (2012: 11-12) pose that access to information is more important to the traders than the actual trading of the commodities themselves; as Salerno (2016: 10) indicates, though, "Cargill itself may not be directly

causing food price volatility, but they are likely benefitting from it via the financialization of the agricultural system".

The question raised here, then, centres on what has changed: has access to early information increased in importance, or have the commodities themselves become less important? Salerno (2016: 10) believes both to be true, with the "impl[ication being] that agro-commodity traders may be concerned less about the traded commodity and more about the information regarding the commodity". Whilst this paper agrees with the sentiment that it "is difficult to say…whether or not this is true" (*Ibid.*: 10), it is able to comment on Cargill's view of the physical commodities.

Cargill has stated throughout that its investments in Russia have been for the long-term, and this can be seen by its business expansion and diversification strategy, and the fact that the investments are nearing the $1 billion mark. Each of the aforementioned businesses within Cargill – dealing with the trade and processing of the physical commodities – are designed to generate a profit, and have to prove that they at least have the potential to be profitable in the future to secure new investments from Cargill's headquarters, and to avoid being decommissioned.

> "*If the profitability picture doesn't add up, then we can do nothing else…Nobody – even the most altruistic member of Cargill's family – will agree just to throw money down a black hole, into a business…they have to have a return.*"

This, therefore, indicates that the primary (or at least equal) driver for investment in the business lines is profitability lying outside that of financial speculation, and that Cargill will not support long-term loss-making businesses; this is not to say, however, that the main global focus of the corporation does not now lie in financial speculation, but that these business lines still hold value more than simply providing early access to information. It may well be that this access to early information has increased in importance to the company, but – at least in Russia – this paper argues that the physical commodities have not reduced in significance as a result.

Lastly, this paper finds that – through the rhetoric of its senior management level employees – Cargill has created a 'third school' of competing discourse concerning global food price volatility. Instead of lending itself to the first school – which looks to blame financial speculation as a whole – Cargill claims that the volatility is caused by the involvement of *non-agricultural* actors on the financial markets:

> "*It's really very liquid market and all the prices are dictated by the fundamentals…not the commodity fundamentals but…cash liquidity fundamentals. So, if the stock markets are coming down…the [investment] funds are looking for other means, and they come to the commodity market. Even though you believe wheat is surplus, so the prices should go down, then you suddenly realise…wheat prices are going up because liquidity is coming for a new place…So, I should say companies like Cargill cannot control whole pricing of this. Yes, we take the leverage of understanding the market, and yes we trade these markets, but we do not dictate it.*"

That being said, Cargill's opinion is that these non-agricultural speculators are still necessary:

> "*There has to be the speculators in the market…You cannot accuse speculators all the time, saying that they are causing all this mess. You need those speculators…you need those guys to give the liquidity to the market…you need the funds, you need the pension funds, you need the speculators.*"

As discussed above, Cargill transcends both the agricultural and financial sectors (Clapp *et al.*, 2016: 2), and enters the financial markets in this form; however, by identifying *non-agricultural* actors as contributing to the volatility, and excluding the corporation from the same grouping, employees lend their rhetoric to a form of exclusivism as 'Cargill the *agricultural* financial player' – a 'qualified' company that is 'other' to non-agricultural speculators, and one that is, therefore, supposed to be involved in these markets – abstracting the company from any questionable role within the first school. The third school thus consists of *agricultural* financial actors who blame *non-agricultural* financial actors for global food price volatility, as well as supply and demand dynamics.

The emergence of this third school of competing discourse from employees of Cargill is unsurprising given their representativeness; however, by finding explanations elsewhere for the causes of food price volatility, and with their main competitors, it may help to explain how companies involved in the financial sector, rightly or wrongly, are "often convinced [that] they do good by contributing to global food security" (Ouma, 2014: 164).

It must be noted though, that the logic for this third school can be questioned, as some of the financial subsidiaries of Cargill act with, and trade on behalf of, non-agricultural investors (Salerno, 2016: 6). As Salerno (2016: 6) explains:

> "Cargill Risk Management engages in market speculation on behalf of corporations and financial bodies (such as funds), and engages in natural independent hedging…for large farmers. Cargill's risk management firm invests in agricultural risk for customers such as pension funds wanting to invest in agri-expenses…They do so by focusing on when and how to hedge using financial instruments to manage exposure to risk through OTC swaps, exchange cleared swaps, futures, and commodity linked notes in commodity markets such as corn, wheat, soybean, vegetable oils, livestock, etc. Cargill Risk Management and Black River engage in both proprietary trading on behalf of Cargill as well as providing financial strategies for customers."

The rhetoric of this third school, in contradiction with Cargill's financial business practices, would, therefore, appear to support Clapp's (2014: 10) notion that distancing – even distance within a company – has made it difficult to observe the connections between financial actors and the food system (including, apparently, for the employees of the companies themselves), and has contributed to the creation of competing discourses.

Conclusion

Cargill has modified its operations according to the unique and peculiar environment of the Russian context. It has been shown that a company's – such as Cargill's – actions can be mediated by country

and cultural processes, resulting in variance in the way that business is conducted compared to elsewhere in the world, and, in some cases, contrasting the findings of more macro, global academic studies of corporate behaviour. The findings of this paper may well be useful when considering studies of agro-food corporations in other post-Soviet spaces important to global food supply, such as that of Ukraine and Kazakhstan. The 2010s have seen a shift in the Russian Government's policies, and an attempt to move towards national self-sufficiency – as indicated by the 2010 Food Security Doctrine – and this has combined with the new import substitution drive accelerated as a result of the geopolitical crisis surrounding Russia's annexation of Crimea; although this seems restrictive for international business, companies well placed and rehearsed in the practice of domestic sourcing and supply stand to benefit.

An example of this variance is displayed through Cargill's *soft power* strategy of conducting business with Russian farmers, resulting from Cargill's low market share in Russia, and the existence of Russian-specific risks concerning contract defaults and legal accountability. Another is Cargill's goals of 100 percent local sourcing – which the company claims improves the food security of Russia, but is contested in academia by the company's behaviour on the global financial markets – partly being informed by persistent and adversely-regarded international politics. These two examples seem to contradict the global corporate ethos of Cargill, with academic literature highlighting supplier dependencies in other regions of the world, and – as one Cargill email communication concerning the first draft of this paper highlighted – the local sourcing model contradicting Cargill's fundamental view:

> "*Strong leaning towards sourcing locally 100% – while this is true perhaps of the Russian market – [the author]…does need to be aware of our fundamental view around food security – that food must move from surplus to deficit. It's often hard to balance the local versus global view.*"

As discussed above, the potential for political impacts is driving the desire for Cargill to create domestic supply chains – that is domestic in both sourcing raw food materials and supplying the consumer base – and this conflicts with the literature highlighted earlier that frames MNCs in developing regions as having dangerous, export-orientated designs. Cargill's non-preference to export or domestic supply of grains is, in no small part, also a result of the existence of a strong domestic market in Russia, something that is not apparent in other developing regions in the world, such as Africa. This domestic market, along with the existence of strong Russian producers, and the use of *soft power* in Russia, will affect debates on issues such as land grab, food security, and food sovereignty, and highlight the crudeness of studies conducted elsewhere that have linked their findings to the future of Russia (see Graham *et al.*'s (2011: 6) and Sindayigaya's (2011: 7) work on Africa, and Borras *et al.*'s (2011: 9) comments on the 'bio-fuel complex').

This paper has also discussed whether physical commodities have reduced in significance to Cargill with the possible rise in importance of access to early information for financial speculation purposes; the findings suggest that this is not the case, and are reinforced by the fact that Cargill will not support long-term loss-making businesses, and views profit-making outside of speculation as the primary (or at least equal) driver for future investment.

Lastly, this research has posited a 'third school' of competing discourse surrounding the cause of food price volatility pervasive amongst employees of Cargill: that non-agricultural financial actors, as

well as supply and demand dynamics, are responsible for global food price volatility. This displays a form of exclusivism as 'Cargill the *agricultural* financial player' – a 'qualified' company that is 'other' to non-agricultural speculators, and one that is, therefore, supposed to be involved in financial markets – abstracting the company from any questionable role within the first school of competing discourse. Juxtaposing this competing discourse against the research of Salerno (2016: 6) – in which some of Cargill's financial subsidiaries are found to act with, and trade on behalf of, non-agricultural investors – seems to support Clapp's (2014: 10) notion that distancing – even distance within a company – has made it difficult to observe the connections between financial actors and the food system, and has contributed to the creation of competing discourses. Given the emergence of this 'third school' of competing discourse, this paper has highlighted the need for in-depth research on the causes of food price volatility, to explore where the responsibilities lie, and for a solution on how best to mediate future crises.

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Appendix

[Figure 1]

[Figure 2]