SOUTH AFRICA – REQUEST FOR INFORMATION – OECD FOOD PRICE FORMATION PROJECT

Ref: TAD/CA/APM/WP(2014)16

Dear Celine.

Please receive herewith our responses as per your set of questions.

1. Is there a monitoring entity of food prices, food price transmission and/or of contractual arrangements along the chain in the country? What is its name? When was it established? Does it look specifically at certain products/sectors?

Yes, there is a monitoring entity for food prices in South Africa.
Its name is the National Agricultural Marketing Council (NAMC).
The entity was established by an Act of Parliament in 1996 but the food price monitoring programme, which is run by the NAMC, only started in 2003.
The food price monitoring programme only focuses on selected food items i.e. wheat products, maize products, sunflower products, processed vegetables, fresh vegetables, processed meat, unprocessed meat, dairy products, fruits, fish products, tea and coffee, beans, sugar, rice, and peanut butter.

2. What is the rationale behind the existence of this monitoring entity? What does it add to what was done in the past in terms of monitoring of food prices in your country?

From the onset, it is important to indicate that there were no formal mechanisms for monitoring food prices in South Africa before 2003[1].

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.

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, which provided an explanation for the increase in commodity prices and also suggested policy proposals. The report 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

[1] The extracts that follow are from the Final Report of the Food Price Monitoring Committee of 2003 published by the Government of South Africa.

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, 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 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 proteins such as milk, milk powder, butter, cheese, eggs, poultry and pork will increase.

The South African 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. At present, these programmes are at various stages of 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. 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.

To date, four Food Price Monitor reports are published on a quarterly basis while an annual publication called the Food Cost Review is also published by the NAMC as part of the food price monitoring programme.

3. Can you identify three key objectives of this institutional initiative? Have they been reached? Did you set up an assessment process? Can you describe experiences that were not successful?

The *objectives of the Food Price Monitoring programme* are to:

- Monitor the prices of the selected food items;
- Investigate any sharp or unjust price increases;
- Investigate price formation mechanisms in selected supply chains;
- Review the effectiveness of government monitoring of and information dissemination of food prices;
- Establish and maintain a national food price monitoring database; and
- Investigate incidents of predatory and monopolistic tendencies in collaboration with the Competition Commission.

Have the objectives been reached? In our opinion, the objectives of the food price monitoring programme continue to be met. The programme is well-established and continuous. There is a lot of research capacity that has been built on food price monitoring and reports are continuously been developed to keep the general public abreast of critical issues affecting food prices.

Did you set up an assessment process? No formal assessment process has been set up but the work and the reports developed through the food price monitoring programme are constantly under public scrutiny and have gained a good reputation as reliable sources of food prices information in South Africa. The reports are used by both the government for policy making and the private sector for information and other purposes.

Can you describe experiences that were not successful? No failures. For economic and food security purposes, we believe that the food price monitoring programme is a critical tool for monitoring food prices. The programme is well located and resourced and continues to produce results of very high quality.

4. Who are the "clients" of this monitoring entity: government, specific stakeholders along the chain, consumers? How do they use the tool to your knowledge?

The principal clients of the food monitoring programme are:

- South African government for policy making purposes;
- Consumers who benefit from the transparency provided through the analysis of various food chains;
- Researchers for research purposes;
- Private sector companies who use the research output for identification of market opportunities and an understanding of the various trends affecting food prices.

5. What is the cost of getting this monitoring entity up and running in terms of:

- **Involvement of ministries, statistical offices, stakeholders along the chain?**
- **Financial implications for its regular functioning?**

The food price monitoring programme is located within the National Agricultural Marketing Council (NAMC), which is a statutory body established to advise the Minister for Agriculture, Forestry and

Fisheries on marketing policy and related issues. Within the NAMC, the food price monitoring programme is located within a division called Markets and Economic Research Centre (MERC), which has dedicated staff and resources for its implementation. This means that the main cost of food price monitoring programme on the part of the NAMC is staff costs. The staff is also involved in other programmes and activities of the NAMC. The data used for food price monitoring is collected by Statistics South Africa (STATSSA), a statutory body established for the collection of statistics in South Africa. Costs for data collection are borne by STATSSA.

6. What are the future plans of this entity?

The NAMC is a statutory body and there are no plans to terminate its existence. The food price monitoring programme is also a permanent feature on the annual business plans of the NAMC.

8. Does the private sector have a demand for and willingness to provide greater transparency regarding price formation along the food chain according to your experience?

Yes the private sectors does have a demand for transparency in markets and all information used in the food price monitoring programme is collected from private sector companies. As it is evident from the various food price monitoring reports developed by the NAMC, there appears to be good cooperation by the various role players within the various food chains. Various food value chains are analysed on an annually basis, starting from input supply and production through to processing and retailing.

9. Have you identified impediments to price transmission along the food chain? What policies do you think might help mitigate those impediments? Have policy actions been taken? For example, have measures been taken to ensure that food markets are competitive and integrated in your country? What is your assessment of their effectiveness? Are any future policy initiatives affecting relationships along the food chain in the pipeline?

One of the critical impediments to efficient price transmission in any value chain is collusion among role players in that particular chain. In South Africa however, there is a Competition Commission which is a statutory body constituted in terms of the Competition Act, No 89 of 1998 by the Government of South Africa. The commission is empowered to investigate, control and evaluate restrictive business practices, abuse of dominant positions and mergers in order to achieve equity and efficiency in the South African economy. The stated purpose of the Competition Act is to promote and maintain competition in South Africa in order to achieve the following objectives:

- To promote the efficiency, adaptability and development of the economy;
- To provide consumers with competitive prices and product choices;
- To promote employment and advance the social and economic welfare of South Africans;
- To expand opportunities for South African participation in world markets and recognize the role of foreign competition in the Republic;
- To ensure that small and medium-sized enterprises have an equitable opportunity to participate in the economy;
- To promote a greater spread of ownership, in particular to increase the ownership stakes of historically disadvantaged persons.

To date, the Competition Commission continues to play a critical role in ensuring that anticompetitive behaviours among firms are investigated and if found guilty, the necessary sanctions (usually fines) are imposed against the guilty firms. Some of the recent investigations conducted in terms of the Competition Act within the agricultural sphere were in the dairy and bread industries. Efforts are continuous been made to ensure that weaknesses within the Competition Act are addressed by means for amendments to the legislation from time to time.