

The food crisis

more action needed

by ERIC WATKINSON and KATISHI MASEMOLA

The government recently announced its proposals to deal with the food crisis. A number of areas for action remain.

During October 2002, a number of food companies and retailers announced 'subsidies' to help the poorest of the poor combat high food prices. As maize meal prices shoot up it stands to reason that there is a pot of subsidy money somewhere in the industry, but how true are companies' claims that they are giving more back than they have already taken?

On 26 October 'super' maize meal cost R3.90 per kg and 'special' maize meal cost R3.50 per kg. On 10 October, Premier Foods and Metcash announced that 80 000 bags of 12,5kg "Yiyo Lena" sifted maize meal would be made available at R25.99 or R2.10 per kg. For those who literally can't afford to care about quality and can make it to Metcash's rural stores, this looks like a fair deal.

However, if you compare prices for the same quality of maize meal, the poorest of the poor are still paying 45% more for sifted maize meal than they did one year ago. According to Statistics South Africa, in October last year 12,5kg of sifted maize meal cost R17.95. You can buy a bag of sifted maize meal for about R8 extra now. Furthermore, the Metcash sacrifice of 80 000 bags only amounts to 0,34% of all white maize processed for human consumption in an average month.

Following hot on the heels of Premier and Metcash, Pick n' Pay

has also realised that poverty increases the demand for cheaper, lower quality products. Now they will also stock no-name sifted maize meal at a 'cheaper' price.

Why did prices rise?

Most explanations of the rapid increase in food prices begin with the Rand's fall against the US dollar from September last year. It is true that part of the food price increase may be explained by currency depreciation. In grain farming, for example, if 25% of

statements by prominent people in the industry warning of domestic crop 'shortages', regional drought and famine led to panic on the South African Futures Exchange (SAFEX). Information released to the media was followed by 'herd behaviour' trading on the futures exchange that delivered a producer price well above import parity at harvest time (April to August 2002). Since then, SAFEX prices have remained 'sticky upwards' in the hope that foreign donors will buy large quantities of expensive maize from South African suppliers.

How true are companies' claims that they are giving back more than they have already taken?

farmers' overall production costs are dollar based, a 40% Rand depreciation from one planting season to the next will 'mechanically' raise their dollar-based input costs by the same 40% (i.e. to 35% of overall production costs). In other words, price increases of products as an output at the farm gate will increase by 10%.

But the price of maize meal has increased by 112%, meaning that a large percentage of the price increase can be attributed to speculative profiteering by some or all players (from farmers, to silo owners, millers and retailers).

The problem of speculative profiteering begins inside the farm gate. In retrospect, media

COSATU has argued consistently that when producer prices rise above the middle of import and export parity, this indicates problems with excessive concentration of ownership and collusion.

Government proposals

Government announced proposals to deal with the food crisis on 10 October.

There are two sides to these proposals. On the demand side, the proposed increase in welfare grants is minuscule and will not offer relief to the poor. A massive number of poor people spend up to 50% of their income on food. In some cases the percentage is much higher. The proposed

increases range from a low of 2% for the foster care grant to a high of 8% for the child support grant. The grants will top-up the February increase by a percentage well below the latest CPIX for low-income earners (14,8%), food price inflation (22%), and maize meal price inflation (>112%). A more reasonable 15% increase in welfare grants will result in an additional R93 for pensioners and R19.50 for child support beneficiaries.

Government should move swiftly to extend the child support grant age limit to 18 years. While the proposal to extend the reach of the school-feeding scheme is laudable, targeted community feeding schemes in hotspot areas within villages and townships where there are excessive levels of hunger should also be introduced. Programmes and projects that assist families that have children as their heads and people with HIV/AIDS to access food should also receive increased support.

Additional areas for government action include:

- zero-rating of VAT on basic food items and mechanisms to ensure that the benefit is passed on to consumers;
- reducing the pensionable age to 55 years for both men and women.

On the supply side, Government proposed investigation of strategic grain reserves, promoting food security in the region, expediting tariff reductions on basic foods, establishing milling co-operatives and a ten-person food chain monitoring committee. The Government also supported the cut-price maize scheme put together by some large companies.

A number of areas for government action remain:

- The Competition Commission has done admirable work.

Government should ensure that the Commission is enabled to:

- monitor SAFEX and investigate allegations of big trader dominance;
 - investigate market imperfections within key food industry chains (from farming through to retail); and
 - investigate the information asymmetries involved in unreliable crop estimates. It would be appropriate to have a NED-LAC-sanctioned multi-partite committee overseeing these investigations.
- The maize meal programme spearheaded by Premier Foods should focus on 'super' and 'special' maize meal instead of sifted maize meal (see box) and the programme should be extended until the end of 2003.
 - The structure of the ten-person monitoring committee proposed by government will have to be all-inclusive and its power should be to monitor price movements as well as recommend government interventions.
 - Legislation relating to grain silos and physical strategic grain stocks should be tabled for discussion as soon as possible.
 - Government should introduce measures to improve quality in maize production and processing.
 - Rand-denominated, as opposed to dollar denominated, reference prices for basic food product tariffs should be given more serious consideration.
 - The mechanisms to implement a windfall profit tax on super profits reaped by those benefiting from hunger should be clarified by government as soon as possible.

We began by asking whether companies are giving back more

Safety standards

Are lower quality products also safe to eat? According to a 2001 study sponsored by the Maize Trust and National Association of Maize Millers, the level of fungal toxin in sifted and unsifted maize can reach unacceptable levels in some years. In the 1994/1995 season, which is the last time the industry actually checked properly, levels of mycotoxin in unsifted and sifted maize meal failed to meet United States food safety standards.

Doctors at the Nelson Rolihlahla Mandela School of Medicine in Durban have studied the negative health effects of repeated exposure to unacceptable levels of mycotoxins. Mycotoxins are strong immuno-suppressive agents that are also implicated in cancer in men and women. As a minimum, they suggest that repeated mycotoxin exposure should receive more attention for its impact on the progression of AIDS in people who are HIV positive.

than they have taken already. To put it mildly, there is room for massive improvement. Although private sector initiative is welcome, this cannot replace coherent actions by the government, alongside the contribution which labour and community organisations are prepared to take, to address the food security crisis in South Africa and the region.

[Eric Watkinson is a Researcher at NALEDI. Katishi Masemola is the National Bargaining Secretary, at the Food and Allied Workers' Union (FAWU)]