

## **PART 2**

### **INTRODUCTION:**

# **THE GOVERNMENT RESPONDING TO THE FOOD PRICE CRISIS**



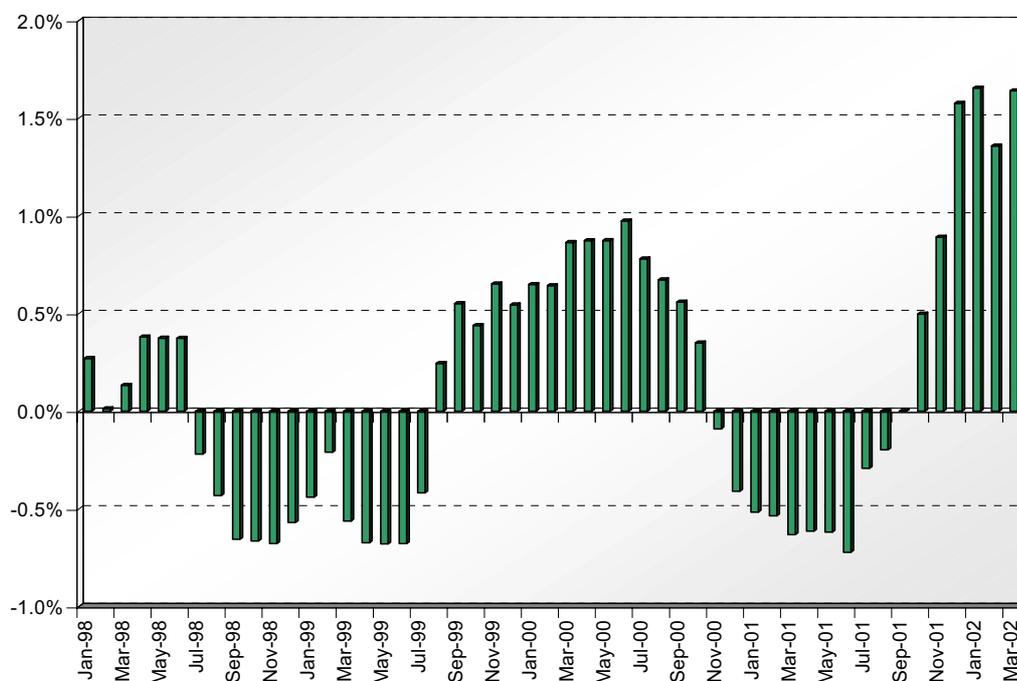
## CHAPTER 1

### BACKGROUND TO THE APPOINTMENT OF THE FOOD PRICING MONITORING COMMITTEE

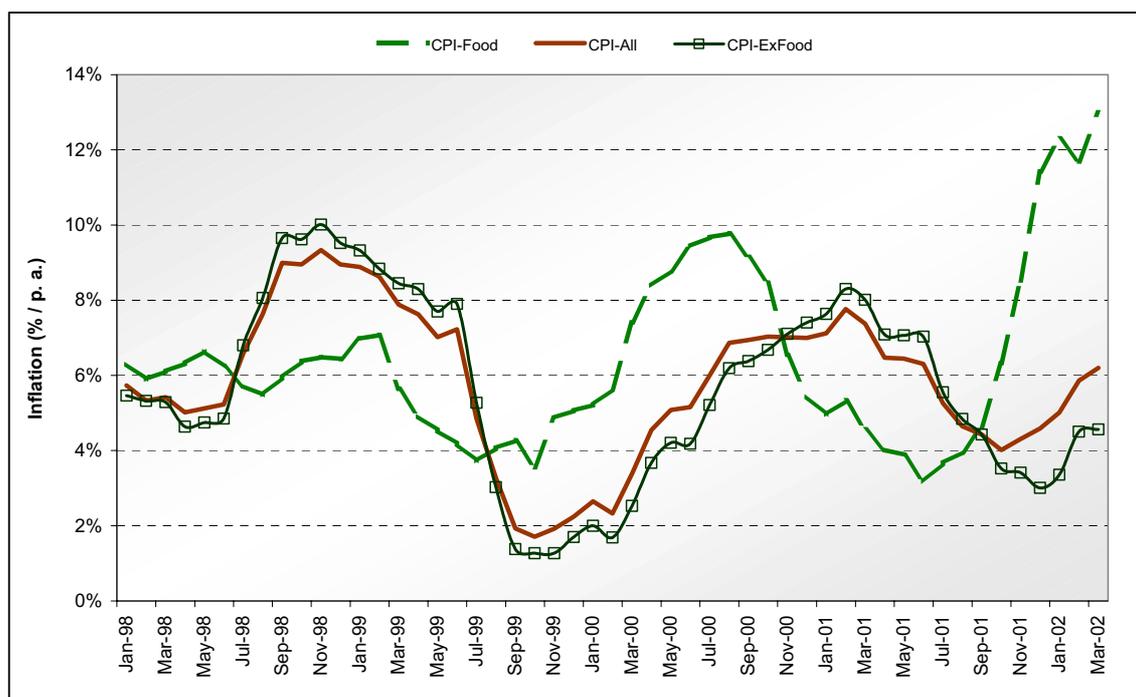
#### 1.1 Introduction

The sharp depreciation of the Rand against all major currencies in the world at the end of 2001 as well as the rising commodity and food prices triggered a process, which sent inflation spiralling out of the targets of 6% set by the South African monetary and fiscal authorities. It seemed that rising agricultural commodity prices as well as rising food prices also fuelled an increase in the inflation rate during early 2002. It became apparent that the increase in the inflation rate was largely the result of an increase in food price inflation. This notion is confirmed by the data reflected in Figure 1.1, which show the difference between the consumer price index (CPI), and the consumer price index without food prices (CPI-ex Food).

It illustrates the important contribution of food price inflation to total inflation during the first few months of 2002. A longer-term view of food price inflation in South Africa is shown in Figure 1.2. These figures make it evident that when CPI-food was growing at a relatively constant rate (up to the end of 1999), the overall inflation rate was declining. It is clear that between the end of 1999 and the middle of 2000, and again from the middle of July 2001 the increase in CPI-food precedes an increase in the overall rate of inflation. This interpretation is emphasised by Figure 1.1.



**Figure 1.1: Difference between annual increase in CPI-all and CPI ex-food, 1998 – 2002 (percentage points)**



**Figure 1.2: Annual increase in the CPI for food, Jan 1998 to April 2002**

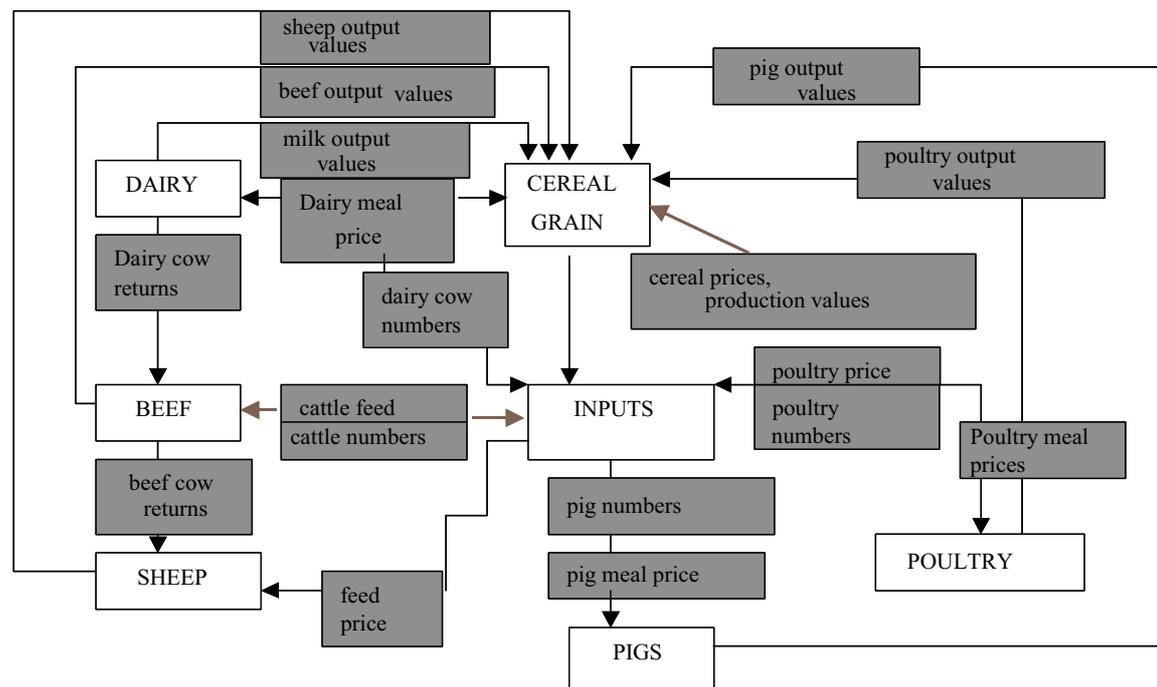
The effect of agricultural commodity prices and food prices on inflation, and the policy of inflation targets created an immediate response from the National Treasury. A team of experts was appointed to investigate the cause of the price increases in the agricultural and food sector. This process resulted in a report (Vink and Kirsten, 2002), which provided an explanation for the increase in commodity prices and also suggested policy proposals. The authors concluded that the increase in the farm gate price of basic food commodities came about as the result of a unique combination of five factors. These were (a) an increasing world price for these commodities, (b) a lack of competition in the supply chain beyond the farm gate, especially at the retail level, (c) a fast and severe depreciation in the value of the local currency, (d) a shortage of maize in the SADC region, and (e) a climate of uncertainty, created particularly by the unfortunate circumstances surrounding the land reform programme and elections in Zimbabwe, and also more generally by the perceived instability in parts of Central and Southern Africa.

Although the report was fairly clear on the explanation of the causes of the price increases, the concerns about the effect of these high food prices on food affordability, which directly relates to the human right of access to enough food, did not disappear during 2002. Concerns about increasing food prices were not only raised from a monetary policy perspective but also from a food security angle. As the prices of basic foodstuffs increased, (See Table 1.1 for the extent of the increases) many households found themselves in a situation where they could not afford the basket of basic foods required for a balanced diet. With large unemployment numbers and with 52% of the population living below the poverty line the negative impact of the high food prices on food security took on dramatic proportions.

Most of the concerns around the food security came as a result of the steep increase in the producer price of maize during 2001/2002. The public outcry was not surprising, as white maize is the staple food in the country, while yellow maize is the single most important feed input in the dairy, pig, beef, and poultry industries. An increase in the price of maize implies that the price of maize meal and that of all the major sources of

## Introduction

proteins such as milk, milk powder, butter, cheese, eggs, poultry and pork will increase. This interaction is illustrated in Figure 1.3.



**Figure 1.3: The interaction between maize and the animal sector**

**Table 1.1: An illustration of the extent of the food price crisis in 2001/2002: Year on year food price changes (Cape Town)**

Item	September 2001	September 2002	% change
Skimmed milk powder (500g)	R12.95	R17.38	34.21
Milk (2%) (1 litre)	R3.29	R3.99	21.28
Eggs (1 doz.)	R6.38	R5.58	-12.54
Potatoes (1kg)	R2.84	R3.74	31.69
Margarine (250g)	R1.45	R1.85	27.59
Cooking oil (750ml)	R4.89	R6.69	36.81
Maize meal (12.5kg)	R22.44	R48.36	115.51
Dry beans (500g)	R2.80	R3.54	26.43
Brown bread (800g)	R3.19	R3.83	20.06
Sugar (2.5kg)	R10.89	R11.89	9.18

## 1.2 Cabinet statement on measures to address high food prices

The Cabinet Lekgotla in July 2002 endorsed the Integrated Food Security Strategy as priority of the Social Sector Cluster Action Plan with the specific instruction that an implementation programme be developed. The Integrated Food Security and Nutrition Programme was developed based on five programmes forming the pillars: food production and trade; food safety and nutrition; community asset development; social safety net and food emergencies; and food insecurity vulnerability information and mapping system.

## Part 2

At present, these programmes are at various stages of development and implementation with different departments.

As the food price crisis deepened and the impact on the poorer households became clearer the Government felt it necessary to introduce a number of short-term measures to address the crisis. At its meeting on 9 October 2002 the Cabinet examined various possible interventions to alleviate the impact of high food prices on the lives of all South Africans, but especially the poor. The Government then decided on a mix of interventions, ranging from immediate relief for the poor to instruments of a medium to long-term nature that would help improve food security, transparency in the food supply chain, and price stability. The Government adopted a two-pronged approach that deals with targeted social development interventions and market based initiatives. These measures took into account both the causal factors that are in Government's control and those that are not.

In order to improve the purchasing power of poor households, Cabinet decided to increase old age pensions by R20 from R620 to R640 and the Child Support Grant by R10 from R130 to R140. This complemented the intensified campaign to register all citizens who are eligible for social security grants.

In addition, Government also launched campaigns to provide food parcels to the most vulnerable households, particularly in disaster areas, and encouraged school, community and household food gardens through the supply of Food Garden Production Starter Packs. The distribution of food parcels is part of the Integrated Food Security Programme introduced late 2002 to protect the poor from food price increases. The National Treasury committed a total budget of R400 million to food aid relief in 2002/2003. R230 million went to food parcels in South Africa and R170 million for 100 000 tons of maize went to 6 SADC countries affected by the Southern African famine: Lesotho, Malawi, Mozambique, Swaziland, Zambia and Zimbabwe.

The impact of the increase in price of basic foodstuffs in South Africa at the time necessitated that some prioritisation be undertaken. For this purpose, vulnerable households were disaggregated according to their expenditure level into the four bands reflected below.

BAND	INCOME RANGE	NO OF HOUSEHOLDS
Band 'A'	-R200 and less	166 684
Band 'B'	-R200-R300	962 625
Band 'C'	-R300-R400	473 784
Band 'D'	-R400-R500	631 947

The initial allocation of R230 million for direct food relief covered mainly the Band 'A' households spread throughout the nine Provinces with a total of 245 000 households (1,4 million individuals), 97 % (R220.5 million) for direct costs of food parcels and the rest for indirect cost (R9, 5 million) of administration.

The short-term direct food relief measures also included private sector initiatives aiming at price relief for low-income groups, i.e. the distribution of sifted maize meal at reduced retail prices. Government reached an agreement with Premier Foods, Metcash SA and Afgri for the introduction of a targeted programme to provide a *Yiyo Lena* with 12.5 kg maize meal bags to be sold at the subsidized price of R25.99 (a

## *Introduction*

reduction of 50% of the retail price per bag) to people in immediate need of the assistance.

The Food Security Programme aims at pushing back the frontiers of poverty by targeting the most destitute and impoverished households, especially in the nodal points of the Integrated Rural Development Programme.

Being conscious that food relief is a short-term response to save lives and does not stem chronic food insecurity in the long run, Government accepted the necessity of linking the food relief scheme to medium and long term measures to ensure long term self-sufficiency, sustainability and reduced dependency on food relief by vulnerable communities. Linked to the initial allocation of R400 million for 2002/2003, further allocations of R400 million for the following two years (2003/2004 and 2004/2005) will be administered throughout the Provinces as a conditional grant and will extend coverage to Bands 'B', 'C' and 'D' households over a three year period.

The Agricultural Starter-Pack Programme (ASP), as part of the Food Production and Trade pillar, is one of the medium-term measures that complement the Food Parcel Scheme. In a similar vein, the Department of Health coordinates an Integrated Nutrition Programme. The challenge remains, though, to repackage and target similar ongoing programmes into a single basket of services to vulnerable communities to ensure maximum and immediate impact. The present reality is such, however, that the programmes are scattered and isolated.

Geographically the ISRDP and URP nodes were prioritised but allowed for flexibility for Provincial poverty pockets. Coincidentally, most of Band 'A' and 'B' beneficiaries are located in the identified nodes.

The Cabinet also indicated in its 9 October 2002 meeting that it is considering the phased extension of the Child Support Grant to 14 years of age, as well as the enhancement of the School Feeding Programme.

In terms of medium to long-term measures, the Government also decided to evaluate the merit of re-establishing Strategic Grain Reserves, which would act as buffer stocks in times of food crises. It also envisaged that South Africa would cooperate with other SADC countries on strategies to reduce food shortages in the region. The Government committed itself to work towards encouraging the introduction of incentives for expanded food production in the region, as well as the lowering of food tariffs within SADC as part of its Free Trade Agreement. On the other hand, tariff regulations that are already in existence, which come into effect within particular domestic price ranges, will be applied more effectively and expeditiously. As in the past, this will be done in a manner that protects South African farmers from unfair competition.

The Cabinet meeting in October 2002 also approved the establishment of a food price monitoring mechanism (Food Pricing Monitoring Committee) in accordance with the Agricultural Marketing Act. It was envisaged that such a Committee would have the infrastructure and the authority to monitor the whole food production and supply chain, and ensure public awareness of, and appropriate publicity and debate around retail prices and their relation to actual costs and, thus, the mark-ups along the chain. In addition, the Competition Commission was encouraged to continue with its monitoring and censuring of acts of price collusion along the food supply chain.

## Part 2

Noting the current system of VAT zero-rating of some basic foods, Government also decided to investigate the impact of the system, that is, whether in fact the tax relief is passed on to consumers. It was expected that the outcomes of this investigation would inform any further action in this regard.

The Government, furthermore, encouraged communities to establish and/or strengthen consumer organisations with the purpose of monitoring food prices. It was felt that consumer activism within society would be critical to ensure that the benefits of government action and/or reductions in input and other costs are passed on to the consumers.

### 1.3 Establishing the 'Food Pricing Monitoring Committee'

On 28 November 2002 the Minister for Agriculture and Land Affairs announced that Cabinet had approved the establishment of a Food Pricing Monitoring Committee as one of the strategies addressing the problem of high food prices. A public call for interested individuals with expert knowledge in economic analysis regarding the food chain was made to submit names and CVs for consideration as members of the Committee.

On 8 January 2003 the Minister for Agriculture and Land Affairs, Ms Thoko Didiza, announced the appointment of the following individuals to serve on the Food Pricing Monitoring Committee:

Prof. Johann Kirsten - Chairperson  
Dr. Fikile Mazibuko - Deputy Chairperson  
Prof. Johann Potgieter  
Prof. Sibusiso Vil-Nkomo  
Ms. Josephilda Nhlapo-Hlope  
Prof. Herman van Schalkwyk  
Mr. Lumkile Mondli  
Ms. Nonia Rampomane<sup>1</sup>

The Committee was established in terms of Section 7 of the Marketing of Agricultural Products Act, No 47 of 1996 (as amended), and its work was overseen by the National Agricultural Marketing Council (NAMC), which advises the Minister for Agriculture and Land Affairs.

The following were the Committee's terms of reference:

- €# Monitor the pricing of basic foodstuffs;
- €# Investigate any sharp or unjustified price increases;
- €# Determine the competitiveness of production operations;
- €# Investigate price formation mechanisms within the value chain of basic food stuffs;
- €# Recommend required productivity improvements;
- €# Investigate collusive, discriminatory or any unfair business practice in the basic food value chain;
- €# Investigate and make recommendations on market inefficiencies and distortions; and
- €# Investigate incidents of predatory pricing and monopolistic tendencies.

---

<sup>1</sup> Unfortunately Ms Rampomane passed away on 16 August 2003.

## **CHAPTER 2**

### **OPERATIONALISING THE COMMITTEE'S TERMS OF REFERENCE**

#### **2.1 Introduction**

The Food Pricing Monitoring Committee held its inaugural meeting on 20 January 2003. Following an initial briefing by the Hon. Minister for Agriculture and Land Affairs, Ms. Thoko Didiza, the Committee deliberated on the terms of reference, the scope of its operations as well as its plan of action. The Committee then agreed on slightly adjusted terms of reference:

1. To monitor the prices of a basket of 26 basic food items (Results in Part 3).
2. To investigate any sharp or unjust price increases (Results in Part 3)
3. To investigate price formation mechanisms in selected supply chains. This would include the following: (Results in Part 4 and Part 5):
  - ⌘ Determining the number of producers and processors and levels of concentration;
  - ⌘ Determining the extent of vertical/horizontal integration and concentration in the food supply chain;
  - ⌘ Gross margin analysis at each node of the food chain;
  - ⌘ Establishing the magnitude of difference between urban and rural pricing structures;
  - ⌘ Reporting on the pricing structure of certain food chains;
  - ⌘ Determining the ratios of prices to costs and profits.
4. To review the effectiveness of government monitoring of and information dissemination on food prices (Discussed with recommendations in Part 7)
5. To establish and maintain a national food pricing monitoring database (Discussed with recommendations in Part 7)
6. To monitor the regional SADC food situation (Results in Part 6)
7. To investigate incidents of predatory and monopolistic tendencies in collaboration with the Competition Commission.

The Committee subsequently also decided that it would be necessary to review recent studies on food prices in order to collect information on what exists and what gaps there are.

The rest of this Chapter indicates how the Committee has interpreted the terms of reference and how it structured its activities to meet these terms of reference.

**Table 2.1: List of 26 food products identified by the Committee**

250g Margarine	1litre Milk
750ml Sunflower Oil	Chicken/kg
410g Peanut Butter	1 Doz Eggs
White Bread	425g Pilchards
Brown Bread	Potatoes/kg
250g Tea Leaves	Onions/kg
250g Instant Coffee	Tomatoes/kg
2.5kg and 12.5 kg Maize Meal	Cabbage/head
1kg Samp	Apples/1.5kg bag
Stewing Beef/kg	Oranges/kg
Bananas/kg	Sugar beans (500g)
2Kg Rice	Butter Beans (500g)
2,5 kg White Sugar	Sorghum meal

## 2.2 Price monitoring

In terms of point 1 and 2 of the terms of reference the monitoring of food prices started immediately and involved the following activities:

- €# The NAMC was requested to continue its process of monitoring the retail prices of the basket of food items on a monthly basis. This had already been happening since November 2002 in some Provinces.
- €# The Committee was very fortunate to be able to tap into an existing database on food price changes over the last 30 years. The results of the annual cost of living survey in September 2003 were also added to this database. This assisted in the comparison of the costs of food with earlier years, i.e. September 2001 and 2002.
- €# Observations by consumer groups (NCF, etc) and other forces in the civic society via Committee Members or via the already established communication channels were actively encouraged. To this end, the Committee established various channels of communication (email, fax, toll-free number) to enable the public to report sharp increases in food prices. The inputs were substantial during the first 2 months but dropped off as the prices of key products were reduced.
- €# Official data on retail food prices and time series on the consumer price index were been obtained from StatsSA.
- €# As another avenue of monitoring retail prices the Committee utilised the database of retail prices extracted from the pay point scanners in retail stores. This independent database managed by AC Nielsen on behalf of retailers and manufacturers provided valuable data for most of the major urban stores. The usefulness of this data lies in the fact that these are actual prices and exclude fieldworker bias, etc.

In essence, the Committee was able to monitor retail prices of the most important foodstuffs from at least 5 sources.

## *Introduction*

The SADC food security situation (Item 6) was monitored through the collaboration with the DoA and the various food security organisations in the SADC region.

### **2.3 Pricing behaviour**

A central part of the terms of reference relates to the analyses of the price formation mechanism in supply chains of the basic foodstuffs. In this respect particular attention was given to:

- Market power as determined by the level of concentration and the extent of vertical and horizontal integration
- Price formation at different points in the supply chain
- Costs and margins at each stage of the value chain

In order to comply with the core (points 3 and 7) of the terms of reference the Committee addressed these aspects in a comprehensive manner. The research into the behaviour in the various supply chains has to be seen, however, against the background of the changing nature of the agricultural and food industry worldwide and in South Africa. This is discussed next.

#### *The context and the issues*

A variety of forces including urbanisation, changes in agricultural technology, and new consumer food requirements bringing about economies of scale, have resulted in a closer vertical co-ordination in the agri-food sector, which is accompanied by greater rationalisation and increasing concentration in input, processing and retail sectors. Supply chains of vertically related oligopolies have emerged either through ownership, strategic alliances, or contractual relationships. The challenge for governments is to ensure that social welfare losses and misallocation of resources as a result thereof and abuse of, market power are avoided.

In this new structure of the agri-food sector the transmission of prices between vertical stages of the supply chain are likely to be proprietary information. In other words, lack of information on market prices makes any investigation into anti-competitive behaviour difficult. It is in this respect that the impacts on prices and product availability resulting from such 'structures' – as experienced by consumers – are relevant policy considerations, which require a particular enquiry framework.

One should, however, not ignore the potential benefits of the new agri-food structure. These benefits include potential efficiency gains through the reduction of transaction costs, minimising wastage, etc. These aspects, too, should be taken into account to reach a balanced appraisal of the evaluation of anti-competitive behaviour in the agri-food sector.

#### *The research framework for analysing pricing behaviour:*

The supply chains that were analysed in great detail are the following:

## Part 2

- Ø Maize – maize meal
- Ø Wheat - Bread
- Ø Sunflower seed - Cooking oil
- Ø Sugar
- Ø Red meat
- Ø Milk
- Ø Dry beans
- Ø Potatoes

For each of these chains the following analyses were done as far as possible:

- Ø Structure/conduct analysis
- Ø Margins/farm-to-retail-price spreads
- Ø Price transmission and the role of market power

The supply chain analyses were also extended to retail stores/spaza shops in remote rural areas in 4 provinces.

### Step 1:

The starting point was to get an understanding of the structure (numbers, distribution concentration) at various stages of the main food supply chains.

### Step 2:

The next important phase of the analysis was to determine price formation of the major commodity markets such as maize, wheat, sunflower seed, beef, rice and sugar. The factors influencing the price trends in these markets were unpacked and isolated. Earlier reports conducted some analysis to explain the major factors contributing to the sharp rise in certain commodity prices, with particular reference to the grains. Although the exchange rate depreciation was seen as having an important contributing effect to the increase of prices, more and more voices and complaints were raised suggesting that there might be other factors, especially related to trading practices on the grain markets, that might have played a role in setting prices at the high levels of early 2002. The sharp decrease in commodity prices, in a sense, exposed some of these practices. Not ignoring the role of the exchange rate, our analysis on the commodity markets focused on the following aspects:

- Trading practices and other factors that could have influenced the determination of SAFEX futures prices were determined for the period 2001 – 2003. The Committee decided to investigate these aspects by inviting grain traders, and agri-business to provide evidence to a sub-committee of the FPMC. The main purpose of these hearings was to identify certain trading practices (of millers, grain traders) and circumstances that could have contributed to the sharp rise in commodity prices and so identify the role of factors other than the exchange rate in the determination of prices. Aspects that were analysed included:
  - Ø Block trading and dominance of certain role players;
  - Ø Information sources, timeliness of information, reporting of information, crop estimates, and the general problem of information asymmetry;
  - Ø Silo ownership, grain storage and silo certificates; and
  - Ø Concentration along the food chain.

## *Introduction*

### Step 3:

Moving beyond the farm gate and the commodity markets, the costs of value-adding (processing, packaging, distribution) become critical. These factors are often influenced by different commodity markets, exchange rates, and State created monopolies such as Sasol, Transnet, Eskom. It is for this reason that it was decided to determine the influence of these factors (exchange rate and the price of fuel) on the costs of processing and marketing in the food chain.

Given the proprietary nature of most information in the food manufacturing industry the Committee had to apply a range of innovative techniques to determine whether there had been an observed increase in the margin between the farm gate and retail prices. Calculating marketing margins and farm-to-retail price spreads for the major food items was one component of these innovative approaches. Through this, the Committee was able to determine how the consumer expenditure on farm-produced food is distributed between the costs of production, processing, packaging and marketing.

### Step 4:

Knowing that the South African food manufacturing and retail industry is highly concentrated and that market power might play a role in price trends, it was also considered important to verify the role of market power/concentration in the increase of food prices. It was expected that merely interviewing role players would not yield the desired information. For this reason the Committee applied some objective/neutral modelling techniques. For the same reason a study on the role of market power in asymmetric price transmission was included.

Price is the primary mechanism through which various levels of the market are linked. The extent of adjustment and speed with which shocks are transmitted among producer, wholesale, and retail market prices is an important factor, which reflects the actions of market participants at different levels. Over the past several decades, producers, consumers, food industry interest groups and politicians have been concerned about the efficiency and equity of price transmission of agricultural and food products. Both casual and empirical research indicates that there are several asymmetries in price transmission in the food marketing chains:

- (1) Changes in farm and wholesale prices are either not fully or more than fully transmitted to consumer prices.
- (2) Changes in consumer prices are not related to short-term changes in farm prices and follow medium- and long-term changes with a time lag.
- (3) Down stream changes in consumer prices, show a longer time lag than upstream changes do. Depending on the market structure and the nature of the product several possible explanations can be put forward to explain this asymmetry.

Of the three asymmetries, the one that appears to be of particular interest is the asymmetry in the adjustment process, namely whether retailers pass on price increases, while decreases in price are not completely passed on to the consumer. Evidence from studies done elsewhere show that this is in fact the case, and in particular with agricultural products. One of the reasons price increases are passed on to the consumer faster than decreases is that firms will react faster to decreases in profit margins than to increases. Another reason for the asymmetric price adjustments is the presence of search costs in locally imperfect markets. For example, grocery

## *Part 2*

stores and other retailers may enjoy local market power due to a lack of similar firms in a given neighbourhood. Although customers may have a finite number of choices, they may not be able to gather full information about prices offered by other firms because of the cost of the search. In particular, consumers may observe a price increase at one local retail outlet but are uncertain if others have also increased their prices. Given this scenario, firms can quickly raise prices as upstream prices rise and they can slowly decrease prices as the upstream prices decline.

Firms do incur costs, however, when items need to be re-priced. Thus, they will only re-price items when the gains from changing the prices (up or down) exceed the costs. It is true that the utilisation of scanners has made this re-pricing process unnecessary; the reality is, however, that the majority of stores do not employ scanning systems yet. Thus, there is a range of food price changes, which retailers may choose not to re-price, resulting in less frequent adjustments both upward and downward. The implication of this is that pricing rigidity of retail goods during periods of falling farm prices – which draws more attention than rigidity in periods of rising farm prices – may be caused by the actual cost of re-pricing. Given the large number of possible variations between commodities, retailers, and consumers, it is impossible to conclusively determine the cause of observed price asymmetries within a commodity group.

In this component of the study, the Committee aimed to investigate whether the presence of market power in the agricultural sector (oligopsony power) or in the food industry compounds the dampening effects of market power in the retail sector (i.e., oligopoly power) with reference to the degree of price transmission. The Committee assumed that the industry exercises market power in both the upstream and downstream stages.

### *Supply chain and farm-to-retail price spread in remote rural areas*

Since much of the supply chain analysis was related to the urban and formal markets, it was deemed necessary to get an indication of the supply chain and farm-to-retail price spread of selected commodities in spaza shops and general trading stores in rural areas. This was done in the following provinces:

- KwaZulu-Natal
- Eastern Cape
- Limpopo
- Free State
- Northern Cape

## **2.4 Data sources**

Most of the role players in the food industry gave their full co-operation and supplied what is normally regarded as confidential and proprietary information. Generally, these data were provided by industry associations in the format of industry averages for processing, distribution costs, etc. For the analytical work of the Committee these data were crucial. It became apparent as the investigations progressed, however, that many of the detailed processing costs were not provided. In some cases industry organizations provided industry averages but, generally, companies were not too keen to provide detailed cost information. Nevertheless, sufficient data was obtained to present, for the first time in South Africa, a comprehensive database on various

## Introduction

aspects of the food industry. This data base could well form the basis for an annual “South African Food Cost Review” which could be updated and monitored on a regular basis for any “unjust increases” in prices and/or marketing costs. This publication could become the ‘early warning mechanism’ for Government about rising food costs. In Part 7 where the Committee’s recommendations are presented this will be discussed in more detail.

The main data sources used in the work of the Committee were the following:

- ⌘ SAFEX spot prices for all grains up to date
- ⌘ SAGIS records of stocks and grain deliveries
- ⌘ Industry averages for milling costs of maize and wheat (Chamber of Milling)
- ⌘ Industry averages for baking costs of bread (Chamber of Baking)
- ⌘ A number of food companies and retailers provided valuable data on costs and processes in the food chain
- ⌘ Prices of the major farm inputs
- ⌘ National monthly averages of food retail prices: January 2000 to September 2003 (AC Nielsen)
- ⌘ Milk producer prices and milk production costs (MilkSA and SAMPRO)
- ⌘ Volumes and producer prices of beef, potatoes and dry beans (AMT, Potatoes SA, SAMIC, Dry Bean Producers’ organisation)
- ⌘ Various databases obtained from Statistics South Africa (StatSA)
- ⌘ Time series of major packaging material including plastic, cardboard, glass, paper (Packaging Council of South Africa)
- ⌘ Sugar Association of South Africa

## 2.5 Inputs from the public

The success of the Committee’s activities also relied on the inputs from the public. This was necessary requirement to ensure ownership of the monitoring process by the public at large. Another reason was the need for the Committee to use consumers as the Committee’s eyes and ears. For this purpose a number of channels were created through which the public could communicate with the Committee. Members of the public could contact the Committee through e-mail, fax and the toll free number. Within the first month a large number of inputs were received. The inputs then dropped gradually and virtually nothing was received after June 2003, as reflected in Table 2.2 below. An indication of the type of inputs received is reflected by the sample of inputs provided in Table 2.3.

**Table 2.2: Record of inputs received from the public**

Month	Email	Telephone	Fax
Jan 2003	32	12	3
Feb 2003	12	32	10
Mar 2003	8	1	1
Apr 2003	12	0	1
May 2003	13	5	0
Jun 2003	10	0	0
Aug 2003	0	1	0
Sep 2003	1	1	0
Oct 2003	1	0	0
Nov 2003	1	0	0
<b>Total</b>	<b>90</b>	<b>52</b>	<b>15</b>

**Table 2.3: A summary of typical inputs received from the public**

Product	Store	Area	Issue
All	Spar	GAUTENG	Prices on shelf are different from the prices (lower) that are scanned at the till point. Shop owners try to rob us with R1 on every product thinking we would not notice that.
Chunky Fat Cottage Cheese	Pick 'n Pay	Auckland Park GAUTENG	This food item was R8.79 on 15 Jan 2003, and increased to R10.00 on the 20 Jan 2003.
White Bread			Price displayed on the shelf is not the price we pay, white bread was priced at R4.89 and the till wanted R5.55. Consumers are taken for a ride because they don't have the time to check prices of all items in the grocery list.
All			The Committee must study the marketing chain. There are too many role players (from initial production to final consumer) making food products to be too expensive
All	Shoprite	Phoenix Plaza KZN	Every month the prices are different on the same product.
Golden Delicious Apples	Checkers Spar	Cascades, Howick,KZN	Few months ago the price was R8.99 and now it is R12.99 @ Checkers, and R15.99 @ Spar
Milk	Pick 'n Pay	Table view Cape Town W CAPE	The Price of no name brand increased from R7.45 (for 4x2 litres milk) to R9.00 in a period of two days. To date the same product sells for R9 to R10. We don't understand these price increases.
Oranges	Pick 'n Pay	Table view Cape Town W CAPE	Oranges selling for R19.99/Kg and R31.74 for six. That's a rip-off.
Maize Meal	Pick 'n Pay and Shoprite	Jo'burg CBD GAUTENG	The price is too high; something must be done about the price of this staple food for most South Africans.
Not specified	Pick n pay Milnerton	Cape Town W CAPE	Sometimes we experience an overnight increase of 20% in the cost of a particular food item. And old stock is re-priced as new stock. Suggestion: (1) Compel/force food supermarkets to display not only the bar code on a commodity (which is meaningless to the consumer), but also a sticky price label which displays both the price and the date on which the goods were priced.
Chicken	Checkers	Stellenbosch W CAPE	Prices of chicken increased with R3 to R5 in a month's time. Is this normal? Stellenbosch is a very expensive place in SA.

*Introduction*

All			Government should introduce food stamps for the poor so that they can have access to basic food.
Milk and Bread	Shoprite Pick 'n Pay		Prices are too high.
All			The marketing chain must be investigated.
Coffee			Inevitably, food items have risen with the devaluation of the Rand, but prices of coffee and coffee extracts continue to increase whereas the producing countries are suffering due to prices being low. Is there a logical explanation for this?
			In a modern economy food is produced as a product for the commercial market place. The market should be left free to find its own level; interference will result in food shortages.
All			Virtually 99% of food prices at supermarkets etc. are priced to end in 99cents. E.g. R7.99, R14.99 etc. It is surely obviously impossible for everything to end with 99cents, unless there is unnecessary manipulation in setting the prices. Not only food items are priced this way, items other than foodstuffs are also found to end similarly.
Milk			Milk is too expensive. The farmer gets R2.00/litre and retailer sells it for around R5.00/litre.
Milk, Cheese and Vegetables (lettuce)	Pick 'n Pay		Making a lot of profit at the expense of the poor
Mangoes, Meat (Filet) and Vegetables	Pick 'n Pay	Somerset West Cape Town W CAPE	Mangoes selling for R7.99 each and a box of six selling for R12.00 in Jo'burg. Fillet price R96.00/kg in Cape Town, but R65.00/kg in Jo'burg. Is it because it's a tourist area? Tourists do not buy fillet steak to cook/roast/fry because most of them stay in hotels. These prices are exorbitant.
Tomatoes	Pick n Pay	Port Elizabeth E CAPE	He is a farmer; sells tomatoes to fresh produce market @ R1.60/kg and Pick n Pay sells the same tomatoes @ R5.99/kg. A difference of R4.39, not acceptable.
Maize Meal		LIMPOPO	Price of 80kg maize meal was R125 in 1999/2000 and R280 in 2001/2002. Price is too high.

## 2.6 Finding ‘unjustified price increases’: A major challenge to the Committee

The sudden rise in food prices created suspicion towards retailers and food manufacturers, and it was questioned whether they were acting in good faith. It was largely this concern shared by Government that led to the specific composition of the Committee’s mandate, as discussed earlier. A large part of the mandate (terms of reference) focussed on issues relating to ‘unjust increases’. This is illustrated by the following extract from the terms of reference:

- ⌘ *Investigate any sharp or unjustified price increases.*
- ⌘ *Investigate price formation mechanisms within the value chain of basic foodstuffs.*
- ⌘ *Investigate collusive, discriminatory or any unfair business practices in the basic food value chain.*
- ⌘ *Investigate incidents of predatory pricing and monopolistic tendencies.*

All of these aspects relate to the basic human rights issue of ‘affordable food’ as well as the issue of a ‘just and fair price’ for food. Questions emerging from an ethical point of view in this context are:

- ⌘ What is a fair price for food?
- ⌘ Were there any business practices or activities that created an ‘unjust price’?

It is appropriate to debate this concept and indicate how the Committee dealt with this ‘emotive’ concept. On the one hand, this debate should be seen in the context of the market economy that we have in South Africa. On the other hand, it is important to qualify and illustrate that the working of the economy market does not automatically address all ethical and societal problems. This suggests that there are specific roles that Government could play.

Terreblanche (2003) explains the history of the concept of a ‘just price’ by referring to the 13<sup>th</sup> century Scholastic philosopher, Thomas of Aquino, who formulated the idea of a "just price" as “the price that will not give unfair advantage to either the seller or the buyer”. This meant that if those involved cannot decide on such a price when guided by their Christian conscience, then the Roman Catholic Church would decide for them what the just price should be. Adam Smith was of the opinion that under certain ideal conditions the market price would be determined based on the level of the true value (or the Natural Price) of the good. In his thinking the Natural Price was not determined by market forces, but by public opinion (in a well-organised society) and therefore similar to Aquino's just price, albeit under a different name.

The argument about a ‘just’ or ‘fair’ price also goes back to Quesnay, the founder of the French Physiocrat School. When manufactured goods were exchanged, he argued, only equivalents were exchanged and no profits could arise in the exchange. In terms of his cost of production theory the ‘natural price’ of manufactured goods was explained by a number of other prices: those of the expenses of the producers and of the merchants who brought them to the market (Roll, 1978). Quesnay argued that under stable equilibrium conditions, business could not charge more than a price equal to the least cost of production in which a normal rate of profit determined by the opportunity cost of management is included. Only under such conditions is the price charged legitimate and does it represent a positive equilibrium value. Equilibrium prices satisfy not only the condition of a free open market but also the standards of social justice of equity, social peace and human solidarity in the community or nation

## *Introduction*

as a whole. This, according to Rugina (1998) is what the French Physiocrats ultimately had in mind.

However, the idea of free open markets – a situation of *laissez-faire* or economic freedom – led to the perception that business should be free to charge any price that the market can take. It was argued by the Manchestarian School of Economic Thought in 19<sup>th</sup> century England that: ‘a legitimate price is what the market can take without any other limitations’ (Rugina, 1998:850). This argument stands central to the liberal capitalism of the UK, the USA and many other capitalist countries of today, an ideology which is currently under much scrutiny and debate (see also Kirsten, 2002), since it certainly does not satisfy the required standards of social equity (justice), social peace and human solidarity. It has become clear and accepted, however, that under disequilibrium conditions no fair equitable prices are possible. Although the liberal market philosophy is dominant amongst business in South Africa, it is a well-known fact that this society, that has experienced grave injustices for a long period, has not established conditions of stable equilibrium.

The question is how we can use these philosophical and ethical debates to inform the food price question in South Africa. On the left of the economic spectrum the labour unions, many NGO’s and consumer activists hold the view that business and profit making is immoral (in line with the deontological ethical theory and based on the Marxist philosophy). They became ever more vocal when prices of food increased to meet the bottom line or profit targets of large food companies. On the right of the economic spectrum commodity traders, agribusiness and food companies, generally, support the merits of liberal market capitalism and argue for no intervention by Government in the market. In a free market economy the prices of food, according to them, are determined by supply and demand, and if raw material prices increase, the final product will most likely be more expensive. In other words, the price of food is considered to be ‘fair’ given that it is generated by market forces – ‘it is not our fault – it is the market’ would be a typical liberal statement. Little mention is made of concentration and monopolistic tendencies in certain industries, and few comments are made about the extreme inequalities in the South African economy. Given the general structural problem of the South African economy it can hardly be argued that there exists a competitive equilibrium and it can therefore not be claimed that all prices are ‘fair’ or ‘just’.

The difficulty the Food Pricing Monitoring Committee has, is to determine and to prove whether there has been unethical behaviour by business in the food chain which has led to unjust price increases or ‘profiteering’ by business on basic foodstuffs. The question is, therefore, whether it is possible to find evidence of price manipulation or of unfair price policies.

One problem with the food price debate is that the time dimension is often ignored and that only short-term price shocks are considered. Often the truth is that retail prices are fairly stable over the long term. It is in this spirit that the Committee investigated how price shocks are transmitted along the value chain, and how the chain self-corrects without exploiting consumers and partners in the chain.

*Part 2*

**References:**

Kirsten, J.F. (2002). Forty years of agricultural economics scholarship and practice in South Africa: A time to challenge the consensus and refocus our intellectual work. *Agrekon*, Vol. 41 (4) December 2002.

Roll, E. (1978). *A history of economic thought*. Faber & Faber Ltd, London.

Rugina, A.N. (1998). The problem of values and value judgements in science and a positive solution. *International Journal of Social Economics*, Vol. 25 (5): 805-854.

Terreblanche, S.J. (2003). Africa South of the Sahara in historical context: 500 - 2002. Background paper prepared for the DBSA Development Report, 2003. Department of Economics, University of Stellenbosch.

Vink, N and J. Kirsten (2002). Pricing behaviour in the South African food and agricultural sector. A report to the National Treasury. June 2002

## **CHAPTER 3**

### **UNDERSTANDING THE NEED FOR GOVERNMENT INTERVENTION: THE IMPACT OF HIGH FOOD PRICES**

#### **3.1 Introduction**

The South African food situation has been, and still is, characterised by a state of food self-sufficiency on a national scale. Despite food supply fluctuations occurring occasionally South Africa has been consistently self-sufficient and does not require food aid. Generally speaking, the combination of earlier socio-political policies and more recent macroeconomic, trade and agricultural developments have had a negative impact on the food security conditions of, especially, historically disadvantaged groups, and particularly those residing in the former homelands. The food security conditions of these vulnerable groups have been further worsened by natural disasters such as drought and floods, and the social disaster of HIV/AIDS.

Despite national food security, many South African households experience continued food insecurity, malnutrition and unemployment. According to figures of StatsSA, approximately 14.3 million South Africans are vulnerable to food insecurity. These vulnerable households include those headed by single women in lower income groups, elderly persons on state pensions who have assumed financial responsibility for the household (voluntarily or involuntarily), child-headed households, where the potential breadwinners have little or no opportunity to be employed, and the very susceptible poor households with barely any resources to even secure basic foods.

These are the households which seem to have been severely affected by the price increases of basic foods such as maize, bread, sugar, fruit and vegetables; they are also the households that do not share in the immediate benefits of price decreases. A number of other factors make it difficult for the vulnerable groups to enjoy and experience the benefit of low prices: lack of purchasing power, the inability to buy food in large quantities – for instance, buying in small quantities and irregularly is costly in transport cost – and an irregular income.

The reality of the food security problem is confirmed by the fact that one in four children under the age of six years (approximately 1.5 million) have stunted growth because of chronic malnutrition. Human development indicators measured at provincial level present a clear overview of provincial disparities in the socio-economic development for children; they highlight in particular the vulnerability of rural children to food insecurity.

The majority of agricultural producers in the former homelands cannot feed their households from their production base. They are deficit producers of agricultural produce and net consumers of purchased food. Many urban households that suffer low, irregular and unsustainable incomes are also very vulnerable.

Rising food prices from mid-2001 through 2002 for basic food items such as maize meal, bread, vegetables, meat, has been a major problem that adversely affected the subsistence levels of the poor in South Africa.

### 3.2 Geographical distribution of poverty

Figure 3.1 presents a map of South Africa depicting the percentage of people per district who live in poverty. According to this map, food insecurity and malnutrition are highest in provinces with large rural populations such as KwaZulu-Natal, Limpopo, Eastern Cape and the Free State. In addition, food insecurity is further among Black people, but also affects a significant number of Coloured households. The vulnerability of households to food insecurity is aggravated by the rapid spread of the HIV/AIDS pandemic among them.

The list of districts in the six provinces with high levels of poverty, which form part of the main target areas for Government interventions are the following:

#### *Eastern Cape*

Elliotdale; Willowvale; Tabankulu; Kentani; Port St Johns; Mqanduli; Engcobo; Flagstaff; Mt Fletcher; Ngqeleni; Cofimvaba; Libote Maluti; Lusikisiki; Mt Ayliff; Tsomo; Umzimkhulu; Idutywa; Tsolo; Mt Frere; Mpofu; Bizana; Qumbu; Cala; Nqamakwe; Keiskammahoek; Sterkspruit; Middledrift; Lady Frere; Pearston; Ntabethemba; Peddie; Komga; Barkly East; Umtata; Hofmeyr; Maclear; Lady Grey; Stutterheim; Bedford; Zwelitsha; Butterworth; Woodhouse; Tarkastad; Victoria East; Steytlerville; Elliot; Hewu; Steynsburg; Alexandria; Adelaide; Indwe; Kirkwood; Fort Beaufort; Sterkstroom; Hankey; Jansenville; Willowmore; Somerset East; Bathurst.

#### *KwaZulu-Natal*

Msinga; Kranskop; Weenen; Nkandla; Polela; Ingwavuma; Ixopo; Mapumulo; Port Alfred; Mtonjaneni; Ubombo; Underberg.

#### *Limpopo*

Mutali; Malamulele; Bochum; Giyani; Letaba; Vuwani; Sekhukhune land; Naphuno; Sekgose; Hlanganani; Lulekani.

#### *Free State*

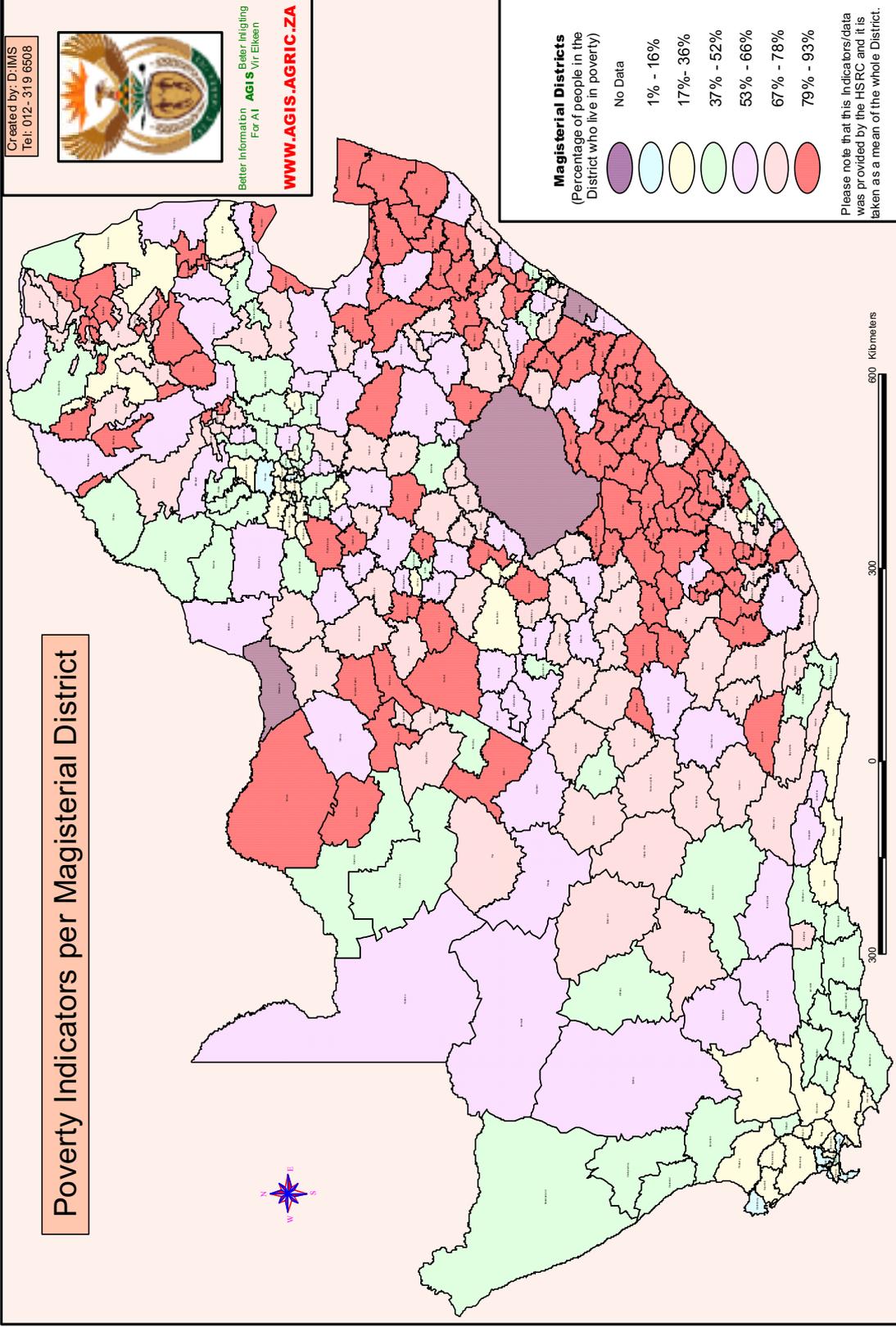
Witsieshoek; Fouriesburg; Hoopstad; Vredefort; Boshof; Wesselsbron; Lindley; Zastron; Wepener; Clocolan; Botshabelo; Excelsior; Marquard; Bultfontein; Smithfield; Koppies; Reitz; Theunissen; Viljoenskroon; Brandfort; Senekal; Heilbron; Ficksburg; Ventersburg; Winburg; Thaba'Nchu; Vrede; Jacobsdale; Rouxville; Bothaville; Frankfort; Dewetsdorp; Petrusburg; Harrismith; Ladybrand; Hennenman; Fauresmith; Parys; Philippolis; Trompsburg; Odendaalsrus; Jagersfontein; Bethulie; Edenburg; Virginia.

#### *Northern Cape*

Herbert; Hartswater; Barkly West; Hay; Sutherland; Victoria-West; Hanover; Britstown; Philipstown; Colesberg; Richmond; Fraserburg; Carnarvon; Warrenton; Calvinia and Williston.

#### *North West*

Huhudi; Ventersdorp; Delareyville; Kudumane; Phokwane; Schweizer-Reneke; Wolmaransstad; Madikwe.



**FIGURE 3.1: Percentage of people per district living in poverty in South Africa**

### 3.3 The impact of high food prices on poor households

A pilot study on methods to monitor household-level food security was undertaken for the National Department of Agriculture in November 2002 by the Human Sciences Research Council. The study was done on six sites in three provinces (North West, Gauteng and KwaZulu-Natal), that is, two rural sites in North West, one urban site in Gauteng, and two rural sites and one urban site in KwaZulu-Natal. The study uncovered various effects that the increases in food prices have on poor households in the identified areas.

It should be stated, however, that detecting change over time in terms of prices and the impact caused by these proved to be a challenging task. For instance, households were tasked to remember what the prices of goods were six months prior to the study, and also the strategies they employed to cope with the situation then. Another challenge was to isolate possible confounding influences, that is those that are not related to the increase in food prices. The household survey specifically looked into three aspects:

- (a) Household caloric acquisition: aiming to measure consumption of calories and nutrients over a finite period.
- (b) Dietary diversity: Aiming to ascertain the relative quality of a household's diet by counting the number of different foods consumed by household members over a particular period of time. This included determining whether the food consumed had been grown or produced by the household or whether this was purchased.
- (c) Household coping strategies: Aiming at determining what the strategies are adopted by households in reaction to an inability to acquire a satisfactory diet.

One or more focus group interviews were conducted at each of the six study sites. The focus group interviews were assisted in corroborating information collected through the household survey. Also, information from shops and general dealers was collected. The purpose of this was to establish a more objective basis for perceived food price change, which could then be compared to information collected in the household survey.

#### *Results*

An attempt was made at measuring the relative welfare of households, generated by other means than household income such as household possessions/assets. Better-off households tended to possess more assets in a good condition in comparison with worse-off households who owned fewer assets in a good condition and more assets in a poor condition.

Taken together, the results showed that a high proportion of respondent households experience food insecurity across a variety of dimensions (anxiety about future diet, dietary quality, dietary sufficiency, etc.), and that they to a limited extent engage in coping strategies such as relying on neighbours, buying food on credit and collecting wild plants.

Households of average and below-average welfare levels were more likely to cultivate crops compared to those at above-average level. The former group of households acknowledged that crop production and livestock keeping do contribute to household

## *Introduction*

food security, and that subsistence agriculture was a crucial household survival strategy. As the reason that some households in this group were, presently, not cultivating crops, several households indicated that this was because of lack of fencing, which meant that livestock had access to their produce and would eat it. They also mentioned lack of water and high input prices like seed and feed as reasons for lack of farming activities.

The study found that price changes resulted in changes in the purchasing patterns in the households concerned. For instance, some quality substitutions took place to counteract price increases: approximately 15% of the households purchased lower-quality maize meal than before. Worse-off households were more likely to purchase food in smaller quantities, as a group they were under-represented among households that purchased in larger quantities, such as 50 and 80-kg bags of maize meal.

It was also established that there was an urban bias re the prices of food. For the same size maize-meal packaging, the prices in rural areas were higher than in urban areas. Taking into account liquidity constraints by households it was expected that households would change from larger to smaller packaging. Contrary to this expectation, it was found that only one household switched from larger to smaller packaging whereas three households switched from smaller to larger packaging. The presumption is that households considered the cost saving effects of bulk buying.

All participants during focus group interviews agreed that high food prices compelled them to reduce the number of meals per day, and that they had to change their food composition by opting for cheaper foods of a lower quality. There was a general feeling amongst households that government intervention was needed to curb the food price increases because the increase in food prices was making the poor even poorer.

Data collection from the shops was generally unsuccessful and resulted in incomplete data of dubious quality. Shopkeepers were felt to be very evasive in answering questions about the prices they were charging, and this particularly so with regard to previously charged prices. Shopkeepers corroborated the claims by households that credit purchases were only granted to households with regular incomes and pensioners.

### **3.4 The impact of food price increases on the CPI of various household groups, on the GDP, on labour and capital**

The Department of Agriculture commissioned a macroeconomic impact study to determine the effect of the 2002 increases on food prices on the CPI of household groups, and the effect of these on income, GDP, labour and capital.

Two instruments were used for this analysis, namely a 2000 SAM and a 1996 I/O Table. Both instruments represent a database based on South Africa's national accounts. Considering the advantages and limitations of these instruments, it was decided to use both. In the case of the 2000 SAM, the spending patterns and income distribution of households had been disaggregated, which enabled the study to determine the total impact of food price increases on the CPI of low and high-income households, and an aggregate of all household groups. In the case of the 1996 I/O Table, the agricultural sector had been disaggregated into 17 sub-sectors. This made it possible for the study to improve on the original model's calculations.

## Part 2

### *Results on the total impact of food price increases on the CPI for different household groups*

Foods consumed consist of domestically unprocessed and processed foods, as well as imported unprocessed and processed foods. Price increases in domestically processed foods are captured automatically by the models and are not calculated *per se*, while price increases in imported processed foods are not captured by the models and are determined separately (outside the models).

Based on the structure of the SAM, the direct price change between 2001 and 2002 of unprocessed foods is 26.3% of which only the real price change of 15.72% is taken into account for purposes of this analysis. The price increase of 26.3% was deflated with the price increases of the PPI of 9.1%, before agricultural product price changes were taken into account, to a real price increase of 15.72% as mentioned above. As far as imported processed foods are concerned, a price increase of 14.8% was measured. This price increase was deflated by the price increases of the PPI, as provided above, and a real price increase of 5.21% for imported processed foods, was used for this analysis. The direct price change of unprocessed foods was run through the SAM in order to determine the total price change. An adjustment had to be made to exclude the effect of the direct price change on non-food sectors forming part of the agricultural sector. Finally, price changes in imported processed foods are weighed in at 15% (real changes).

Results are presented as price changes experienced by consumers and weighted according to their spending patterns. This, of course, is similar to the CPI. In so doing it was found that the total CPI had increased 2.80, 2.05 and 2.24 percentage points, due to food price increases between 2001 and 2002 for low-income, high-income and all household groups, respectively. As expected, food price increases have a greater effect on low-income household groups than on high-income household groups.

Based on the structure of the I/O Table, adjustments for non-foods had to be made in order to exclude their possible effect on price increases. The direct price change of unprocessed foods was run through the I/O Table in order to determine the total price change. The I/O Table based basic prices were adjusted to consumer prices by adding trade and transport margins. The impact of food price increases in unprocessed foods on the CPI was calculated at 2.55%. Finally, the impact of food price increases in imported processed foods was weighed in, and the CPI was re-calculated at 2.39%. On average, the inflation rate of approximately 9.2% for 2002 could have been only 6.9%, if food prices increases were in the same order than other products. The fact that the increase in the CPI determined from both the SAM and I/O Table based calculations are fairly close validates the structures on which they are built and confirms the validity of the results in Box 1.

<b>Based on the structure of the 2000 SAM</b>			<b>Based on the structure of the 1996 I/O Table</b>
<b>Low income households</b>	<b>High income households</b>	<b>All households</b>	<b>All households</b>
2.80	2.05	2.24	2.39

## Introduction

### Results on the income effect of changes in the CPI on the GDP, labour and capital

The same methods are applied for both the SAM and I/O Table based calculations, as presented above, except that the smaller version of the SAM is used in order to exclude the household sector (in other words the induced impact). The direct and indirect impact on the CPI according to the SAM based calculations is 1.37%, while it is 1.35% according to the I/O Table based calculations. The average of 1.36% is used to calculate the decline in disposable income of R10.8 billion. This loss in disposable income is used to determine new spending patterns for households from the SAM, which is expressed in terms of the GDP, labour and capital.

<b>Box 2: Impact on the Gross Domestic Product, labour and capital requirements</b>				
	<i>Direct</i>	<i>Indirect</i>	<i>Induced</i>	<i>Total</i>
<b>GDP (R million)</b>	<b>-3,703</b>	<b>-1,800</b>	<b>-5,038</b>	<b>-10,541</b>
<b>Labour (Numbers)</b>	<b>-18,690</b>	<b>-13,460</b>	<b>-30,011</b>	<b>-62,160</b>
<b>Capital (R million)</b>	<b>-7,335</b>	<b>-4,092</b>	<b>-9,851</b>	<b>-21,277</b>

According to the SARB, South Africa's GDP for 2002 was R1 098.7 billion at current prices. In terms of Box 2, if food price increases had not occurred, it would have been up to R10.5 billion higher at R1 109.2 billion (1% higher). The financial & business services sectors were impacted the most, followed by the manufacturing and trade & accommodation sectors.

Employment in the non-agricultural sectors was 4.7 million in 2000 (SARB, 2003), while employment in agricultural sectors is estimated at 1 million, totalling a workforce of 5.7 million people. According to Box 2, it is expected that 62 160 of these people will lose their jobs. The impact of this will, however, take time to filter through the economy. It is, therefore, not possible to say that this already happened in 2002. In this case, the agricultural sector was impacted the most, followed by the manufacturing and trade & accommodation sectors.

South Africa's fixed capital stock for 2002 was R1,323 billion at constant 1995 prices (SARB, 2003). The results in Box 2 show that, if the disproportionate food price increases had not occurred, it would have been R21.3 billion higher at R1,344 billion (1.59% higher). The financial & business services sectors were impacted the most, followed by the transport & communication and manufacturing sectors.

### **3.5 The 'right to food' and the reality of South Africa's food security situation<sup>2</sup>.**

The stark reality is that many South Africans do simply not have enough to eat. More than 45% of the population in the rural areas and 26% in metropolitan areas reported in 1998 that they go hungry at least once a month; 17% of people living in the rural areas reported going hungry at least once a week; and 6% of those living in urban and semi-urban areas go hungry every day. This situation worsened during 2002/2003 because of the high food prices.

<sup>2</sup> Based on an input from Danie Brand, University of Pretoria

## Part 2

To place these figures in a socio-political context, hunger and malnutrition are also stratified along racial, class and gender lines:

- ⌘ A higher percentage of black adult men are underweight than adult men in any other racial group;
- ⌘ 30% of black children under the age of five suffer from stunted growth, while this rate is 5% among white children;
- ⌘ 38% of rural black South Africans report going hungry at least once a month as opposed to almost no rural white South Africans;
- ⌘ Stunted growth among young children is most prevalent in three of South Africa's poorest and most rural provinces: Limpopo (Northern Province) (34.2%), Eastern Cape (28.8%), and Free State (28.7%);
- ⌘ 25% of adult women suffer from nutritional defects such as iron deficiencies.

Although telling in themselves, these statistics highlight two things. Firstly, they show that there is an obvious disconnection between South Africa's ability to produce and procure more than enough food for its people – something which it consistently succeeds in doing – and its ability to actually stave off malnutrition, under-nutrition and hunger among its people – something which it manifestly fails to do. Long ago Amartya Sen made the general point that such hunger, malnutrition and food insecurity as statistics indicate almost never result from an insufficient national food supply (what Sen calls the *availability* of food), but almost always from insufficient access to an existing sufficient food supply (depending on questions of what Sen calls *entitlement*).<sup>3</sup>

This observation also applies to South Africa. The figures cited clearly show that the crucial question in addressing issues of food insecurity and its effects in South Africa is not so much about how to maintain an adequate national supply of food, as it is about how to place an existing adequate supply of food at the disposal of those who need it, in other words, how to generate effective access to food.

This fact places the problem of food insecurity in South Africa squarely in the legal domain. A country's national food supply (food availability) is mostly determined by natural and macro-economic factors. These are issues that the law (and the Government) can do little about to control and shape. Actual access to food, on the other hand, is determined largely by entitlement – by social and political factors. Access depends on the ability “to establish command over food, using the entitlement relations operating in...society depending on its legal, economic, political and social characteristics...”<sup>4</sup> The law can do a great deal to control and shape these things. It can set parameters and determine priorities for social and economic policy formulation and it can shape and control the different legal and non-legal power relations that determine access to food. In this sense the law “stands between food availability and food entitlement”<sup>5</sup> – when used effectively, it can mediate between availability and entitlement.

---

<sup>3</sup> Sen 1981: 1. I dare, once again, to repeat his famous quote here: “Starvation is the characteristic of some people not having enough food to eat. It is not the characteristic of there not being enough food to eat”. See also Drèze and Sen 1998; Eide 1995: 94 – 95; and Ravindran and Blyberg 2000: 222.

<sup>4</sup>Sen 1981: 165.

<sup>5</sup>Sen 1981: 166: “[T]he focus on entitlement has the effect of emphasising legal rights. Other relevant factors, for example market forces, can be seen as operating through a system of legal relations (ownership rights, contractual obligations, legal exchanges, etc). The law stands between food availability and food entitlement.”

## *Introduction*

The nutritional status of many people in South Africa is desperate, in the sense that they suffer the ‘daily terrorism of hunger’. Both the food intake data and the anthropometric indicators presented above show that many South Africans do not even reach *basic essential* levels of access to food, let alone enjoy a fully adequate nutritional status. These situations will obviously be worsened when food becomes unaffordable

The desperate state of many South Africans’ nutritional status amounts to a crisis situation that requires a crisis response: direct and immediate intervention rather than the indirect, longer-term policies that are intended to address a situation of less acute nutritional inadequacy over the longer-term. In other words, the food crisis facing many South Africans indicates a need for a policy focus on the **direct transfer of food** to people in need with the aim of improving their food entitlement immediately. In addition to this, a focus is needed on longer-term capacity building initiatives that will gradually improve food entitlement.

It is in this context and within the framework of the Constitutional right to food that the Committee debated the kind of potential actions Government can take to ensure its Constitutional obligation of ensuring that every citizen has access to food. In terms of its mandate, the Committee must be certain that the reason for the unaffordability of food is not related to unfair business practices, which would require different government interventions. Parts 3 to 6 that follow address the core mandate of the Committee with Part 7 debating the potential interventions.

### **3.6 Summary**

The purpose of this Chapter was to specifically argue the case for Government to address the high cost of food. The Chapter highlighted the reality of poverty and food security in the country. The data provide sufficient argument for government engagement to address the plight of poor and vulnerable households affected by the sharp increases in the price of food. The following sections of the report (Parts 3 to 6) address the main terms of reference of the Committee but returns to the role for Government when making specific recommendations in Part 7.