STRENGTHENING OF THE ECONOMIC POWER OF THE DOMINATING ENTITIES IN THE FOOD INDUSTRY

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Abstract: The majority of food markets comes under the priority and socially important ones. Promptly growing global companies actively get on the Russian food markets under the conditions of globalization. The revelation of specifics of processes of strengthening the economic power of the dominating entities in the food industry is the base for the development of decisions on the state regulation of development of food production and food price formation. The article considers the essence of the concept of oligopolization that allows to prove the essence of strengthening the economic power in the market (in the industry) of several largest companies, to show the variability inherent for oligopoly, to uncover the reasons that cause these changes, to reveal the orientation of high-quality changes and to determine the historical regularity of development of oligopolistic markets on its basis; to analyse the consequences of this phenomenon for society. Within the research, the concept of oligopolization is applied to the problematics of development of the dominating entities that function in food markets. The work analyses the factors that influence the growth of intensity of processes of oligopolization (the change of scopes and structure of consumer demand; the discrepancy of investment policy of oligopolists; the advancing development of network of foreign subsidiaries, the acceleration of growth of transnational capital in the developed countries and the growth of activity of oligopolists from the developing countries) and designates the peculiarities of influence of these factors on the development of food markets. The peculiarities of activity of the factors functioning in the global food markets are considered in the aspects of sales revenues; the positions held by these companies in the top ratings; the investment and innovative activity of companies. Special attention is paid to the issues of penetration and functioning of foreign companies in the Russian food markets.

Keywords: dominating subjects, the food industry, the global food companies, oligopolization

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INTRODUCTION

The processes of strengthening the economic power of the dominating entities draw attention of researchers as this process exerts an ambiguous effect on the subjects of economic relations. On the one hand, there is a growth of competitiveness of these companies in the global markets, advanced technologies are introduced, labor productivity grows, the best practices in the field of production organization, management and marketing are adopted, on the other hand, – there is a growth of dependence of small producers and their replacement from the market. The strengthening of economic power of the largest companies can provide the unreasonable overpricing, the reduction of assortment and the quality degradation of products. These problems are especially significant are for food markets, the majority of which come under the priority and socially important markets. The food security of the country, the level and quality of life of the population in many respects depends on the functioning of food markets and food industry.

The governments of economically developed countries treat the functioning of food markets with special attention, and the level of providing with food is considered by them as one of the indicators of homeland security. For this reason, the food producing enterprises and also the competitive situation and the price development in food markets come into the view of the regulatory authorities.

At the beginning of its origin the food industry and food markets were characterized as competitive ones. In the process of development of processes of capital concentration and centralization, and also of economy globalization and the development of information technologies, the situation changed. According to the data of the company Oxfam International, 10 largest transnational corporations can create a food basket of the most of the population of the planet, influence the

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conditions of their work, and also the environment [1]. It causes the relevance of research of processes of strengthening the economic power of the dominating entities and the changes happening in the structure of the food industry.

The aim of the work is the revelation of peculiarities of processes of strengthening the economic power of the dominating entities that function in the food industry.

OBJECTS AND METHODS OF STUDY

The object of research is the dominating entities that function in the food industry. The research is performed on the basis of the microsystem and institutional approaches.

The concept of oligopolization offered by the author which allows to prove the essence of strengthening the economic power in the market (in the industry) of several largest companies, to show variability inherent for oligopoly, to open the reasons causing these changes, to reveal the orientation of high-quality changes and to determine on its basis the historical regularity of development of oligopolistic markets and to analyse the consequences of this phenomenon for society is used as the basic concept. The concept ofoligopolization in this work is adapted for the problematics of development of the dominating entities that function in food markets.

The factual base of research are the data of rating agencies Forbes-2000, RAEX Ekspert RA, the Boston Consulting Group, the data of the Federal State Statistics Service, the Federal Antimonopoly Service of the Russian Federation and the data provided at the official sites of the analyzed companies.

The theoretical base of research are the works by S. Avdasheva, I. Vallerstayn, V. Kondratyev, N. Osokina and others.

RESULTS AND DISCUSSION

In modern conditions there is the strengthening of the economic power of the largest companies by means of the redistribution of capital, property and imperious relations with the purpose of profit maximization. This process provides the formation of the oligopolistic structure of the market or the formation of a tendency for oligopolization when the quality (the nature of interaction between the participants of the market) and quantitative indicators (first of all, concentration indicators) change, but have not yet reached the characteristics and values allowing to refer the market structure to a structure of oligopolistic type.

Oligopolization as the economic phenomenon

Oligopolization is the steady change of relations between the participants of the market of certain goods (industry) causing the allocation of key constituents (oligopolists) by the redistribution of objects of property, capital, imperious relations and the consolidation of their positions with their transformation into industry and market actors. It acts as the characteristic of process of transformation of big business.

Oligopolization is both the factor and the product of globalization, it exerts a considerable effect on the development of states, synchronizing their activities; it acts as the characteristic of process of transformation of big business, the reflection of megaprocesses, including that of cyclic nature. The aspiration to oligopolization of the market can be blocked by a number of internal (lack of financial resources, a low profit margin and so forth) and external factors (the antimonopoly legislation, the occurrence of competitors in this market, state regulation).

Characterizing oligopolization, it must be kept in mind that it is a process. If oligopoly, to a certain extent, is a static concept which reflects the profile of structure of the market at a certain timepoint, then oligopolization is a concept which is, to a greater degree, dynamic and reflects the availability of variability and fluidity of the market structure. The process of oligopolization is not linear and develops unevenly in time and space. For the last decades the processes of oligopolization have become characteristic of food markets and the food industry.

Oligopolization can have an intra-branch and inter-branch character. The intra-branch oligopolization is related to the strengthening of the economic power of oligopolists within the industry. The inter-branch oligopolization is related to the penetration of oligopolists into other branches.

Oligopolization has an essential effect on the national development, determining the place of the specific country in the world economic system. The flows of products, services, labor power, capitals, technologies, information, etc. circulating in oligopolistic companies has an effect on the export of certain countries, determining their international specialization. Oligopolization provides the development of new types of economic relations penetrating the national economic systems, strengthening their interrelations and synchronizing their activities. The external form of oligopolization is the allocation of the dominating firms, the actors controlling a considerable part of industry production and/or market sales in the structure of industries and goods markets.

Global food companies in the Russian market

Let us consider the peculiarities of activities of the actors functioning in global food markets in the Russian economy. The largest companies which are engaged in food production are allocated according to the rating of Forbes-2000 (2015) including the assessment of the companies by sales volume, profit, assets and market value [2]. The data on the first ten companies of the rating are listed below. The data provided at the official sites of these companies were also used to characterize them. Let us pay attention to the fact that most of the largest companies have settled down quite sufficiently in Russian food markets.

Nestle (Switzerland). Ranks 30th in the rating, the sales volume is 100.1 billion dollars. The company produces instant coffee, mineral water, chocolate, confectionery products, dairy products, baby food, dry breakfasts and so forth. It has more than 8 thousand

trade marks of foodstuffs among which are KitKat, Nescafé, Nescafé Cappuccino, Nespresso, Nestlé Pure Life, Nesquik Cereal, Cerelac, Nestea, etc. Operates in 86 countries. Nestle is the leader of the Russian market for instant coffee, cocoa, the market of products of baby food, cookery, the markets of dry breakfasts and instant porridges, and it also takes the leading positions in the market of packed chocolate, ice cream and forages for pets.

Mondelēz International (the USA). Ranks 188th in the rating, the sales volume is 34.2 billion dollars. The company produces chocolate, biscuits, lollipops and it is the second large producer of chewing gum in the world. Owns the brands Milka, Oreo, Cadbury, LU, Nabisco, Tang and Trident, Dirol, etc. Operates in more than 80 countries. The investments of the company into the Russian economy have reached 1 billion dollars since 1994.

Archer Daniels Midland Company (the USA). Ranks 220th in the rating, the sales volume is 81.2 billion dollars. The production of the company is divided into three main segments: the production of vegetable oils, the production of corn, the production of ingredients for food production, operational service. Owns the brands CardioAid, Coroli, VegeFull, Oilio, Nutrisoy, etc. Sells its products in 160 countries of the world. In Russia there is a department of the company that sales food ingredients and components of compound feeds, and also the regional sales office "WILD Flavors & Specialty Ingredients".

Danone (France). Ranks 285th in the rating, the sales volume is 81.2 billion dollars. The company produces fermented milk products, mineral water, drinks, baby and clinical nutrition. Operates in 140 countries of the world. The volume of investment of Danone has reached 2 billion dollars from the beginning of its activities in 1992 in Russia. The Danone Group of companies in Russia includes 18 plants which produces products of such brands as Danone, Aktivia, Actimel, Rastishka, Danissimo, Prostokvashino, Bio Balans, Aktual', Smeshariki, Tema and others.

Wilmar International (Singapore). Ranks 369th in the rating, the sales volume is 43.1 billion dollars. The company produces palm-oil, oil-bearing crops, vegetable oils, sugar and sweeteners, flour, rice and so forth. It operates in more than 50 countries.

General Mills (the USA). Ranks 407th in the rating, the sales volume is 17.6 billion dollars. It produces meat paste, flakes for breakfast, products for baking, muesli bars, tinned corn, etc. Owns the brands Häagen-Dazs, Old El Paso, Green Giant, Betty Crocker, Pillsbury, Cheerios, etc. Operates in more than 30 countries of the world.

Kraft Foods (the USA). Ranks 410th in the rating, the sales volume is 18.2 billion dollars. The list of products includes: chocolate Milka and AplenGold, Vozdushnyy, Côte d'Or, the brands of coffee Jacobs, Cartenoire and MaxwellHouse, cream cheese, chewing gum, staple foodstuffs (macaroni, cheese, meat, desserts, sauces and drinks). Has been operating In Russia since 1994, ranks 2nd in the chocolate market.

JBS (Brazil). Ranks 453rd in the rating, the sales volume is 51.2 billion dollars. Is the world leader in the field of production of beef, mutton and poultry, and also pork. Has access to consumer markets in more than 150 countries. Russia annually imports more than 500 thousand tons of chicken meat, about 1 million tons of pork, about 1.1 million tons of beef.

Associated British Foods (Great Britain). Ranks 462nd in the rating, the sales volume is 21.4 billion dollars. It produces sugar, vegetable oils, food ingredients, etc. Operates in 48 countries.

Tyson Foods (the USA). Ranks 499th in the rating, the sales volume is 39.6 billion dollars. It produces beef, pork and poultry.

Such companies as Mars, PepsiCo, Coca Cola, Unilever, etc. actively function in the Russian food market, as well. The processes of oligopolization are especially clear in the beer market. The tendency of the last years in the beer industry is the buying up of large and average regional manufacturers by transnational corporations (Hartwall PLC, Carlsberg Breweries AS, Scottish&Newcastle, Heineken, Efes Beverage Group, SABMiller) and the replacement of those who is independent yet. The specified transnational corporations own 85% of the Russian beer [3] market.

The report of the Educational and Methodical Center of Agricultural Consultation and Retraining of Personnel of Agro-Industrial Complex "Participation of the Foreign Capital in the Russian Food Industry" (2014) [4] provides the data that the share of foreign capital in the Russian food industry is 60%. In most subindustries of the Russian market of food and drinks the greatest share of the market belonged to foreign corporations: nearly 60% of the market of conversion of milk; more than 70% of the market of juice products; about 80% of the market of refrigerated vegetables and fruit; more than 90% of the market of fruit and vegetable preservation. More than 70% of the Russian market of juice products belonged to two western corporations – PepsiCo and Coca-Cola. Due to the imposing of countersanctions from the Russian government, the situation begins to change in favor of the omestic producers.

The domestic companies hold a leadership position in the markets of meat processing and bakery. It should be noted that there is also a tendency of taking over smaller companies by large domestic and foreign corporations in these segments.

There is a decrease the last two years in the number of foreign competitors entering again in the Russian markets. In case of the food industry, such dynamics is caused by the peculiarities of business activity in Russia due to the imposition of sanctions from the USA, the European Union and a number of other countries, and also of food embargo from Russia. At the same time, it should be noted that the significant amount of segments of the Russian food market is already occupied with foreign companies, which are co-owners of domestic enterprises.

Factors influencing the intensity of oligopolization

The enlargement of the companies functioning in food markets acts as a universal tendency. The factors influencing the growth of rate and intensity of

oligopolization are revealed and the peculiarities of these processes in food markets are designated in the course of the research.

1. Change of scope and structure of the consumer demand. It is reasonable to differentiate the processes of oligopolization under the conditions of increasing, stable and decreasing demand.

The level of competition between oligopolists under the conditions of increasing demand (of the growing industry, of the increasing market) is rather low, there are possibilities of development without the violation of interests of competitors. The rates ofoligopolization are usually high.

The so-called procedure of "pushing out" from the market (price wars, the establishment of oligopolistic collusions and of model of partial oligopoly are characteristic of this stage) begins under the conditions of stable demand. The increase in market shares of oligopolists is only possible due to the narrowing of market shares of competitors under the conditions of stable demand, the rates of oligopolization slow down. The periods of relatively stable demand are characteristic of the food industry and Russian food markets now.

The model of shrinking demand is characteristic of either a stagnating industry or the period of economic crisis. While companies develop rather independently in the period of increasing demand, the strengthening of concentration by merging and taking over companies for the purpose of increase in production efficiency is characteristic of the period of shrinking demand. The shrinking demand forces oligopolists to broaden the spheres of their activities, increasing the chains of added value due to the provision of servicing and repair of the issued goods. "Commitment to the client" becomes an important competitive advantage under the conditions of decreasing demand. In this regard the control over distribution channels is of particular importance.

It is also necessary to take into account the change of consumer preferences concerning foodstuffs, especially in the developed countries. The demand shift from simple natural products to deep-processed products with a higher added value is noted. Today special requirements are imposed to food in the economically developed countries the main of which are the creation of high consumer value which is expressed in time saving, the convenience of acquisition, an advantage to health and the satisfaction of various taste preferences; in the compliance of quality of foodstuffs to the national and international standards [5, p. 39]. At the same time, the issue of providing the population with food for the purpose of hunger elimination is particularly acute in the poorly developed countries. The consumption in the countries with a low income level is about 2400 kcal per capita a day (while the consumption in the economically developed countries is 3500 kcal per capita a day) and consists generally of grain, root crops and tuber crops, though proteins and fats contained in such foodstuffs as meat, dairy products and vegetable oils are quite important [6]. An acute problem for the underdeveloped countries is providing the population with at least the necessary mix of nutrients [7]. In this case a demand for cheap and the most available food is created.

2. Discrepancy of the investment policy of oligopolists. The capabilities of intra-branch expansion of capital are constantly decreasing in the course of oligopolization. The increase in production capacities requires the corresponding increase in its share in industry sales which becomes more and more difficult to reach. The interbranch capital inflow in the traditional form of starting one's open business in other branch encounters essential obstacles, as well. At the same time, the sustained profits made thanks to group monopoly reinforces the process of capital accumulation. The contradiction is resolved by means of new forms of interbranch movement of capital, first of all, of the diversification and conglomeration performed mainly by means of taking over and merging.

Companies penetrate other branches with the purpose to strengthen their positions in the primary market. New types of productions more and more often emerge across various branches. The lines that earlier separated and isolated branches become more and more conventional. The new equipment and technological processes unite the earlier separated branches. The communication between branches as mutual suppliers and consumers becomes more and more close.

In addition to it, the aspiration of oligopolists to invest in innovative industries because of the enhancing interwining of various areas of new knowledge and the need of further development of scientific research should be noted. The companies realize the importance of creation and introduction of innovative products into the market. According to M. Hristofi and E. Leonidi, innovative products enhance the role of the organization and increase its financial performance due to the creation of stable benefit, which increases the economic aspects of stability [8].

Referring to global companies which are the leaders in the field of innovations it should be noted that the companies functioning in the food industry are not among the most innovative companies of the world determined by the rating agency Forbes and the Boston Consulting Group (BCG). Apple (the USA), Google (the USA), Tesla Motors (the USA), Microsot Corp. (the USA), Samsung Corp. (South Korea), Toyota (Japan), BMW (Germany), Glead Scienses (the USA), Amazon (the USA) and Dimler (Germany) [9] are on top of the rating of BCG.

According to Rosstat, [10] the percentage of the organizations of the food industry (including the production of drinks and tobacco) in Russia that perform technological innovations was 9.3% in 2012, 9.0% in 2013 and 10.3% in 2014 which is a little more than the average Russian indicators. The leaders in the field of technological innovations were the following branches: the production of coke and oil products; the production of electric equipment, electronic and optical equipment; the production of vehicles and equipment; the production of machines and equipment. The share of costs of the food industry, including the production of drinks and tobacco, in total of costs for technological innovations was 3.4% (25.9 billion

rubles) in 2014. The insufficient innovative activity of Russian enterprises is related to the deficiency of financial resources, a high risk level, the availability of bureaucratic barriers, the persistence of thinking, the deficiency of qualified personnel.

The processes of oligopolization are in many respects determined by the specifics of investment policy of oligopolists. P. Suizi draws attention to the fact that, on the one hand, there is an increase in the flow of profit, on the other hand, there is a decrease in demand for additional investments in the markets which are more and more managed by few [11]. The author expresses a concern for a possible negative effect of oligopolists on the processes of capital accumulation. The situation when there is more and more profit and fewer and fewer profitable investment opportunities precedes the delay of capital accumulation and the decrease in the rates of economic growth.

The interbranch capital flow becomes difficult in the process of further oligopolization of competitive sector and as fast as the possibilities of formation of new branches which do not compete with the already existing ones decrease. In the course of oligopolization the interbranch capital flow is performed within oligopolistic structures themselves. The interbranch communication consists in the creation of joint industrial complexes, research centers, the advertizing and sales machinery, general funding channels, and also is shown in communications with authorities. This method of redistribution of resources has a number of benefits. First, on being introduced in a new field of activity, the company is provided with the necessary financial, human and scientific and technical resources, secondly, the management system of the company is sufficient, thirdly, considerable savings on advertizing expenses is possible, fourthly, the company has an opportunity to sell new products in the geographical markets which are already developed by it.

A number of leading food companies are characterized not only by intrabranch, but also interbranch investment. Under the influence of needs of the countries with an emerging economy, which have a large population, for food import, and also of lack of land and water resources the amount of investment into their agricultural production increases.

The Report of UNCTAD on world investments of 2009 [12] is devoted to the issues of penetration of transnational corporations into agricultural production. It is noted in the Report that the transnational corporations using agricultural contracts and other non-equity forms of participation in the agricultural industry operated worldwide in more than 110 countries of Africa and Latin America. For example, in 2008 the Nestle corporation (Switzerland) had contract agreements with at least 600000 farmers in more than 80 developing country and countries with economy in transition as dropshippers of different types of agricultural products [9]. The agrarian sphere is the object of interest of a lot of global food companies.

The attention of transnational corporations is also drawn by other spheres. Thus, Nestle performed portfolio investments into the enterprises of the perfumery and cosmetics and pharmaceutical industry. Archer Daniels Midland Company, in addition to the agricultural industry, is coming into the sphere of production of fuel ethanol and biodiesel of rape. There are quite a lot of similar examples. At the same time, the global food companies that have kept their profile for decades continue to function. Danone, Coca Cola, PepciCo and other companies are among them.

Active foreign investment is characteristic of the global food companies from the developed countries. The developing countries and the countries with emergent markets often become the object of their interest. A lot of transnational corporations came to the Russian markets with the schemes of penetration worked out in Central and Eastern Europe.

Short-term profitability is not always the determining factor for making decisions about penetration. The share of investments into the Russian project is often an insignificant share of total of investments for the largest foreign companies, therefore they are usually interested in taking over and retention of the maximum market share counting on the receipt of considerable income from the market growth in the long-term.

The reinforcement of positions of foreign oligopolists in Russia can be developed in various forms: the neutralization of local competitors by taking them over; the introduction of dumping and discrimination prices; carrying out "restrictive business practice" (for example, the restriction of sale of technology; imposing of use of a certain trademark; the fixation of prices of the products produced according to patents and licenses; the obligatory purchases of semifinished products and equipment from the specific suppliers and so forth). Oligopolists can buy enterprises and subsequently reduce or stop the release of goods to restrict the volume of national production.

Foreign food companies actively penetrate Russian markets. 23705 organizations with the participation of foreign capital (without small enterprises) had operated in the Russian Federation by October 1, 2015, 493 enterprises (2.1% of total of the enterprises with the participation of foreign capital) of them operated in the sphere of production of foodstuffs, including drinks and tobacco [13]. About 5% of the work power employed at the enterprises with the participation of foreign capital is employed at these enterprises. Fifty largest foreign companies operating in Russia are 10% of their total number, at the same time their revenue is about a quarter of the total revenue of the companies with the participation of foreign capital [calculated by 13 and 14].

Table 1 provides the information on the total revenues of the largest companies with the foreign participation operating in Russia in the food industry. These companies are included into the rating of Forbes "50 Largest Foreign Companies Operating in Russia" [14].

Table 1. The largest foreign companies operating in Russia in the food industry in 2014 included into the rating of Forbes "50 Largest Foreign Companies Operating in Russia"

Position in the rating	Name of the Russian company / name of the foreign investing company	Revenue for 2014, billion rubles (change of revenue)	Share of the Russian revenue in the global economy, %	Country	Year of entry into Russia
8	Pepsiko Kholdings / PepsiCo	171 (+9%)	7	the USA	1974
17	Mars / Mars	102 (+42%)	8	the USA	1991
19	Nestle Rossiya / Nestle	97 (+13%)	3	Switzerland	1995
21	Danon Rossiya / Danone	96 (-3%)	9	France	1992
23	Baltika / Carlsberg Group	83 (-5%)	20	Denmark	1993
25	KKEBSE / Coca-Cola Hellenic Bottling	68 (+7%)	21	Switzerland	2001
26	Makdonalds / McDonald's	66 (+4%)	6	the USA	1990
28	Mon Delis Rus' / Mondelez International	63 (+13%)	5	the USA	2012
48	San Inbev / Anheuser-Busch InBev	36 (-5%)	2	Belgium	1999

Source: 50 krupneyshikh inostrannykh kompaniy v Rossii [50 Largest Foreign Companies Operating in Russia]. – URL: http://www.forbes.ru/rating/50-krupneishikh-inostrannykh-kompanii-v-rossii/2015?full=1&table=1 (accessed 03/19/2016).

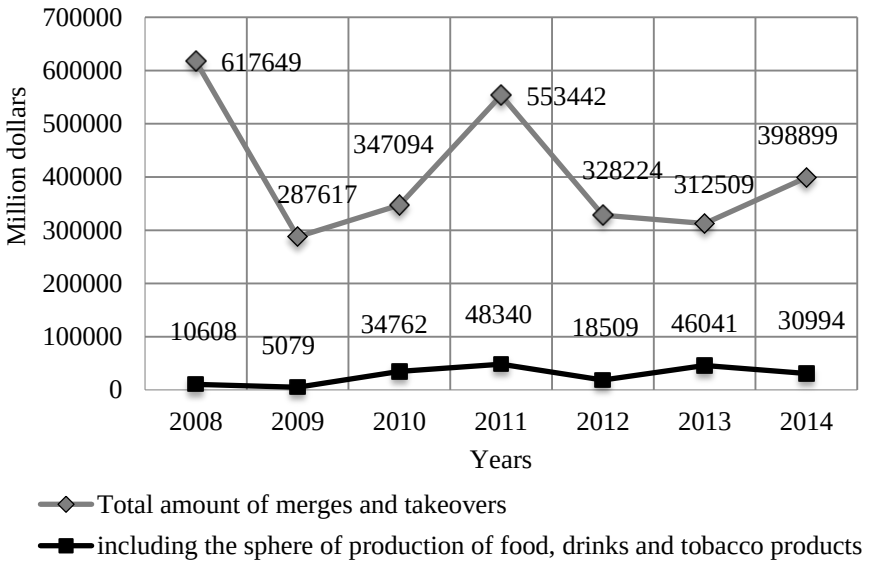
According to the rating, of 50 largest foreign companies operating in Russia nine companies operate in the food industry. Their revenue is nearly 16% of the total revenue of fifty companies. Six of nine companies had positive revenue dynamics in 2014. The share of Russian revenue in the global economy varies from 2% (Anheuser-BuschInBev) to 21% (Coca-ColaHellenic Bottling). Thus, the Russian food market and, consequently, the Russian food industry become more and more significant for foreign investors with the course of time. At the same time, it should be noted that the peak of merging and taking over from foreign investors is already behind. Now the task of the foreign companies functioning in Russian markets is to hold the positions.

The largest foreign companies operating in the food industry take rather high positions in the rating of RAEX Ekspert-RA "Ranking of 600 Largest Russian Companies following 2014" [15]. Thus, among the first ten food companies included into the rating there are PepsiCo Holdings (the 56th place in the total rating), Nestle Rossiya (the 108th place), Baltika (the 124th place), Mars (the 128th place), KKEBSE (the 140th place), Mon Delis Rus' (the 159th place) and McDonald's (the 189th place). Thus, 7 companies with foreign capital are among the top ten leaders in sales volume in the food industry. Cherkizovo Group (the 148th place), EFKO group of companies (the 163rd place), United Confectioners (the 210th place) are among the domestic companies included into the top ten. Such an arrangement of places in the rating tells us about the strong positions of the companies with foreign capital in the Russian economy.

3. The advancing development of network of foreign subsidiaries, the acceleration of growth of transnational capital in the developed countries and the growth of activity of oligopolists from the developing countries. The power of oligopolists increases in modern conditions both due to the expansion of scales of production, and by means of redistribution of capital as a result of their centralization.

The growth of economic power and the expansion of the sales market of oligopolists during the last two decades occurs generally due to the buying up of already operating enterprises whereas in the 50-60-ies of the XX century 2/3 of foreign investments went to the construction and modernization of plants, and 1/3 went to the buying up of already operating enterprises. At the beginning of this century the direct foreign investments were less than 20% of total of foreign investments, and cross-border merges and takeovers – more than 80% of the volume of investments [16, pp. 743–744].

According to the data provided in the World Investment Report (2015) [17], the amount of merges and takeovers of companies was 2845.4 billion dollars from 2008 to 2014. The maximum amount of merges and takeovers was in 2008 (617 649 million dollars). The most active merges and takeovers were in 2014 in the financial sphere, pharmaceutics, metallurgy, communications and the media industry. The sphere of production of food, drinks and tobacco products was in the 6th place (7.8% of total of transactions) in the amount of merges and takeovers in 2014. Fig. 1 provides the dynamics of amounts of merges and takeovers in total in the world, including that in the sphere of production of food, drinks and tobacco products, from 2008 to 2014.



Note. Compiled from: World Investment Report 2015: Reforming International Investment Governance. – New York: UNCTAD, 2015. – URL: http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf (accessed 02/20/2016).

Fig. 1. Dynamics of amounts of merges and takeovers in the world from 2008 to 2014.

The increase in the number of merges and takeovers is related to the aspiration to quick capitalization, the penetration into perspective markets, the desire to keep competitors under control and to keep stability during the deterioration in the condition of certain markets, the possession of considerable financial resources. The most considerable volume of transactions in 2014 accrued to service trades (53.4%) and the manufacturing sector (36.6%). In recent years there are rather smaller amounts of merges and takeovers in the primary sector.

As a result of merges and takeovers, and also of the concentration of capital, the scale of assets of oligopolists increases, and production volume increases, as well. In addition to it, there is the active formation of chains which integrate not only firms, but also national economies.

The balance of power between oligopolists of different groups of countries changes under the conditions of globalization. It is shown in the advancing growth rates of production volumes and investment of oligopolists from the developing countries and the countries with economy in transition.

According to UNCTAD [18], the investments into the states with economy in transition decreased by 51% in comparison with 2013 and made 45 billion dollars. The inflow of world direct foreign investments in 2014 decreased by 8% to 1.26 trillion dollars.

There is an essential decrease in the amounts of direct foreign investments to Russia: they have decreased by 70% to 19 billion dollars. Foreign investors, especially western ones, were restrained by geopolitical conflicts, anti-Russian sanctions and the negative outlooks of economic growth.

The aggregate inflow of investments was higher in the developing countries than that in the developed ones, having made 700 billion dollars (an increase by 4% in comparison with 2013). By the end of 2014 56% of all world investments had been directed to this group of countries. China in which 128 billion dollars were invested became the leader of 2014 in investment attraction. It was followed by Hong Kong with the attracted capital of 111 billion dollars. The USA are in the third place with the volume of investment inflow of 86 billion dollars: In fact, China has ousted the USA from the position of the leader the latter have held since 2003. The top five also included Singapore and Brazil.

The dynamism of transnational corporations of the developing countries and the countries with economy in transition contrasts with the delay of investment activity of transnational corporations from the developed countries. According to the conclusions of UNCTAD, the main factors of investment of developing countries are chasing consumers in the sphere of IT services (India), the competitive pressure from foreign oligopolists, the state policy of support of foreign investments (China), the growth of costs, especially that of work power (Malaysia); the crises or restraining factors in the home country, in particular, those which provide the growth of inflationary pressure (Turkey, Chile); the deficiency of major resources necessary for the expansion of economic activity; the threat of global competition in the domestic market [19].

Thus, the growth of rate and intensity of oligopolization is influenced not only by the expansion of activities of oligopolists from the developed countries, but also by the fixing of oligopolists from the developing countries and the countries with economies in transition in the global market which promptly gain steam and gradually reduce the gap with the leading oligopolists of the developed countries. It is remarkable that this tendency remained during the world economic crisis. However the strengthening of positions of the food companies from the developing countries and countries with economies in transition is not a clear tendency. The companies from the economically developed countries continue to take the leading positions.

Stages of oligopolization

Let us mark with the following main stages of oligopolization in the developed countries based on our research of tendencies of evolving of oligopolistic markets (Fig. 2). The maturity of processes of oligopolization is a criterion of periodization.

1. Horizontal oligopolization (the end of XIX – the beginning of the 20th century). During this period there was a transition from capitalism of free competition to monopolistic capitalism. Just then a lot of American, German, French, English and Russian oligopolistic companies were created by means of horizontal merges of large companies.

The first food trade transnational corporations were created in the 19th century. Subsequently they penetrated into the sphere of agricultural production, including that of low developed countries. During this period such companies were created as United Fruit Company, Nestle, Brooke Bond and others.

2. Vertical oligopolization (the 20-ies – the 60-ies of the XX century). In the 20-ies – the 70-ies of the XX century there was the formation of vertically integrated companies controlling several markets.

After World War II the transnational corporations operating in the food industry began to control not only the production, but also the conversion and sale of foodstuffs for the local population of the dependent countries. From 1960 to 1975 the subsidiary firms of such companies as General Foods, Coca-Cola, Standard Brand, Ralston Purina, General Mills, etc. were established in Central and South America. The subsidiary companies Unilever, Nestle, Del Monte, etc. took hold in Africa. In 1975 130 largest food companies had more than 800 branches in the developing countries [20, pp. 19–23]. The transnational corporations put the import of equipment and technologies and fertilizers under control, monopolized production and sale, had a considerable effect on the pricing of food and agricultural machinery by means of the developed branch network.

3. Increase in the external expansion of oligopolies (the 70-ies – 90-ies of the XX century). During this period there is the rise of global oligopolists and the stable division of a number of markets by oligopolistic companies.

The distinctive features of oligopolists of that period were the following: the global approach to production and sales; the good knowledge of competitors and methods of global competitive struggle; the considerable volume of funding of scientific research; the management and coordination of functioning of their branches on the basis of modern information technologies; the adaptability of structure to the constantly changing conditions; the conclusion of integration agreements with other oligopolists; the inclusion of transnational banks and financial institutions carrying out, on international scale, the operations in taking over and merging to other companies, leasing, crediting and investment into the structure of oligopolistic companies; the reinforcement of interaction with the medium and small business both in the home countries and in the countries of implementation of their activities.

At that time the transnational corporations subordinated such a considerable part of world production, conversion and sale of food that they had an opportunity to provide global flows of food. The concentration and centralization of capital of the largest companies increased. In the mid-seventies 50 largest food companies of 30 thousand companies functioning in this branch in the USA got nearly 90% of profit of this sector [20, pp. 19–23].

4. Global oligopolization (the 90-ies of the XX century – the present). At this stage there is not only the globalization of activities of oligopolists from the developed countries, but also the fixing of oligopolists from the developing countries and the countries with economies in transition in the global market. Practically all oligopolists perform their activities in world markets.

The largest oligopolistic companies have the following distinctive features: the combination of globality and locality of activities; the high level of innovative activity and advanced information technologies in all fields of activity; the high opportunities of providing stability; the concentration of highly skilled work power; the diversification, finansialization and virtualization of activities; the formation of the system of cooperation with the national and regional authorities to provide the loyalty of authorities of the home country and the host country; the participation in strategic alliances.

In the developed countries the dominant position is held by the companies competing with each other in the markets of the majority of countries. Generally they belong to the extractive, pharmacological, electronic, electrotechnical and automotive industries. The formation of global oligopolies is directly related to the globalization of activities of large companies of not only tdeveloped, but also developing countries.

Characterizing the present stage of oligopolization, we can draw a conclusion that the stable domination of oligopolies of developed countries is peculiar for the modern economy. It is shown in the huge, constantly extending scales of their activity, the high level of influence on other subjects and the submission of them to their interests.

At the beginning of the 21st century there is the further consolidation of power of the largest companies functioning in food markets. The global food companies become the initiators of formation of global chains of added value on the way "from field to fork", splitting up the process of production of goods into a lot of stages and fragmenting their spatial placement. The functioning of companies as the owners of global chains of added value can be shown from the point of view of the opportunity to create the considerable amounts of added value which will not be redistributed for benefit of other participants of the chain, and the opportunity to take it from other participants of the chain. The domination arises proceeding from the opportunities of coordination of all the production process and establishment of proportions of cost distribution. The stronger positions the control link holds, the higher the redistribution scales.

State regulation of food markets

Referring to the strengthening of positions of the dominating entities of the food industry in food markets, it is also necessary to consider the issues of state regulation of this sphere. Taking into account the strategic importance of food markets, the governments of developed countries use various methods of regulation of these markets and support of food companies. The package of measures aimed at the support of grain markets, the purchase of food surplus, the fixing of threshold prices for the imported goods and the establishment of subsidies for the exported products, the help in promotion of products in the foreign markets and other measures are accepted.

In Russia in recent years the authorities have redoubled attention to food markets in relation with imposing the food embargo. Speaking about the ban to import products to Russia from the European Union countries at the Meeting of the State Council of the Russian Federation, the President of Russia V.V. Putin declared that this measure is caused by the need to protect the interests of Russians. "The limitations introduced against our country are nothing but a violation by some of our partners of the basic principles of the WTO. The principle of equal access for all countries involved in economic activity to the markets of goods and services is being violated; the most favoured nation treatment in trade and the principle of fair and free competition is being ignored" [21].

The prices of food products are under the spotlight of authorities. Fig. 2 provides the dynamics of consumer prices of food products across the Russian Federation in 2001–2015. There is a heterogeneous price behavior in this period. The last price surge took place in 2014–2015. The maximum growth rate of the prices for the last thirty years was in 1992 and was 26.2%.

The Russian Competitiveness Report 2015 prepared by the Federal Antimonopoly Service of the Russian Federation (the FAS of Russia) states that the FAS of Russia according to the competence determined by the Law on Protection of Competition controls food markets on a regular basis [22]. This work is aimed to avoid an unreasonable increase in prices in the specified markets, to suppress both the agreements and coordinated actions of the participants of food markets, and the agreements or coordinated actions of public authorities of subjects of the Russian Federation, the local government bodies and economic entities which can provide or already provide the non-admission, restriction or elimination of competition, and also the facts of acceptance of the acts, limiting competition, by the executive bodies.

The main aspects of such work are the following:

(1) Performing the analysis of goods markets for the purpose of assessment of competitive situation.

(2) The monitoring of markets of basic socially important goods for the purpose of control of monopolistic activities of economic entities regarding the establishment of economically unreasonable prices of food products by them.

(3) The implementation of control actions and checks in the markets of socially important goods.

(4) The control of actions of public authorities of subjects of the Russian Federation and municipal authorities aimed at competition restriction, including the establishment of restrictions of free movement of goods between the territories.

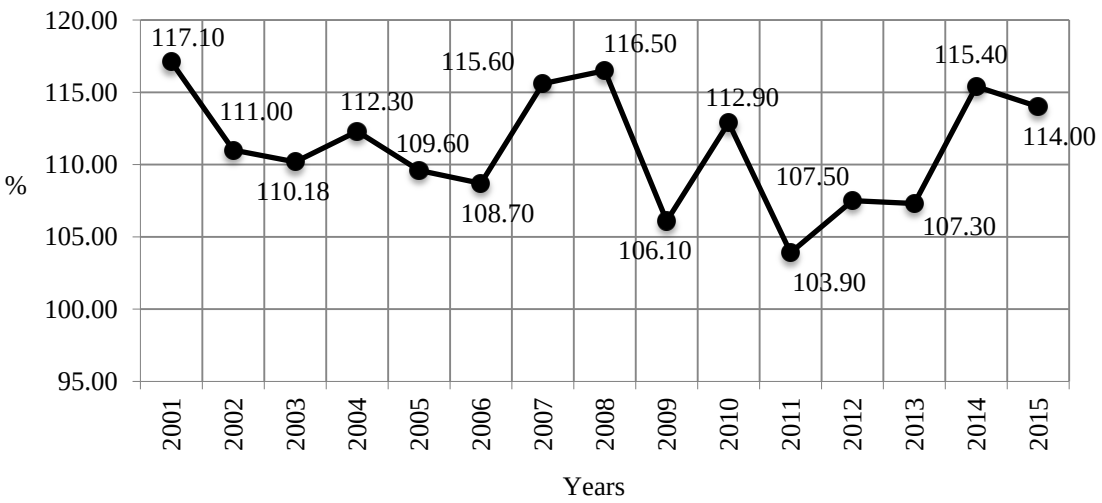
(5) The control of agreements of economic entities that provide the establishment and maintenance of prices in the market, the geographic division of the market according to the volume of sale or purchase of goods, and other violations.

(6) The control of observance of antimonopoly law when subsidizing agricultural producers.

(7) The control of providing with a non-discriminatory access to the infrastructure facilities of the grain market (elevators, warehouses, grain reception centres, grain terminals, rail and road transport).

(8) The decrease in administrative barriers.

(9) The development of relations between the retail chains and suppliers of food products, the control of observance of the law "'On the Fundamentals of State Regulation of Trade Activities in the Russian Federation" regarding the anti-monopoly control.



Source: Consumer price indexes across the Russian Federation in 1991-2016 – URL: http://www.gks.ru/free_doc/new_site/prices/potr/tab-potr1.htm (accessed 22 March 2016).

Fig. 2. Dynamics of consumer prices of food products across the Russian Federation in 2001–2015.

The FAS of Russia also performs a weekly monitoring of wholesale selling prices of specific types of food products. The list of products subject to monitoring includes: beef (except boneless meat), pork (except boneless meat), hen (except chicken quarters), whole frozen fish, butter, drinking milk, potatoes, fresh white cabbage, common onion, carrots, apples and buckwheat.

The subjects of monitoring are the companies and entrepreneurs included in the Register of Economic Entities (except for financial organizations) having the share in the market of certain goods in the amount of more than thirty five percent or holding the dominant position in the market of certain goods if the cases of recognition of provisions of economic entities dominating, and also the economic entities occupying an essential share in the corresponding goods markets, carrying out the production and/or wholesale of the goods included in the list, are established in relation to this market by other federal laws for the purpose of their application. The retail chains that often hold up the prices of food products got under the spotlight of regulatory authorities, as well. In addition to it, retail chains began to penetrate directly the sphere of food production, controlling all the process "from field to fork".

However, the situation in the food market can not be regarded stable yet. The development of new productions, the well-reasoned price policy, the expansion of measures of support of domestic agricultural enterprises and food productions is required. It will allow to increase the level of food security of the country and the competitiveness of Russian food companies.

CONCLUSION

The functioning of global food companies has a significant effect on the subjects of the economic relations, the food security of the country, the level and quality of life of the population. In modern conditions there is the strengthening of economic power of the largest companies by the redistribution of capital, property and imperious relations for the purpose of profit maximization. This process provides the formation of oligopolistic structure of the market or the formation of a tendency for oligopolization.

The peculiarities of functioning of global companies functioning in food markets will be the following:

– The considerable sales volumes, the inclusion into the leading world ratings;

– The expansion of range of produced goods to satisfy the requirements for food both of inhabitants of the developed countries (the demand shift from simple natural products to deep-processed products with a higher share of added value;

– The creation of high consumer value which is expressed in time saving, the convenience of acquisition, health benefit and the satisfaction of various taste preferences; in the compliance of quality of food products with the national and international standards), and of the low developed countries in which the demand for cheap and most available food is created;

– The availability of both diversified and profile companies functioning in food markets;

– The formation of tendency of entry of trading companies into the sphere of food production;

– The average level of innovative activity of food enterprises;

– The domination of companies of developed countries in the implementation of foreign investments while the companies from the developing countries and the countries with emergent markets are active foreign investors in the bank sphere, extractive industry, electronics and other branches. The developing countries and the countries with emergent markets, including Russia, are often the objects of investment of the companies from the developed countries;

– The preservation of considerable amounts of merges and takeovers in the sphere of production of food, drinks and tobacco products in the world (the maximum is in 2011);

– The domination of the companies with foreign capital in the markets of developing countries and the countries with emergent markets. This tendency is also characteristic of a number of Russian food markets.

Taking into account the strategic importance of food markets, the governments of developed countries use various methods of regulation of these markets and support of food companies. In Russia in recent years the authorities have redoubled attention to food markets in relation with imposing the food embargo. In the developed social and economic conditions the development of new productions, the well-reasoned price policy, the expansion of measures of support of domestic agricultural enterprises and food productions is required. It will allow to minimize the negative consequences of enlargement of dominating entities in the food industry, to increase the level of food security of the country and the competitiveness of Russian food companies.

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