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Calls for government to stop food price fixing

Government committee recommends that an investigation be launched into monopolies run by big retailers and wholesalers

BY EDWIN NAIDU

The government has been asked to act against profiteering food suppliers and retailers after an investigation found substantial evidence of monopolies and influencing of prices.

A report by the department of agriculture's food price monitoring committee, released in Pretoria on Friday, said there was fierce competition in the food sector, which made it difficult for smaller players to operate as retailers, or as food processors and distributors. Some companies were setting high prices and luring consumers through branding or advertising, thus earning higher than normal profits, the report said.

"The competition commission should take on the food sector and analyse prices, like it is doing in the motor industry," said Jan Kirsten, the chairperson of the food price monitoring committee.

Kirsten said the committee's findings should provide a useful basis for a thorough investigation by the commission. "The state seems to have its work cut out to ensure effective policing of the competitive environment ... therefore the commission is requested to annually conduct a thorough investigation into the market structure of one or two food value chains."

The government was also asked to consider establishing laws to compel grain traders to submit weekly reports on production to avoid unnecessary volatility in the agricultural commodity markets.

It was also asked to set aside funds to help emerging players in the food chain and to fast-track the development of an effective transport network so that the environment would become more competitive and prices cheaper.

Thoko Didiza, the minister of land affairs and agriculture, was asked to convey the committee's recommendation to probe food prices in the same way the competition commission was investigating the motor industry.

Didiza said the government would continue monitoring food prices and that her department had already started work on the committee's recommendations.

Kirsten said that although food prices were returning to the levels of 2002, consumers were not getting the benefits of fair prices because of monopolies in the food industry.

The food price monitoring committee was set up in January last year to investigate reasons for the "unrealistic price increases" of 2001 and 2002 when the rand fell to R13,85 to the dollar and the petrol price soared.

Kirsten said there were many factors leading to the sharp rise in food items, one of them being higher commodity prices.

The report, which was handed to the department eight months ago, found that the costs of basic food items had decreased, but luxuries and household cleaning material had remained high.

Kirsten warned that the price of

Competition is fierce, based on small margins, high volumes

bread and milk was likely to increase, although the materials in their production, such as wheat for bread, had come down.

The report said there was fierce competition in the food market with everything based on economies of scale, small margins, but high volumes and turnover. "This structure makes it very difficult for smaller players to enter this market, either as retailers, or as food processors and distributors. Smaller players do not have the scale of operation to compete in the game. Volatility in commodity prices and in the exchange rate also has a clear impact on smaller suppliers and manufacturers, who found it difficult to absorb such shocks."

The report said the oligopolistic and monopolistic competition in the food business was amply illustrated by the behaviour of individual firms in the sector. Some firms were able to maintain prices through branding, product differentiation, price discrimination, market segmentation and advertising, that were higher than others in a competitive market. Barriers to entry, such as high capital costs, enabled existing firms to continue to earn above-normal profits as they had the power to determine the price for the goods or services they produced or sold.

The report's findings come against a backdrop in which most of the major retailers in the country, including Shoprite, which operates Checkers, Hyperama and OK, expect to record good sales this year.

Pick 'n Pay and Massmart, the bulk retailer and wholesaler, which house top brands Game, Dion and Makro, have shown good sales in the past financial year and expect to announce better results for the current period.

On Thursday, food and clothing retailer Woolworths announced huge profits as its turnover for the year to June increased by 12,1 percent to R10,65 billion, with the food division making R4,7 billion, highlighting gains from increasing consumer demand.

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Most of the country's retailers are benefiting from lower interest rates and inflation. Last year, retail sales were boosted by high food inflation and rising consumer spending and, although the rand has strengthened, consumer inflation is still high and likely to remain so.

The report stated that it was possible for sellers to charge different prices for the same product. "The consumer may not know how much the rival seller is charging and may not have all the information on all the 'specials' and other alternative deals, since this involves high search and negotiating costs for the consumer."

Bertus de Jongh, the head of the Milk Producers' Organisation, said farmers had dropped their prices by up to 7 percent during the past six months; however, there had been no reduction in retail prices. "It is quite clear that retailers are profiteering. Our prices are under pressure and we don't see the situation improving for farmers."

Patrick Craven, the spokesperson for the Congress of South African Trade Unions, said: "We would welcome any intervention by the government to look at the reasons why food prices do not reflect the real costs of production," he said.