

Trading companies are readying massive speculative food crisis

by William Engdahl

"In the worst case, namely that this drought continues through early July, this would eliminate, worldwide, the present surplus of feedgrains," declared a spokesman for Cargill/Tradax, the world's largest grain-trading multinational. He was referring to the prospects for the U.S. grain harvest given this year's drought. "We would need at least 1-1.5 inches of rain per week for the next three weeks at critical frequency, and the weather projections are not promising."

Other interviews with leading agriculture industry and government sources in the European Community and the United States reveal the same thing. By turning national food production and reserve policy over to a handful of private trading companies typified by Cargill, governments have placed their populations at risk of food shortages on a scale not experienced in this century.

Even before popular press began sounding the alarm over the extreme dry weather in the U.S. grain belt, the U.N. Food and Agriculture Organization (FAO) in Rome issued an alarming report, dated April 28, called "A Global Early Warning System on Food and Agriculture." It says, "A substantial decline in 1987/88 carryover cereal stocks is now certain." FAO reports that world "surplus" stocks of cereal grains, will fall by at least 62 million tons to a level of 382 million tons by this summer, with further drawdowns expected next year. This was before reports of 20-30% harvest shortfalls for select U.S. and Canadian wheat were known.

The FAO recommends a normal national "emergency" reserve against bad harvest or other unexpected shortfalls, of at least 25% of a nation's annual harvest. For the past two years, world consumption of cereals has exceeded production, forcing drawdown of such carryover stocks. Even if the current U.S. harvest averts disaster this year, this leaves carryover stocks of cereals, including rice, wheat, and coarse grains, at a dangerously low 21% of annual output.

As a result of the production-cutting, "market-oriented" policy by the U.S. and EC governments over the past four years, stocks of cereals have declined especially sharply. The U.S. Department of Agriculture estimates that U.S. stocks of wheat, for example, are at their lowest levels since 1975. EC intervention stocks of cereals have also been sharply reduced in the past 15 months. In 1988, some 92 million acres of U.S. farm land have been made idle by Agriculture Department "set-aside" programs, designed to raise "world

market" prices. The EC is beginning a similar program.

'Market-oriented' policy

Today's emerging crisis has its origins in more than a decade and a half of insane agriculture policies in the world's two most important food-producing regions, Western Europe and the United States. In the autumn of 1984, U.S. Agriculture Secretary John Block and his deputy Daniel Amstutz, told a London press conference that the United States had "declared war" against the agricultural price support system of the EC.

Amstutz, a former Cargill executive now orchestrating U.S. "free market" agriculture postures at the current GATT negotiations in Geneva, declared in 1984 that agriculture policy must become "market oriented," tied to what he called "world market prices"—which meant, placed under the control of the grain cartel. As part of this policy, the EC and the U.S. Agriculture Department then set about competing with each other to slash farm producer support and income, and to "set aside" land from food production. Press was fed the sensational fraud of "surplus stocks," "milk mountains," "meat mountains," "butter mountains" to justify the policy.

Investigations by *EIR* at the time revealed the group behind the policy. The secretive Trilateral Commission had just completed a major policy paper, "Agricultural Policy and Trade," in early 1984. American economist D. Gale Johnson, a consultant to the Agriculture Department, co-authored the report, which called for "market-oriented agriculture" in the Trilateral countries of North America, EC, and Japan. Chief of cabinet to EC Agriculture Commissioner Frans Andriessen, Aart Wijnmaalen, was also a participant in the 1984 Trilateral study. Members of the Trilateral task force on world agriculture trade was dominated by the major grain-trading interests.

Within weeks of this report's private circulation, key agriculture policymakers in Europe and the United States began echoing the "market-oriented agriculture" formulation.

The "world market" in cereals and other foodstuffs, of course, is not a "free market," but is controlled by a cartel second only to the Seven Sisters oil companies in its iron grip on world prices and trade. Some 90% of all EC agriculture export and import is dominated by six multinationals—Car-

gill, ADM-Toeffer, Continental, Bunge, Ferruzzi-Central Soya, Nestlé. The U.S. situation is the same. Yet, international trade in cereals or beef is a tiny 11% of total EC or U.S. annual production. Some 85-90% is consumed in the domestic market, with no need of the multinational traders. Thus, to orient agriculture to "world market prices," is to arrange for the "tail" of the cartel's international market to wag the "dog" of domestic market.

Cartel grabs stocks?

The markets for world agriculture commodities are highly leveraged to reward speculation, if the speculators have insider knowledge and can control significant sections of world market supply. As any honest commodity futures broker will admit, the rules of that game are rigged to select advantage of certain insiders. According to a spokesman for the Brussels oilseed association FEDIOL, a 2-3% reduction in harvest supply for grains will produce "at least a 20% price increase" on futures markets. The Chicago Board of Trade, the world's largest commodity futures trading market, exploded in speculative frenzy in June as day after day of drought continues into critical growing times for U.S. soybeans, corn, and wheat. "I have never seen anything like these futures markets," said a senior official of Continental Grain in Europe. "We are sitting on top of a pure 'weather market' with markings of major disaster. These futures speculations are the 'action of the year'; it makes the dollar speculation look tiny."

Market speculators, dominated by "insiders" like Cargill, have bid the price of all feedgrains in June to new highs. Prices are presently rising by the legal daily limit in Chicago—3% per day. At the same time, they have speculated that prices for meat will plunge as farmers are forced to rush cattle and pigs to slaughter: Feed prices make holding them prohibitive. That would produce a "glut" of meat in U.S. and European markets. But, only for a matter of weeks. Soon, shortages of meat and pork would appear in shops throughout the industrial sector.

Perhaps the most critical element threatened by the current U.S. drought is the current crop of soybeans. Soya, used for over 2,000 years in China and Japan as a vital food source, is, per unit weight, the most concentrated source of protein known, some three times more concentrated than high-protein wheats. For this reason, large trading companies have developed it into the single most important U.S. agriculture export over the past 20 years. The EC and Japan are the largest importers. The current agriculture price structure internationally is effectively controlled by the price of soybeans.

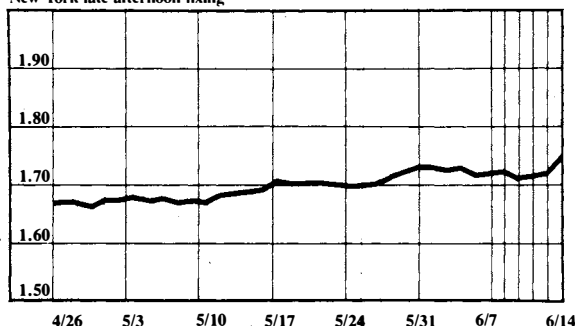
Entire regions of U.S. farmland from Iowa and Indiana to Tennessee and Oklahoma, have been switched over in the past 20 years to the growing of "cash crop" soybeans. Soybeans, crushed and processed into protein concentrates, called

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Currency Rates

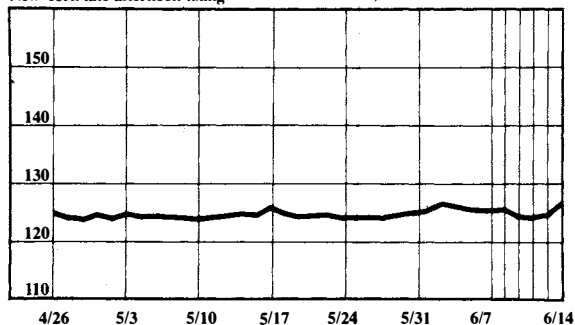
The dollar in deutschemarks

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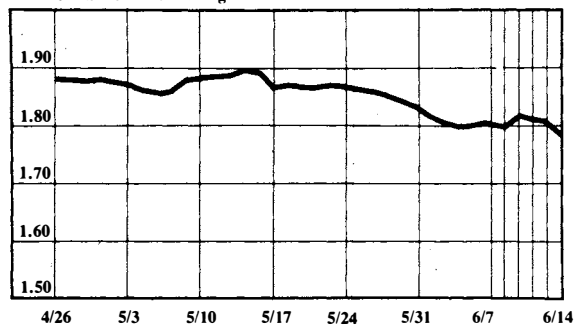
The dollar in yen

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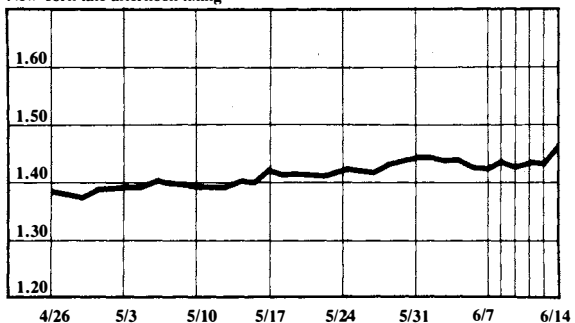
The British pound in dollars

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The dollar in Swiss francs

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soycakes, constitute the single most valuable agriculture feedstock import in the EC. Almost all is imported under a clever "tax-free" GATT exemption which the multinational trading companies secured some years ago from Brussels. The entirety of the so-called EC "grain surplus" in recent years can be traced to the record import of such soybean and other grain substitute products, which have displaced EC grain as an animal feed. The entire market is controlled by the six or so cartel grain giants, whether for soybeans from Brazil and Argentina, or from the United States. The United States produces some 60-75% of soybeans outside the East bloc.

"There is no adequate substitute for soybeans as a high-protein feed," insisted the FEDIOL representative. According to estimates from Cargill, Continental, and others, soybean stocks are at their lowest level since the mid-1970s.

The U.S. Department of Agriculture held over 500 million bushels of soybeans in 1987. But in order to reduce the U.S. federal budget deficit, the U.S. government has sold its entire surplus stock of soybeans over the past 12 months. "Right now, U.S. government stocks are sold out. There is nothing there, and this has always been used as the world's strategic soybean reserve," a commodity economist familiar with the U.S. situation told *EIR*. What is not revealed is who bought this large volume of soybeans. Traders point to Cargill, Continental, and the large grain multinationals. The same is nearly true with U.S. wheat reserves. According to the International Wheat Council, U.S. government wheat reserves, standing at 23 million tons a year ago, today stand at a mere 6.8 million tons.

EC grain reserve intervention stocks have similarly plunged sharply to less than 5% of annual EC production. On April 25, when the dangers of crop shortfalls and stock draw-downs were known to only a few trading insiders, a mysterious syndicate, whose identity remains secret, bought the *entire* EC surplus intervention stocks of milk powder, reported to be 170,000 tons. Milk powder is used as a high-protein feed substitute for soymeal in feeding calves. According to sources in the EC feed-processing industry, the buyers were a syndicate of "three to four extremely large companies, with Cargill reported among them." The reason? "Whoever did that is cornering the feed market in clear expectation of soaring prices in coming weeks."

Regardless of who grabbed the huge stocks of milk powder or wheat, what is clear is that the world is poised for the food equivalent of what the Seven Sisters did to oil prices in the artificially manipulated 1979 oil shock. A handful of multinational trading companies, operating outside government bounds, across national borders, is positioning itself to create one of the most criminal speculative food crises of the century. Food supply for hundreds of millions of people and animals will be sacrificed on the altar of "market-oriented" lunacy.

Bank Failures

Two banks failed the week of June 17 in Texas, with one bank in Arkansas requiring an FDIC assistance operation in order to avoid bankruptcy. The Kingsland National Bank, with total assets of about \$13.7 million, was closed on June 16. Security Bank and Trust will assume about \$13.2 million in 1,700 deposit accounts from Kingsland. The Century National Bank of Austin, Texas, with assets of about \$56.6 million, was also closed on June 16. Community National Bank will assume \$56.6 million in 5,600 deposit accounts and will purchase \$42.4 million of the failed bank's assets. The FDIC also injected \$2,100,000 into the Bank of Imoden, Imoden, Arkansas, in order to offset losses at the bank. A further \$1.5 million was provided by Spring Rivers Bancshares, Inc. The measures were taken to prevent the Bank of Imboden from failing.

In the previous week, Parkway Bank and Trust of Dallas, Texas, with total assets of \$42.4 million, was closed on June 9 and reopened on June 10, as a branch of Deposit Guaranty Bank. Deposit Guaranty assumes about \$39.3 million in 2,565 deposit accounts and will purchase approximately \$25.3 million of the failed bank's assets.

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