

Cosatu looks at the food security crisis

Food price increases are devastating for the working class. The poorest households spend over 50% of their income on food (and 16% on maize alone). Since food makes up such a high share of spending for working people, rapid food price increases mean lower living standards.

The food price index rose 11,4% in the year to December 2001, compared to a rise in non-food prices of 3,0%. (The prices of maize and other basic foods have risen even further since then. Altogether, the maize meal price to consumers has more than doubled in just over a year.) This occurs in a situation of growing malnutrition coupled with the rising numbers of people living with HIV/AIDS. Nutrition and maintaining a good diet is critical for those living with the disease. (see p 72)

CPI and low income earners

The price index for the low-income groups rises far more rapidly than the overall consumer price index (CPI). For households earning under about R2 500 a month, the CPI in the year to December 2001 rose by between 8% and 9%, compared to 6% for the very high-income group, and 6,5% for the overall CPI.

Causes of food price increases

Policies to end the disproportionate rise in food prices and the food security problem must address a number of underlying

South Africa is facing a crisis of rising food prices and food insecurity that is negatively affecting the poor and low-income earners who spend more than a third of their income on food. Eric Watkinson and Neva Makgetla outline Cosatu's demands in this regard.

causes. Low-supply and the depreciation of the rand are not necessarily the causes of the rising maize price. Instead, defects in the relevant markets due primarily to speculative pricing and concentration of ownership could be a key factor. This situation is aggravated by inflexible tariffs and the failure to pass on VAT zero rating.

Maize prices

Investigation of the maize price suggests that the main problem lies in unjustified import-parity pricing based in part on persistent official underestimates of crops.

Contrary to perceptions created in the press, there is no maize shortage in South Africa and there is no need to import this year. Despite the reasonable maize crop this year, speculative estimates appear to

have exaggerated regional maize needs and underestimated the overall harvest. These estimates of high demand relative to local production led to an increase in futures prices and were used to justify import-parity pricing.

Speculation that the overall harvest would be low added to the price burden. In the 2000/2001 marketing year, crop estimates by the National Crop Estimate Committee rose by 10% from the start of the season to the end. The underestimation of maize harvests ultimately benefits producers and brokers relative to millers and consumers. For every 1% underestimation in the maize crop there is a 0,71% increase in the maize price.

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VAT and tariffs

There appears to be inadequate flexibility in the maize tariff, aggravating price increases. The maize tariff is currently around R137 a tonne, or about 6% of the price.

COSATU is also concerned that the benefit of VAT zero rating on basic foodstuffs is not being passed on to consumers. That means producers and retail chains are profiteering at the cost of the poor. This situation emerges from the fact that in most shops, brown bread, which is VAT exempt, costs the same as or more than white bread. It is not clear which part of the industry chain is

responsible for inflating brown bread prices.

Structural factors

High food prices are in part associated with lower investment in agriculture and stagnant production. They are also related to concentration of ownership in production and processing as well as formal retail, and inefficient retail in the townships and rural areas.

Since the mid-'90s, there has been a substantial decline in agricultural investment. The decline in agricultural investment has been more severe than in the economy as a whole. The agricultural decline has been associated with growing differentiation within commercial farming.

The formal retail sector is also highly concentrated, with effective domination by three supermarket chains. This level of concentration in production and distribution gives rise to concern about price collusion and profiteering.

Concentration of ownership may also explain the high price increases in dairy, where smaller local producers have been displaced by a large foreign concern. This situation has been associated with substantial job losses in the dairy sector. According to the Survey of Total Earnings and Employment, a total of almost 7 000 manufacturing workers have lost dairy jobs since 1994.

Finally, retail prices in poor communities are comparatively high because of the dependence on poorly organised and resourced micro-traders with relatively high mark-ups over the big retail chains. Mark-ups in cafés and spaza shops are about twice as high as in the supermarkets.

Policy implications

The negative trends in agriculture seem related to a strong ideological commitment to freeing up agricultural markets, except for support for land



reform and smallholders. In most industrialised countries, the government makes some effort to stabilise prices for staple foods, usually through a system of stockpiling. This type of policy responds to the need to manage the vagaries of the weather so that food inflation does not have a devastating impact on the poor.

The recently published *Strategic Plan for South African Agriculture (2001)* does not, however, point to this approach. Food security and employment creation are listed as its aims but no other mention is made. Instead, focus is given to ensuring that 'Market forces [are] to direct business activity and resource allocation'. It is interesting to note that the task team working on the strategy included business and government representatives, but no one from consumer organisations or labour.

Proposals and way forward

Cosatu has recommended the following, in line with proposals made in the

Reconstruction and Development Programme (RDP) around food security:

- ❑ Government should develop a clearer vision for the role of agriculture and the food industry in the economy. That means defining its expected contribution in terms of food security, employment, investment and output. For this purpose, Cosatu has called for a tripartite Food Security and Jobs Summit by the end of 2002 which would look at how the Agricultural Debt Management Account is used. There is now R1,2bn in the Account that was collected from indebted white farmers, many of whom have liquidated. A proposed Food Security Bill should be drafted which will administer the disbursement of monies to approved food security projects.
- ❑ Nedlac constituencies should agree on ways to support food security at the household levels. This could be

achieved in the following ways:

- By expanding school feeding schemes, and extending nutrition schemes to other vulnerable groups, such as the homeless and people with HIV, either through direct provision of food or food-stamp programmes.
- Ensuring strong measures are taken to ensure the benefits of VAT zero rating are passed to consumers.
- The implementation of more effective welfare grants, including a Basic Income Grant and the full extension of the child support grant, without a means test. As part of this, we need to accelerate improvements in administrative systems, in particular around the provision of ID books and the child support grant. In addition, state social grants (especially the old age pension) must increase relative to cost of living for the poor, not the overall CPI.
- There must be an urgent investigation into pricing practices in maize, milling, dairy and meat production and food retailing. This investigation should explore the impact of the market structure and any evidence of collusion; the crop estimates committee and the futures market; and how to control the impact on actual prices, as well as ways to reduce input and transport costs.
- Nedlac constituencies should support consumer co-ops, especially in poor communities.
- The Department of Agriculture should set up a unit to monitor agricultural prices throughout the production and distribution chain. The unit could alert government and the public to actual and potential increases in consumer prices for staple foods. Monitoring must include the futures market and ensure regular reporting to Parliament and Cabinet.
- The Nedlac constituencies should investigate a new procedure for setting

agricultural tariffs that will be more responsive to short-term changes in local production and regional demand. The system should ensure a six-month review, with public hearings, on the tariff system for staples, especially maize. The tariff system should then aim to protect stable local production while guarding against excessive increases in the prices of staple foods.

- Statistics South Africa should release electronic data for the prices of each product in the CPI basket from 1997 onwards. In addition, it should publish a 'people's CPI' weighted by population, not consumption.
- In the longer run, South Africa must support more regional and domestic maize production in order to reduce the foreign-exchange risk. This could be achieved by developing vigorous and effective programmes to support maize production in neighbouring countries. The government must also look at establishing programmes to ensure more stable and increased maize production in South Africa, especially by smallholders. This would require the development of appropriate crop strains and production technologies. A critical need is to define how government can accelerate land reform and support subsistence farmers, who cannot afford to participate in the government's current smallholder schemes.

Nedlac should also initiate an investigation into food safety and food quality monitoring systems and report on progress with staple food fortification initiatives.

This is a summary of Cosatu's position paper presented to Nedlac in February 2002. The paper was drafted by Eric Watkinson, a researcher at Naledi and Neva Makgetla, Cosatu's policy coordinator.