Connecting bread, land and peace

Why is the price of bread rising so rapidly? **Jacklyn Cock, Khayaat Fakier, Katherine Joynt** and **Roger Roman** take us through the wheat to bread chain and anti-competitive practices to understand this trend. They contend that concerned parties need to unite on this issue to avoid an eruption of violence.

The assault on the working class in the form of rising food prices, specifically bread, is rooted in South Africa's land policies and is likely to lead to violence. At the same time, bread is a unifying issue which could bring a variety of constituencies such as those concerned with peace, conflict prevention, the environment, the energy crisis and land reform, into the struggle for social justice.

BREAD – A STAPLE FOOD

Bread is the staple food of working people. According to the South African Chamber of Baking, bread consumption in South Africa has risen to about 2,8 billion loaves a year – about 62 loaves of bread per person annually, or three slices of bread per person a day.

A random survey of 25 households in Emnambithi, a poor township outside Ladysmith, showed that people eat bread daily. Nine of the households consumed more than 10 loaves a week, with one household of 12 people consuming 21 a week.

Ten households bought their bread from local spaza shops, paying at least R7,50 a Sasko loaf. Bread was cheaper in Ladysmith supermarkets and from a local bakery, but people said the latter "doesn't taste as good" and "you won't be able to eat it the next day".

None of the 25 informants baked their own bread for reasons including the cost of flour, shortage of fuel, lack of time and lack of a stove with an oven.

Township dwellers have been the hardest hit by the 13.4% rise in food prices since last year – a 19% rise in the white bread price and 16% rise in the cost of brown bread. Wheat prices have more than doubled over the past year and milling and bread companies have warned of further increases. While consumption of bread has increased, local production has fallen. South Africa imports about 1,4 million tonnes of wheat a year, according to Grain South Africa chairperson Neels Ferreira.

WHEAT DOWN, PRICES UP

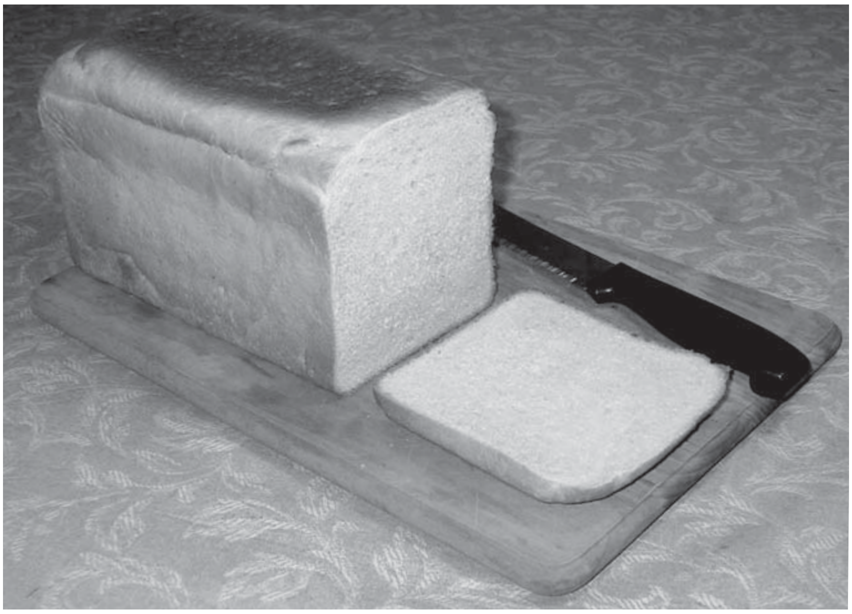
South Africa is part of a globalised wheat-to-bread food chain which begins with the farm workers who plant and harvest the crop and the farmers who sell it to the silo owners. From there it passes to the millers who convert it into flour, which in turn goes to bakers and to bread retailers. Considerable transport and distribution costs are involved.

Over the past 20 years, the South African bread chain has been affected by the deregulation of agriculture, including the scrapping of the Wheat Board in 1996. As a result, wheat has become far more responsive to global trends. Fluctuations in the rand/dollar exchange rate and international wheat prices affect the local market as never before. Rising input costs, especially of fuel, have sparked price increases throughout the chain.

Rising prices are partly driven by climate change, particularly drought, while the world energy crisis has diverted land and crops into bio-fuel production. Conflict is emerging between food and energy security. A car fuel-tank of ethanol represents enough maize to feed a person for a year.

In South Africa, farm ownership is becoming increasingly concentrated, and the area planted to wheat has been falling for 20 years. There are now between 5 000 and 6 000 commercial wheat farmers, mainly in the Western Cape, Free State and Northern Cape. Last year they planted 632 000ha of wheat, down from 1,55 million in 1991, according to the National Chamber of Milling.

Factors driving down wheat production include drought in the Western Cape, pressures caused by rising input costs and difficult trading conditions. Other reasons are the 2% import tariff on wheat, which translates into about R50 a tonne or 3c a loaf, and the Eskom meltdown. It is estimated that every hour of



load-shedding means minimum loss of 150 tonnes of wheat in milling and baking operations.

The land reform programme since 1994 is another factor in the drop in wheat production. The lengthy time taken to settle land claims has caused market uncertainty and made farmers scared of capital investments. Some farmers have switched to more profitable crops such as maize, others have gone out of business.

Until 1996, when the new government dissolved the Wheat Board, wheat prices were fixed, imports and exports controlled, and local millers had to take part in local production. The local wheat industry is now one of the world's least regulated.

Evidence of price collusion in bread, where ownership is highly concentrated, has fuelled demands for the regulation of the food chain and the corporations involved.

But the most important factor in the rising price of wheat is that South Africa has become an importer of wheat which has undermined its capacity to regulate prices. Prices at the Chicago Board of Trade are the benchmark for the international wheat trade.

After several years of trading between R1 200 and R1 500 a tonne, prices started to rise sharply last year, reaching R4 000 a tonne in February this year. The price of wheat is now at a 28-year high and almost twice the average price of the last 25 years, according to World Bank president Robert Zoellick.

International stockpiles have reached 25-year lows, as speculators have turned to commodities for better returns than from stock markets and other investments. Non-food interests and traders have contributed significantly to the world food crisis. Growing demand from developing nations such as China and India have also caused prices to rise.

Globalisation has thus stripped countries such as South Africa of much of their power to ensure peoples' food security. The food riots across the world underscore this new and unsustainable reality.

PRICES AND S.A. BREAD CHAIN

The main characteristic of the South African bread chain is the concentration of ownership. This is a global feature. Six corporations control 85% of the world's grain trade. In South Africa four corporations produce most of the bread.

Senwes is the country's biggest grain storage company. At the moment the Competition Tribunal is hearing allegations of anti-competitive behaviour by grain traders against it. With a silo capacity of 4,6 million tonnes, Senwes is the dominant operator.

The milling and baking industry is controlled by four food giants: Pioneer Foods (Sasko), Tiger Brands (Albany), Premier Foods (Blue Ribbon and BB) and Foodcorp (Sunbake). Together they produce 65% of loaves.

Competition Commission spokesman Thulani Kunene announced that the Commission is investigating anti-competitive practices in milling and "the entire bread value chain-from farmer to supermarket shelf". The Commission will file papers against Foodcorp and Pioneer Foods this month for bread price fixing.

Agriculture minister Lulu Xingwana has revealed that actors in the wheat-to-bread chain, including agriculture, milling, baking, retailing and consumers, agreed earlier this year that an investigation into the whole chain is necessary to guard against "unreasonable profit-making at the expense of the poor".

A vital concern is the power of farm workers relative to supermarket executives. A Naledi report in 2002 found that workers on Free State wheat farms get about R200 a month, and are insecure, have poor housing and are abusively treated. The number of paid workers in agriculture has declined, with a strong trend towards the use of casual and seasonal workers. But the president of AgriSA, Lourie Bosman, argues that farmers receive only 24% of the bread price, and the rest gets

added along the value chain.

The bread price varies widely depending on the outlet. A survey in Johannesburg in April this year showed that the price of a 700g of Albany brown ranges between R5.39 at the Hyperama to R7.90 at a Select Shell garage. The same loaf sells for as much as R8 at a spaza shop. Spaza owners ascribe this to transport costs and that they buy from suburban supermarkets.

Supermarket retailers have significant market power, but information about their profit margins is difficult to get.

Pick n Pay's Raymond Ackerman claims there is only a 2% mark-up on bread while Tiger Brands' Jimmy Manyi claims that bread profit margins are being "eroded to the core". Shoprite says it subsidises bread. It is worth noting that Shoprite's Whitey Basson's salary package was R12,5 million in 2005, and that he had share options with a market value of R280 million. Pick n Pay's Sean Summers took home R23-million last year. The minimum wage at the supermarket chain is R400 a month.

ANTI-COMPETITIVE BEHAVIOUR

Evidence of anti-competitive behavior, profiteering and collusion by these powerful retailers goes back some years. A food price monitoring committee approved by the Cabinet found evidence in 2003 that "someone in the supply chain is pushing up the price of brown bread at a rate faster than that of white bread. Although it was not possible to establish the profit margins at the various stages of the supply chain, it is clear from the committee's analysis that the profit shared from miller to retailer has increased over the last three years."

The Competition Commission has uncovered evidence of price collusion. In November last year Tiger Brands was fined R98,9 million for contravening the Competition Act in its baking operations and it was granted corporate leniency in its milling operations. Anne Crotty of *Business Report* noted that "the fine was easily absorbed by Tiger Brands' attributable earnings of R2,2 billion".

Shortly afterwards Tiger Brands increased the price of Albany loaves by 40c, citing the wheat price, and the other three food giants followed suit. The Competition Commission said this "blatant profiteering was an insult to the nation, particularly the poor. It demonstrates that either the collusion is continuing or the cartel members are acting to maintain the artificially high margins they achieved by acting unlawfully." It exposes the hypocrisy of Noel Doyle, chief financial officer of Tiger Brands, who said that increased bread prices showed how, "We're at the mercy of the world markets."

The Commission is continuing to investigate allegations of bread price fixing by Pioneer Foods and Foodcorp. Pioneer Foods reported over R11,7 billion in revenue in the last financial year. But far more remains to be exposed. The cross-ownerships, trading rebates and other business incentives between the milling, baking and food retail companies are not easy to prove. In particular, the supermarkets' buying power gives them extraordinary influence over the wheat-to-bread chain.

A variety of constituencies, including NGOs concerned with preventing violence, have a vital interest in the bread price. Food riots have recently erupted in many countries, and the World Bank's Zoellick has called for a coordinated response to rising prices which are "exacerbating shortages, hunger and malnutrition around the globe".

Zoellick commented that 33 countries may face social unrest because of higher food and energy prices. Cosatu (Congress of South African Trade Unions) has warned of food riots, and in recent xenophobic attacks food stores were looted. In April this year Cosatu launched a protest campaign against soaring food prices, and a Bread Coalition was formed in Cape Town in January.

A more coherent state response is urgently needed in South Africa especially as food security is fragmented across nine government departments.

Despite the efforts of the Competition Commission, the country's savage capitalism, to use Mike Davis's phrase, continues to allow companies to deepen the poverty of more than 15 million South Africans.

All those concerned with the living conditions of the poor, and groups involved in environmental issues, the energy crisis, land reform and conflict prevention, need to come together to formulate a coherent programme and strategy for change. LB

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