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Working Paper No. 2012/102

The Political Economy of Food Price Policy in South Africa

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December 2012

Abstract

This paper analyses the food price trends in South Africa during two periods of rapid food price inflation that occurred in the decade 2000–10 and unpacks the political reaction and policy responses to the food price crises in these two periods. Based on personal recollection of events during the past decade, interviews with former politicians and state officials, as well as a thorough investigation of relevant cabinet and government documents it is concluded that agricultural and food policy in South Africa remained largely unchanged with no controls or regulations introduced. The South African state has maintained since 1998 a substantive social welfare programme reaching the poorest 20 per cent of the South African population, which has provided an important safety net during periods of high food prices. The South African government nevertheless implemented a set of ‘second class’ interventions that mostly target the poorer section of the population in an attempt to mitigate the negative effects of price changes and include elements such as food parcels, agricultural starter packs, and vegetable gardens.

Keywords: food price inflation; political economy, social safety net, South Africa

JEL classification: Q18

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This study has been prepared within the UNU-WIDER project on the Political Economy of Food Price Policy directed by Per Pinstrup-Andersen.

UNU-WIDER gratefully acknowledges the financial contributions to the research programme from the governments of Denmark, Finland, Sweden, and the United Kingdom.

This publication was supported by an agreement with Cornell University Division of Nutritional Sciences under Subagreement No. 60891-9461.

ISSN 1798-7237 ISBN 978-92-9230-568-0

Acknowledgement

Research assistance was provided by Jurre Hartwigsen, Marlene Labuschagne, and Babatunde Abidoye.

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Typescript prepared by Lisa Winkler at UNU-WIDER

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1 Introduction

The South African agricultural and food economy is characterized by some stark realities. On the one hand, there is a large productive agricultural and agribusiness sector ensuring national food security. On the other hand, 52 per cent of households experienced hunger in South Africa in 2005 while almost 14 million, or about 35 per cent, of the South African population are generally considered to be food insecure and categorized as poor. Given the fact that the affordability of food should be an important political issue in South Africa, it is important to understand the structure of the agricultural and food industry and to evaluate the policies and programmes the government has introduced in this sector to deal with the broader issue of food security.

For almost 60 years during the twentieth century South African agricultural and food markets were controlled and regulated by the government. Several parastatals performed a number of functions such as import control, price control, and issuing of licences, quotas, and permits on behalf of the state. This era of controlled food marketing came to an end in the mid-1990s and since then South Africa had a liberalized agricultural and food market with limited, if any, border controls and no control over the behaviour of farmers, traders, food companies, and retailers in the food value chain. The spirit of liberal capitalism was in full operation. Since the period of deregulation South Africa experienced two periods of food price crises: in 2002/03 and again 2007/08. As will be shown later the 2002/03 crisis was largely caused by a sharp depreciation of the South Africa exchange rate but was amplified by staple food shortages in neighbouring countries in the Southern African Development Community (SADC) region. In 2007/08 global commodity price trends were dominant factors in the South African food price inflation.

The main objective of this paper is to understand the food price trends during these two periods and to unpack the political reaction and policy responses to the food price crises in these two periods. What was the government's policy response? Our personal recollection of events during the past decade would suggest that the government's response was more in the line of statements and comments by senior politicians and a few pockets of government programmes introduced to deal with the negative consequences of the crisis within the neediest communities. We hypothesize that South Africa had no major 'policy' response following the two crises. We will show in this paper that agricultural and food policy in South Africa remained largely unchanged with no controls or regulations introduced. The policy of unregulated agricultural and food markets continues although the Competition Commission increased the number of investigations into uncompetitive behaviour in food supply chains resulting in heavy fines for a number of food companies.

Section 2 of the paper presents a brief country profile as well as an overview of the agricultural industry and the major commodities produced, consumed, and traded. In Section 3 we discuss the major food price trends and shocks during the two periods of high food inflation during the last decade. We analyse the impact of the food price shocks on consumer groups as well as on rural communities and then also test the transmission of international prices into the local market. Section 4 presents an overview of the government's responses to the two food price crises. Here we discuss all programmes introduced which will not necessarily include policy changes since most of the intervention programmes were implemented within the existing policy space. Section 5 provides a review of the political economy dimensions in order to provide some explanation of the nature of government

responses documented in Section 4. We will also reflect here on the role of the media and various media reports on the matter.

2 Country context

2.1 The socio-economic profile and development status of South Africa

South Africa with a population of 49 million is classified as a middle-income country, the largest economy in Africa (GDP = US\$286 billion and GDP/capita = US\$5,500), with observer status in the G8 and a key member of the G20. Recently South Africa joined the ranks of a small group of emerging economies of the world—the so-called BRICS nations (Brazil, Russia, India, China and South Africa).

Recent estimates show that 59 per cent of the South African population are urbanized but at the same time many people living in rural areas commute daily or weekly to the urban metropolises for their daily job. There is therefore a strong link between rural areas and many of the urban/industrial areas.

South Africa is also known for its high unemployment rate (45 per cent) and its extreme inequality (Gini coefficient of 0.67). Poverty is also rife and rural areas are relatively worse off. Woolard and Leibbrandt (2001: 59) report that the 2001 poverty rate in rural areas, at a poverty line of US\$1 per day (R3,509 per adult equivalent per year in 2001), 'is 63 per cent, compared with 22 per cent in urban areas'. Using the US\$2/day per capita measure (equivalent to R515/month in 2008), Leibbrandt et al. (2010) report that 57 per cent of the poor lived in rural areas in 2008. Several other studies (Roberts 2001; May 2010; Posel and Rogan 2012: 4) confirm this. Data from the 2009 national income dynamics study (NIDS) shows that tribal areas are the poorest, with 89.7 per cent of all residents surviving on less than US\$100 per month (Argent et al. 2009: 5).

The causes of the country's particular configuration of rural poverty lie in colonialism and apartheid. While the government has devised several anti-poverty strategies and spent significant resources over the past 17 years to address poverty, it seems to focus on the visible symptoms rather than the causes of poverty. The overlapping vulnerabilities of poverty expressed by the government—vulnerabilities of health, livelihoods, social exclusion, gender discrimination, and service delivery—are similarly articulated in the United Nations' Millennium Development Goals (Kirsten 2011).

In South Africa's rural areas, the government battles against poverty in areas that are geographically isolated and have for decades been marginalized from any growth opportunities. The National Planning Commission's *Diagnostic Report* (2011a: 9) states: 'poverty tends to be concentrated in rural areas and especially in the former Bantustans.'¹

¹ The name Bantustan was used for the homeland areas created under the Apartheid system where members of the African population mainly resided.

2.2 South Africa's political dispensation post-1994

South Africa's recent political history is characterized by the advent of democracy in 1994 and the various policies and government programmes introduced to rid South Africa from its racial injustices and its deep poverty, extreme inequality, and high unemployment. The African National Congress (ANC) is the ruling party since 1994 and attracts around 66 per cent of the popular vote and thus dominates the national assembly as well as the legislative assemblies in the different provinces (except the Western Cape Province). The policies of the government over the last 17 years have mainly focused on the delivery of basic services, reducing poverty and expanding the payment of social grants to poor communities. The ideology of 'growth-with-redistribution' dominated for more than a decade after 1994 but in the last 5 years or so more policy decisions are now framed in terms of South Africa's political ambition to build a 'developmental state' (Gumede 2011). The policy framework for a 'developmental state' focuses on a strong role of the state to improve the socio-economic conditions of the population and the strong belief that only the state can deliver development. As a result many government programmes are focused on the delivery of basic services, infrastructure, education, and health.

The key policy-making institution in South Africa is the policy conference of the African National Conference that takes place every 5 years. The policy resolutions taken at this conference shape the 'programme of work' for the government, as well as the legislative programme of parliament.

Various sectors have undergone dramatic reform over the 17-year period of democratic government in South Africa. Included here, and relevant for this paper, are water reform (a new Water Act), land reform, and liberalization of the agricultural sector. The latter involved the abolishment of all market controls and all agricultural control boards and the liberalization of prices and import controls. A bias against the so-called privileged and protected commercial farmers, as well as believing that food can be cheaper if imported, informed the political support for the liberalization of agricultural markets. This exposed South African agriculture to all the volatilities of the international commodity markets. South African agriculture has since 1994 been fully integrated in global agricultural commodity markets with the majority of tariff lines carrying a zero tariff.

2.3 Agriculture in the national economy of South Africa

Primary agriculture contributes 3 per cent of South Africa's GDP while the broader more inclusive definition of the agricultural, food, and fibre sector contributes between 8 and 10 per cent of the national economy with around 10 per cent of workers employed in this sector (National Department of Agriculture 2009). Primary agriculture employs 400,000 full time workers and another 300,000 seasonal workers. In addition there are many subsistence farm households in the former Bantustans which confirms the dualism of the agricultural sector – a first world modern food system and a rather underdeveloped subsistence and rudimentary agricultural activity.

The two most important features of the South African agricultural economy are its dualistic structure and the process of deregulation of commercial agriculture that has taken place over the past two decades. These features have to be seen against the background of the country's resource endowment. Of the 100.6 million ha of agricultural land, only some 14 per cent receive enough rainfall for arable farming, while the remainder is used for extensive grazing

(83.9 million ha, forestry and nature conservation). Only 1.35 million ha of the arable land is irrigated, yielding at least one-third of total agricultural output (National Department of Agriculture 2009).

Some 40,000 commercial farmers (or farming units) occupy almost 87 per cent of the total agricultural land in the country, and produce more than 95 per cent of marketed output. Only 7 per cent of these farms—or 2,900 units—are considered large-scale units. In contrast, African smallholder farmers are found mostly in the former homeland areas, which make up some 13 per cent of the agricultural land (National Department of Agriculture 2009). These areas were established under the notorious Land Acts of 1913 and 1936, and are characterized by traditional forms of land tenure, which were regulated by a series of laws and regulations, mostly proclaimed in terms of the Black Administration Act of 1927. It is estimated that around 1.5 million households (averaging seven members per household) use agricultural activity as one of the ways to make a living. The importance of agricultural production in livelihood strategies differs between regions and depends on the relative productivity of the location, as well as the presence and availability of able bodied labour.

Deregulation of the agricultural output market has increased productivity (Vink and Kirsten 2003) and the change in trade policy has expanded market access. Hence, it has brought a shift of resources to the production of high value products, which implies a shift from field crops to horticultural and animal products (Vink and Kirsten 2003). In addition, the food and beverage manufacturing sector has showed a steady growth in response to market liberalization. Among these include, the rise in the export of wine and the growth of processing industries (Vink and Van Rooyen 2009). Previous agricultural policies, on the other hand, focused on food self-sufficiency and led to increased production of maize, and of livestock that depend heavily on maize, at the expense of the fruit export industry (Vink 2003).

These aspects explain the significant shift in South African production over the years from field crops to high value horticultural products (fruits and vegetables). The share of field crops in overall agricultural production declined from 40 per cent in the 1980s to 27 per cent in 2009, while the share of horticultural crops rose from 18 per cent to 26 per cent. Similar to field crops, the livestock share of overall production has declined, from an estimated 55 per cent in the early 1900s to about 47 per cent in 2009.

Overall, the average annual growth rate of agriculture output has fluctuated during the past 70 years: it has been growing by about 2.1 per cent per year since 2000, attributed mainly to the growth in horticultural products. Even though growth per annum has improved since 2000, it is much less than the levels reached in the 1950s, meaning the country is currently performing below its potential.

A snapshot of the current supply and demand situation for the major tradable and non-tradable agricultural commodities in South Africa shows that in 2010, South Africa remained a net exporter of agriculture products. The value of exports amounted to R46.5 billion (i.e. a 2 per cent decline from 2009), while imports were valued at R35.7 billion in 2010 (i.e. a 3 per cent decline from 2009).

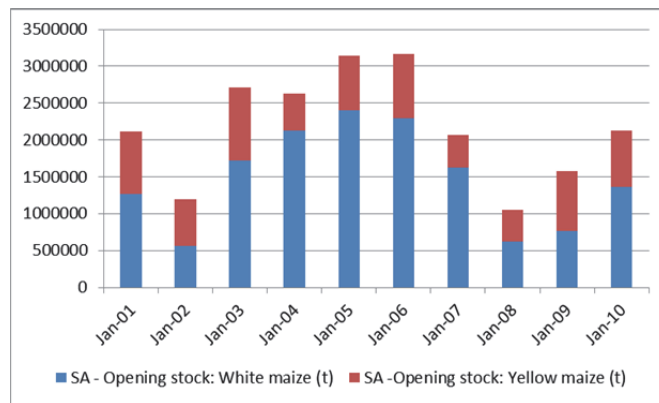
Over the past 15 years, the value of imports of agriculture products have been growing by an average rate of 13 per cent per annum, while the value of exports have grown, on average, by 12 per cent annually. Strong growth in agriculture imports can be attributed to significant

increases in the value of processed agriculture imports, which have increased from R5 billion in 1996 to over R28.5 billion in 2010. The top ten imported commodities account for around 70 per cent of total agricultural imports in 2010 and include commodities such as wheat, rice, soybean oil cake, palm oil, whiskies, soybean oil, tobacco, beans, etc.

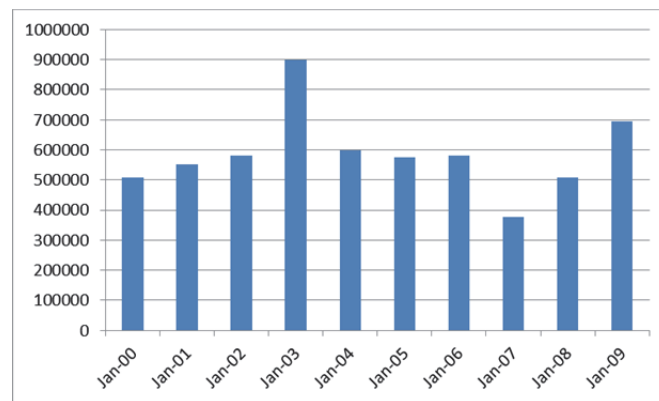
Since stock levels do play an important role in inflationary trends and outlooks it is important to review the opening stocks of maize, wheat, and sunflower seed (all kept by private agribusiness firms). This is presented in the two panes in Figure 1 below. The low maize stock levels in 2002 and 2008 are noteworthy.

Figure 1: Opening stocks for maize and wheat

(a): Maize opening stocks (2001–10)



(b) Wheat opening stocks (2000–09)



Source: South African Grain Information Service, available at <http://www.sagis.org.za>

3 Food price trends and shocks

3.1 Previous food price crises

Before the food price changes in the 2007–09 period can be analysed it is important to have a more long-term perspective on food inflation in South Africa. South Africa experienced a number of food price crises between January 1991 and January 2011. The periods of extreme food inflation were 1991/92; 1994/95; 2002/03 and then again in 2008/09. We now provide a brief overview of the main causes of the last two spikes in food price inflation.

South Africa experienced two periods of sharp increases in food prices during the period from 2000 to 2010 and they were not caused by a national drought as was the case in 1991/92. The first period of food price increases occurred towards the beginning of 2002, when the prices of staple food commodities skyrocketed, and kept on increasing throughout 2002. As expected, food retail prices were not long to follow, and double-digit inflation rates seemed once again to be the order of the day. As an immediate response the government appointed on 28 November 2002 a Food Pricing Monitoring Committee (FPMC) to investigate the sharp increases in food prices. While FPMC was busy implementing its mandate during 2003, food prices levels improved and food inflation remained low for most of 2004, 2005, and 2006.

During its investigations the committee established that higher local commodity prices (helped by world prices and the exchange rate) were largely responsible for increases in retail food prices during 2002. The exchange rate which depreciated from around R8 to the US\$ to around R12 to the US\$ had a profound impact on local prices since international commodity prices are now fully transmitted to local markets (see Figure 2). Although it was clear that the depreciation of the South African currency had the biggest effect on the local market, some suspicion remained about the role of futures market traders and speculators in driving commodity prices to these high levels. Later criminal procedures against one such trading group confirmed these suspicions. Several measures to regulate the trader behaviour on the Johannesburg Stock Exchange were subsequently introduced following the recommendations of the FPMC and following the outcome of the court case against the specific trader. It is worth noting that this process was pursued by the financial services board (that regulates financial markets in South Africa) and the governing board of the Johannesburg stock exchange. It is not evident that there was any political pressure responsible for this.

The investigations by the FPMC as well as an earlier report by Kirsten and Vink (2002) for the National Treasury summarized the main drivers of the food price shock in 2002 as follows:

- (a) increasing international prices,
- (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 value of the currency,
- (d) a shortage of maize in the SADC region, and
- (e) a climate of uncertainty, created specifically by the unfortunate circumstances surrounding the land reform programme and the election in Zimbabwe, and more generally by the instability in parts of central and southern Africa.

These factors jointly caused the maize and therefore other food prices to rise substantially. It is generally believed that the depreciation of the exchange rate was dominant. Commentators general ascribed the deprecation of the exchange rate to a number of events in the global currency market and the limited confidence in emerging economies as well as several political decisions in South Africa that reduced investor confidence.

Figure 2: The exchange rate of the South African Rand against US\$: Jan. 2000 to Dec. 2010



Source: own calculations based on South African Reserve Bank exchange rate database.

The second period of rapid food price increases happened during the 2007–08 period with food price inflation peaking at 18.5 per cent in July 2008. Food inflation remained above 10 per cent for the rest of 2008 and first half of 2009. During 2010 food prices at retail level remained high but the rate of prices increases were significantly lower than those experienced in 2009. During 2010, food and non-alcoholic beverages inflation contributed less to headline inflation in 2010 compared to its contribution in 2008 and 2009. The details of this price shock are discussed in the detailed analysis below.

3.2 Price trends for key food items

Although we had access to retail and commodity prices for a large number of agricultural and food products we limit our discussion on price trends to maize, wheat, and rice. It was important to include rice since it is one of South Africa’s major imports and a key component of the dietary intake of South African consumers.

The author of this paper was appointed as Chair of the Food Price Monitoring Committee in 2003 and was responsible for a process to monitor retail food prices in South Africa. Out of this process followed a complete time series of commodity prices, exchange rates, retail prices and farm to retail price spread since the year 2000. The retail price series consist of a combination of the prices recorded by the government statistical agency (STATS SA) and recorded retail prices provided by ACNielsen.² The analyses of price trends for selected food items to follow are based on this data series currently maintained by the National Agricultural Marketing Council (NAMC) in South Africa.

² A global marketing research firm.

3.2.1 *Maize and maize meal*

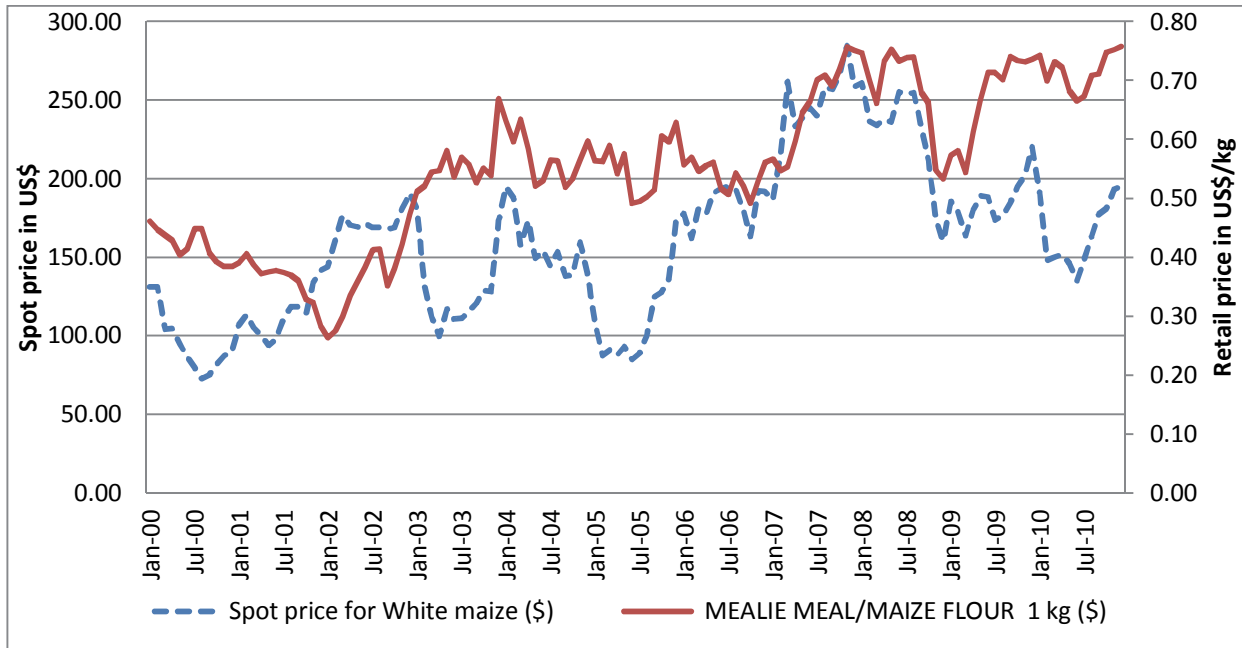
The price of maize meal (processed from white maize) is certainly the most important food price in South Africa's food economy. Maize meal is the main food item in the diet of the poorest 40 per cent of the population and the dominant starch for most of the majority Black population group. Most people buy the final product produced by a few large milling companies although many rural dwellers will take their harvested crop to small and medium scale millers to be processed at a fee.

The presentation of the retail price data for 1kg of maize meal in Figure 3 clearly illustrates the defined periods of price movements in this major staple. The food price spikes of 2002–03 as well as that of 2007–09 are clearly noticeable. The contribution of the movements in the commodity price to the movements in the retail price of the final product is also clear from the data in Figure 3. The standard 4 to 6 month lag in response by retail prices to changes in the commodity price is also confirmed by the presentation in Figure 3. Also noticeable is the downward stickiness of retail prices in the downward phases of the commodity price cycle, most profound during 2004/05 and 2010.

The analysis by the FPMC also provided evidence of and some explanations for the downward stickiness of retail prices. Other costs such as processing costs, wages, and distribution costs also increased with the normal inflationary trend, making it difficult for manufacturers to reduce prices fully. The ability of manufacturers to recuperate losses and/or to prevent losses through appropriate pricing policies and therefore not to pass through the full benefit of cheaper raw materials to the consumer can partly be explained by the oligopolistic structure in most of the food industries. The analyses provided substantial evidence of oligopolistic behaviour and monopolistic competition. Brand loyalty by consumers, a limited number of competitors, market segmentation by supermarkets and manufacturers, and also the nature of demand often put the supermarket/manufacturer in a position to dictate price.

In the 2002–03 period maize prices (in Rand) increased by 35 per cent over a period of 15 months between the low in February 2002 to a peak in May 2003. Prices came down in July 2003 but in May 2006 started to rise again eventually peaking in July 2008. The 15-month period between March 2007 and June 2008 witnessed a consistent increase in retail prices (a 38 per cent increase over the period).

Figure 3: Retail price for maize meal compared with movements in the South African futures exchange (SAFEX) spot price for white maize in US\$ (Jan. 2000 to Dec. 2010)



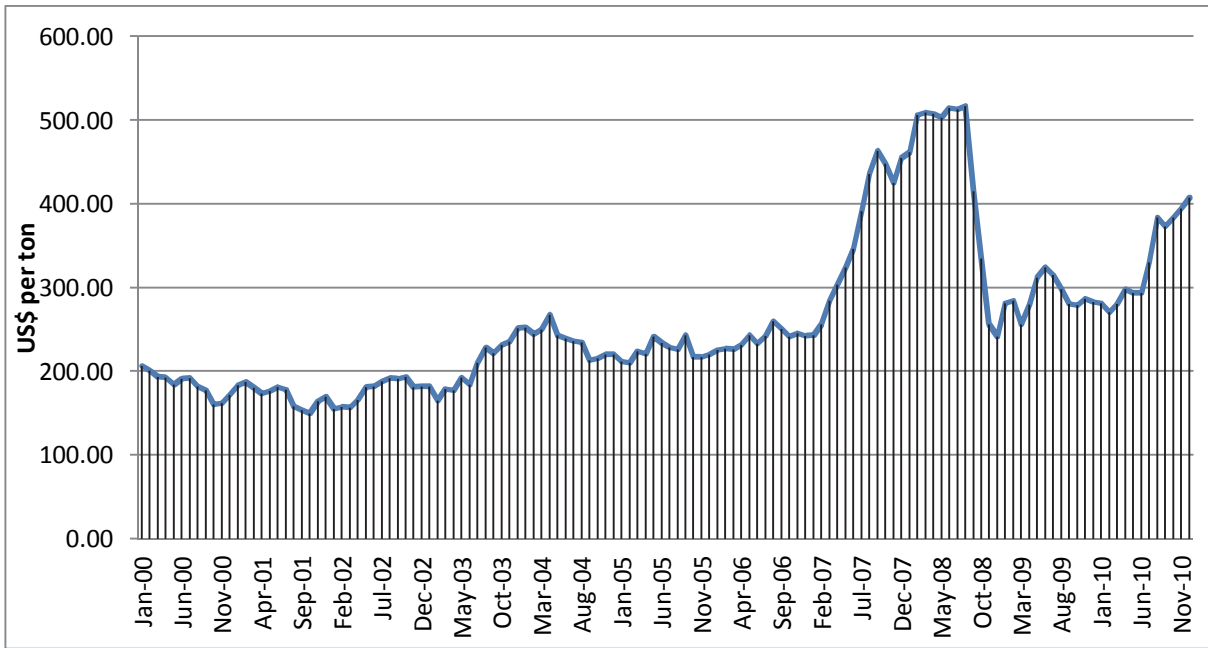
Source: own calculations based on SAFEX sport price series and NAMC retail food price data base.

3.2.2 Wheat and bread

With urbanization and increased affluence bread becomes the preferred starch. The price of bread is therefore just as politically sensitive as that of maize. There is, however, some interesting difference in the political sensitivity of the two staple food prices. The price of wheat (bread) is sensitive among the urban and middle- to high-income people while the maize price is most sensitive among the poor and the rural poor. Since South Africa has always been a net importer of wheat and therefore the local commodity price for wheat has since the period of deregulation been at import parity levels and therefore depending on the international price of wheat and the value of the South African currency. The trends in the local commodity price of wheat are presented in Figure 4 are clearly overshadowed by the spike in 2007–08.

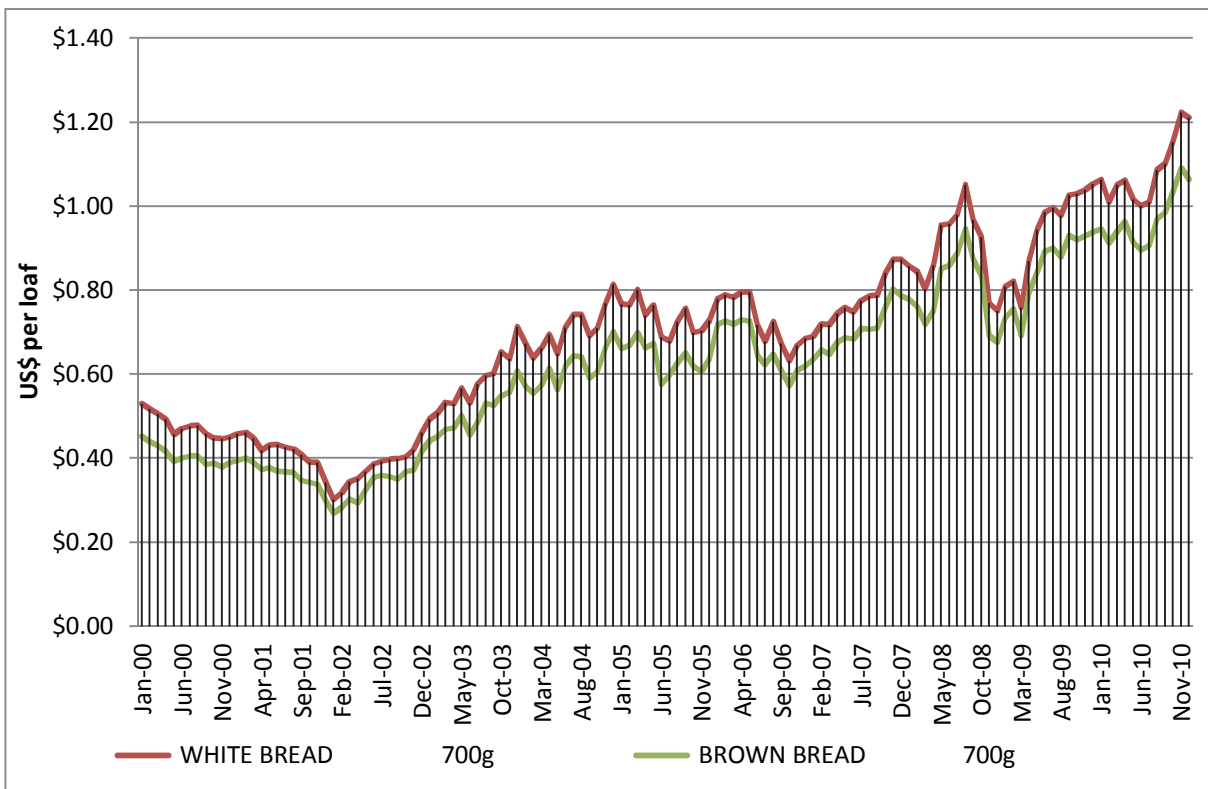
Ever since the spike in food prices in 2002 the retail price of bread has continued its upward trajectory. Price only stabilized for short periods of time but never got back to the levels of the year 2000. The sharp increase in retail prices following the increase in the price of wheat is well-illustrated in Figure 5. Between April 2007 and December 2008 the national average retail price (in Rand) for white bread increased by 50 per cent, breaking the US\$1 per loaf level. Obviously wheat makes up very small share of the final value of a loaf of bread. The cost of labour, electricity, and transport also rose sharply in the same period amplifying the effect of the change in the commodity price.

Figure 4: Spot price for wheat on SAFEX (US\$/ton): Jan. 2000 to Dec. 2010



Source: own calculations based on SAFEX spot price series.

Figure 5: Nominal retail prices of white and brown bread (in US\$ per loaf of bread): Jan. 2000 to Dec. 2010



Source: own calculations based on NAMC food price database.

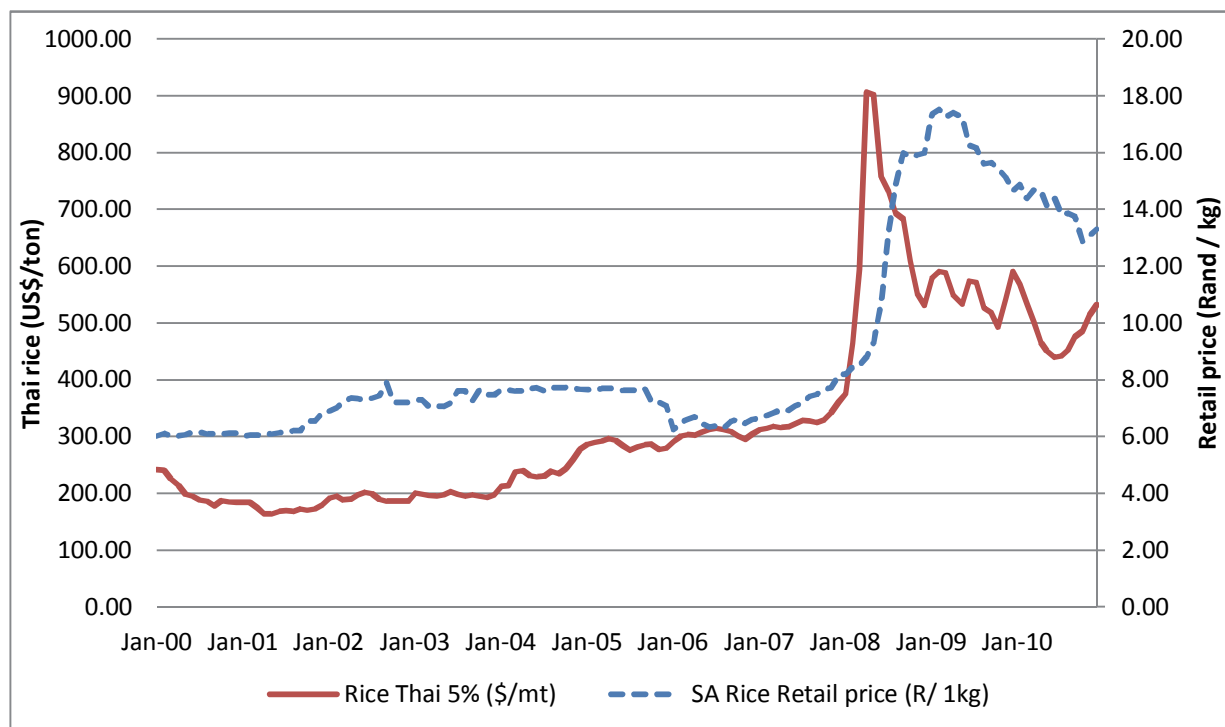
3.2.3 Rice

To illustrate the retail price trends of a commodity that is virtually imported in full we review in more detail the case for rice. South Africa produces no rice but imports large quantities from Thailand, Malaysia, and China. It is therefore expected that the value of the South African currency versus other currencies and the levels of international rice prices will impact directly on the retail price of rice.

During the 2002 food price crisis the analyses of the FPMC showed how the exchange rate influenced prices. In the case of rice, international commodity prices plus the exchange rate directly influenced the retail price. The specific manufacturer (mainly doing cleaning and packaging) of the Tastic Rice brand increased the retail price in 2002 in response to the rising landed cost of rice. As the exchange rate appreciated, prices improved immediately. By late 2003 prices were back to their 2001 levels confirming that with limited processing costs within South Africa, prices will track international prices and exchange rate influences.

Figure 6 shows that international prices for rice were relatively stable during the 2002/03 period confirming that it was only the depreciation of the exchange rate that impacted on rice retail prices (retail prices are in Rand). These trends were, however, totally overshadowed by the increase in world rice prices and Figure 6 therefore suggests a complete pass through of the change in world rice prices.

Figure 6: South African retail and international price trends for rice (Jan. 2000 to Dec. 2010)



Source: own calculations based on IMF international commodity price database and NAMC food retail price database.

3.2.4 Summary of price trends

In order to provide a different perspective and analysis on the food price trends reported above we summarize the main developments in the decade long time line to illustrate the

main break points in the prices time series. This is summarized in Table 1. The data contained in Table 1 provide some information in the main trend breaks in the various price series. The table also presents the different price levels in different time periods and thus provides a comprehensive review of the speed of change in the different price trends. The information also helps to provide important time lines for the discussions to follow on media reporting and policy responses.

Table 1: Time line of price changes on selected food items

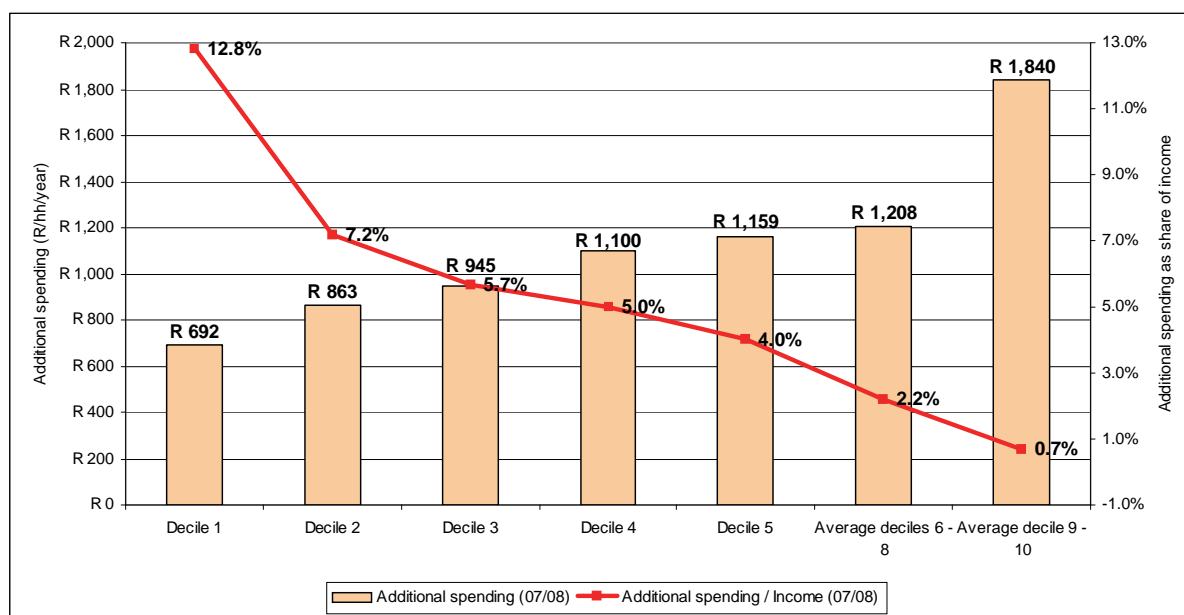
Commodity	Prices began increasing in:	Price at start of increase	Months when prices rose fastest	Month-on-Month per cent increase	Prices peaked in:	Peak price	Prices came down in:
International maize price	April 2006 July 2010	US\$107.72 US\$163.76	Sept. 2008 2010	17.93 17.26	Dec. 2008 2010	US\$287.11 US\$250.38	July 2008
Spot price of white maize	May 2001 April 2005	R755.09 R545.95	2001 Mar. 2007	20.95 23.89	2002 June 2008	R2 006.89 R2 005.75	Apr. 2002 July 2008
Maize meal (1 kg)	Feb. 2002 May 2006	R3.14 R3.39	Apr. 2002 Apr. 2008	10.88 8.13	2003 2008	R4.36 R5.72	July 2003 Aug. 2008
International wheat price	June 2002 June 2007	US\$132.03 US\$223.04	Sep. 2007	16.48 25.73	Mar. 2008 Jun 2008	190.32 439.72	Nov. 2002 Apr. 2008
Wheat White bread (700g)	Dec 2006	R1 728.06	Feb 2008	18.31	2008 Feb. 2009	R4 071.63 R7.92	Jul 2008 Mar. 2009
Brown bread (700g)	Dec. 2006	R4.89	May 2008	7.6	2009 Feb. 2009	R7.29	Mar. 2009
International rice price	Dec. 2006 Sep. 2007	R4.42 US\$330	May 2008 Apr. 2008	9.7 50.92	2009 Apr. 2008 Feb. 2009	US\$1015.2 1	Mar. 2009 May 2008
Rice (1 kg)	Feb. 2008	R8.46	July 2008	21.71	2009	R17.52	Mar.2009

Source: Own estimates from NAMC and SAFEX data.

3.3 Impact of food price crises on different consumer groups

The Bureau of Food and Agricultural Policy (BFAP – a unit at the University of Pretoria) presented in their 2009 annual baseline presentation an analysis of how food inflation during the 2007–09 period impacted on different consumer groups in the South African society. As is shown in Figure 7 the poorest consumers had to spend 12.8 per cent of their annual income more in 2007/08 to buy the same food basket. The wealthiest consumers had to pay an additional R1,840 per year for the same food basket. This, however, was only 0.7 per cent of annual income – considerable a much smaller impact than in the case of the poorer consumer groups.

Figure 7: Impact of food inflation in 2007/08 on consumer groups



Source: BFAP (2009).

Food inflation could also have a dramatic impact on nutrition of the poorer consumers by impacting on portion sizes. According to the 2005 data from STATS SA, the lowest socio-economic groups spent almost one-third of their total food cash expenditures on bread and cereals, dominated by maize meal, followed by bread. As incomes increased, a lower percentage of income is spent on the bread and cereal group and more on the meat and meat alternative group and dairy and eggs. This low dietary diversity in the period prior to a period of major food price increases indicates the potential risk for worsening of nutritional status of this already vulnerable population group.

Poor consumers employ various food coping strategies in order to cope with food crises. In many cases, they first consume cheaper foods with lower nutritional value, then reduce portion size, and then skip meals. Schönfeldt et al. (2010) argue that many South African households employed this strategy in the food crisis prior to skipping meals altogether.

3.4 Price transmission

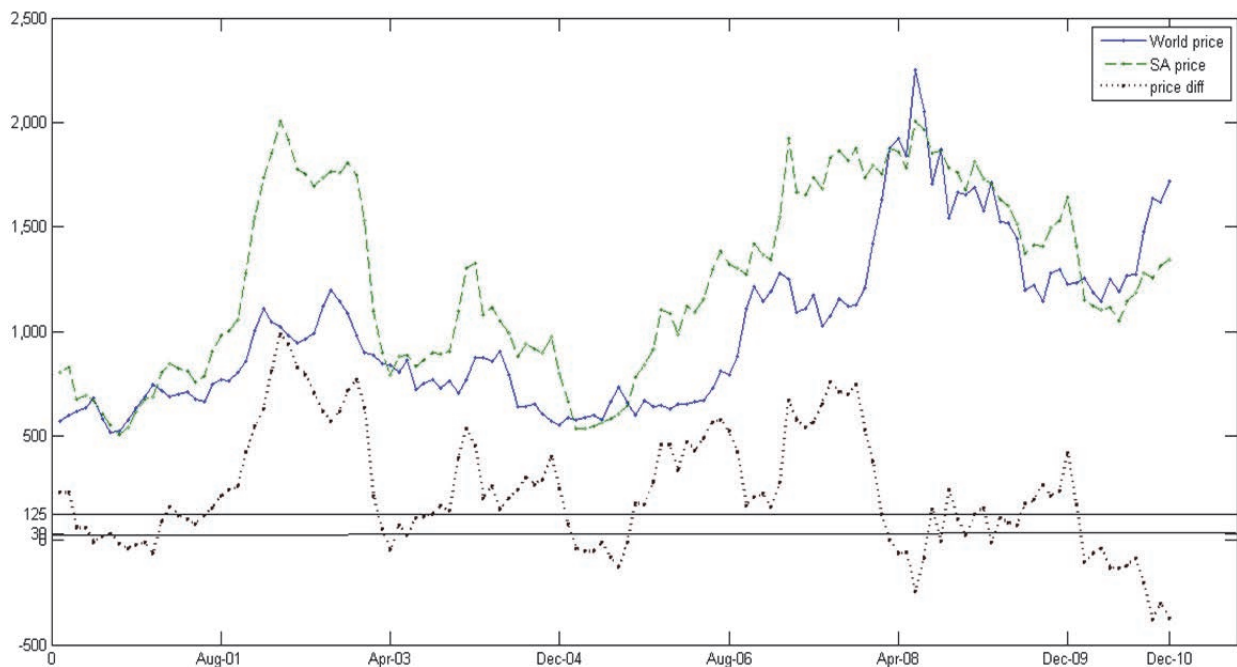
Given the openness of the South African market and the fact that most prices of the major staples, wheat, rice and maize are derivatives of the world commodity prices, it is expected that international commodity prices will be almost fully transmitted through to local whole

sale and retail prices. This section therefore presents some detailed analyses to confirm the anecdotal conclusions from Section 3.2 that changes in international commodity prices have indeed resulted in the increases in local commodity and retail prices.

3.4.1 Maize

The South African and world price series for maize are presented in Figure 8 and based on this there is reason to believe that the movement of the two prices are correlated. However, standard co-integration tests for these two prices shows no evidence of co-integration with no long-run and consequently short-run adjustments found between the two prices. The figure also shows that when the two prices are close to each other. The correlation seems more noticeable than when the differences are larger. This gives an indication of a form of threshold co-integration going on where co-integration is only triggered in certain periods based on the level of price differences and adjustments in the short-run when the prices differ.

Figure 8: World and South African maize price series and differences



Source: own calculations.

The results from the application of the Augmented-Dickey Fuller (ADF) and Phillips-Perron tests show that South African white maize spot prices are not stationary. It, however, has a unit root that is difference stationary. This reality can possibly be attributed to the fact that regime switching (i.e. where the maize market switch from trading at export parity levels to trading at import parity levels) takes place in the South African maize market. If the South African maize market trades at autarky, few price changes observed in world markets, will be transmitted onto into the domestic market. However in the years when the market trades at import or export parity there is a much stronger transmission effect. This can be captured by threshold models similar to those applied by Myers (2008). This is discussed next³.

³ I acknowledge the contribution of Babatunde Abidoye and Marlene Labuschagne to this section.

The application of threshold co-integration has over the years helped to explain how series (such as prices) in spatially separated markets move together and respond to shocks with unobservable data on transaction and adjustment costs. The analyses here differ from previous models using this approach in the following ways:

1. We adopt the Bayesian approach which allows us to compare different possible model specifications and forms of threshold to choose a model supported by the data as described in Koop and Potter (2000). As economic theory does not dictate what the exact form of the trigger is in the threshold model and the need to compare linear and non-linear models that are non-nested, the Bayesian framework we adopt here gives an easy to implement algorithm.
2. We apply the concept of threshold integration to understand the relationship between South African maize price and the world maize price which is useful given the importance of South Africa in the African maize market.

The model is described in detail in Abidoye and Labuschagne (2012) and presents a large set of results. In this section we only present the main results. Assuming equal probability for the various models the posterior odds for each model will be the ratio of the posterior model probabilities. The posterior probabilities estimated show that the model with three regimes that allows for heterogeneous variance across regimes defined by the lag of the price difference received the highest posterior model probability. The value of the marginal likelihood relative to the other models indicates that this model and non-linearity in particular is strongly supported by the data. It should also be noted that the lag of the price spread and not a change in the price spread is what defines the regimes.

Next to this model is the two regime heterogeneous model with a price spread lag as the trigger. The result indicates that not only are their regime switches between South African prices and world prices, but that the error variance is heterogeneous across regimes with the heterogeneous models outperforming models that are homogeneous. Also, evidence for the model with symmetric price transmission is weak as expected. These results are also robust to prior sensitivity analysis.

We estimate the long-run multiplier between South African maize prices and world maize prices equal to 0.9780 when in regime 1 and 0.9720 when in regime 3. This shows evidence of price transmission between international and local prices and the importance of South Africa in the maize market internationally. About 98 per cent of the variation in world prices is eventually transmitted to the maize price in South Africa when the variation occurs in regime 1 and about 97 per cent in regime 3. Though the long-run transmission is similar in both regimes, the speed of adjustment differs. The adjustment rate is faster in regime 3 with 0.4602 than in regime 1 with 0.3631.

To interpret the results in terms of import and export parity, regime 1 of the model can be said to correspond to export parity, regime 2 as autarky and regime 3 representing import parity. At the autarky regime, no long-run relationship exists between the two prices with no price transmission in the absence of trade. The speed of adjustment is higher in the import parity regime given that higher South African price will result in various countries exporting to South Africa and trigger imports into the market. However, the speed of adjusting the prices to equilibrium is lower in the export parity region since the size of the South African market is smaller compared to the world market for maize.

We are also interested in how many periods it takes for some portion of the total effect of a shock on the price spread to dissipate in the export and import parity regimes. One of such measures is the deviation half-lives. This is approximated by $\ln(0.5) / \ln(1 + \rho)$. In the two regimes, this is about half the planting season for corn at around 2.25 months. Thus the half of the total effect of a shock on the price spread that makes the price spread increase in the import parity and export parity regimes will take about 2.25 months to dissipate. Interest in the short-run adjustment to equilibrium led us to estimate a threshold error correction model based on the preferred model. This is presented in Table 2.

Table 2: Results for the error correction model

	Regime 1 (out)	Regime 2 (In)	Regime 3 (out)
Constant	21.1001 (11.8561)	-14.7196 (28.8851)	44.2703 (28.0849)
$\Delta P_{s,t-1}$	-0.0490 (0.1117)	0.2565 (0.0.1186)	0.3743 (0.1042)
$\Delta P_{w,t}$	0.3630 (0.0629)	0.5602 (0.11167)	0.4599 (0.1674)
Λ	0.0067 (0.0999)	0.0624 (0.3121)	-0.1327 (0.0589)
σ^2	2464.1 (621.8)	1780.6 (819.7)	13198.0 (2141.0)

Source: own calculations.

Though the short-run adjustment for a change in world price can also be calculated from the results of the threshold co-integration, the short-run effect of a change in the price spread is appropriately captured by the error correction model (ECM) model. The results show that a one unit increase in the price spread in the import parity region will result in the reduction of prices in South Africa by 0.1314 in the next period, *ceteris paribus*. The short-run effect of a unit change in the price spread in the export parity region is not different from zero—international commodity market for corn does not seem to respond to change in the price spread in the short-run. The short-run effect of a change in world price on South African prices is 0.3630 in the export parity regime and about 0.4599 in the import parity regime. Market failures/market distortions (this can hamper the incentives for economic agents to adapt to external shocks quickly) in the local markets of the main trading partners (e.g. Zambia, Kenya, Mozambique, and Malawi) of South Africa can be one of the reasons for the slow short-run adjustments in the results.

3.4.2 Wheat

A significant long-run relationship was established between international and domestic wheat prices. This is expected as the majority of wheat used in South Africa, is imported and the results indicate that 93 per cent of price changes in the international market are transmitted to the domestic market, over the long-run. Both the short-run elasticity and adjustment coefficient is relatively small and as a result not statistically significant.

3.4.3 Transmission of international commodity prices to South African retail prices

The second stage of analysis in this section tested the link between international commodity prices and the retail prices reported earlier. From the results presented in Table 3 below it is apparent that for the commodities for which South Africa is a net importer, a long-run relationship is present between retail prices and international commodity prices. Maize meal has a significant long-run relationship with international maize prices. The table shows that 62 per cent of the variation in world prices is transmitted to domestic maize meal prices at retail level. It also shows that 125 per cent of the increase in international wheat prices is transmitted to brown bread retail price and 131 per cent is transmitted to white bread retail prices. The calculated elasticities are above one due to the fact that the South African products presented are value added products and price changes are amplified throughout the supply chain. Stated differently, commodity price increases and other costs are added at each level of the supply chain and are not passed through at a constant rate. This also applies to international and domestic sunflower oil prices.

Table 3: Transmission of international prices to South African retail prices

Commodity	Unit root in		Long-run relationship	ECM if long-run relationship is confirmed		
	producer and retail price	price		Speed of adjustment	Short-run adjustment	Long-run adjustment
Maize meal	Yes	Yes	Yes	-0.11*	-0.09*	0.62*
Brown bread	Yes	Yes	No	-0.02*	-0.019	1.25*
White bread	Yes	Yes	Yes	-0.02*	-0.016	1.31*
Rice	Yes	Yes	Yes	-0.09*	-0.07*	0.8*

Source: own calculations.

Rice is an exception to the elasticities of larger than one, as discussed above. Table 3 shows that 80 per cent of changes in international prices are transmitted to the local retail price, in the case of rice. The reasons for this can possibly be attributed to the fact that consumers substitute between various starches in South Africa. If rice prices increase by a large margin consumers might opt to buy wheat, maize or potato products, instead. This could in turn cause some of the increases in international prices, to be absorbed along the supply chain.

4 Policy responses and the policy-making process

4.1 Introduction

Based on our deep engagement during the 2002/03 crisis and the fact that we have been tracking food prices and government policy ever since, we hold the view that there has been very few policy responses following the food price crises of 2002/03 and 2007/09. Apart from the appointment of the FPMC in 2003, some partial responses in the form of immediate relief for the most needy and poorest households, and aspects related to market information

and anti-competitive behaviour by food manufacturers and retail chains, no real substantive changes in government food and agricultural policy or in the social welfare programmes were announced. The same happened during 2007–09. These facts were at first verified through a review of government policy statements and key announcements but were confirmed through interviews with senior government officials in leadership positions in the National Department of Agriculture during the two crisis periods.

4.2 Policy-making process and policy impact

South Africa is, still after 18 years, of democracy largely a divided society and only a few people and institutions outside the inner core of the ruling party are trusted with policy-making and drafting policy positions. Parliament therefore acts only as a rubber stamp and any large differences between politicians are usually swept away by majority vote. Sometimes new legislation that contravenes principles of the constitution is challenged by the opposition through the constitutional court. Despite the ‘right to food’ being listed in the bill of rights in the constitution, agriculture and food issues are never major debates in parliament and in society. It is hardly ever contentious bar the issue of land and land reform.

Food security was nevertheless included as a priority policy objective in the Reconstruction and Development Programme (RDP) – which was the main policy framework guiding the reconstruction of post-apartheid South Africa in the years immediately after 1994. As a result, the government re-prioritized public spending to focus on improving the food security conditions of historically disadvantaged people. That policy brought about increased spending in social programmes of all spheres of government such as school feeding schemes, child support grants, free health services for children between 0–6 years, for pregnant and lactating women, pension funds for the elderly, working for water, community public works programmes, provincial community food garden initiatives, and more. The national school nutrition programme was one of the programmes implemented by the government in post-apartheid South Africa to deal with hungry and malnourished children at primary schools and was one of the presidential-led projects under the RDP. By 2005/06 the programme was feeding approximately 4.5 million primary school learners. The programme has later on been augmented by a school food gardens project, implemented with the support of the Department of Agriculture, local authorities, and non-governmental organizations.

Food Security initiatives in the various South African government departments were too fragmented without coherent strategy and in 2000 changes became necessary to improve this unsatisfactory situation. As a result, the cabinet decided to formulate a national food security strategy that would streamline, harmonize, and integrate the diverse food security programmes into the integrated food security strategy (IFSS) (FAO: 2004). The cabinet finally in July 2002 endorsed the IFSS as a priority programme of the social sector cluster action plan with the specific instruction that an implementation programme be developed. The social cluster of departments has been mandated by the cabinet to ensure that the IFSS is effective. The integrated food security and nutrition programme, later on the IFSS, was developed based on five programmes forming the pillars: (1) food production and trade; (2) food safety and nutrition; (3) community asset development; (4) social safety net and food emergencies; and (5) food insecurity vulnerability information and mapping system. Despite these good intentions this strategy never got funded and was never comprehensively implemented.

Given the fact that the policy-making process in South African agriculture is rather non-transparent this section was rather tricky to deal with since most researchers and technocrats are not members of the inner core of the ruling party. Nevertheless the interviews with the director generals of agriculture who were leading the department during the time of the two food crises confirmed our initial hypotheses, as well as the anecdotal evidence.

4.3 Policy responses following the 2002/03 crisis

The responses of the South African government following the food price spike in 2002/03 did not really include major policy changes but as mentioned earlier the response was mainly targeting short-term measures. The FPMC report of 2003 provides a detailed overview of the immediate government responses in 2002 (FPMC 2003: 39–42) and can be summarized as follows:

The immediate government responses during the 2002/03 crisis were mainly focussed on a number of initiatives to provide relief to the most vulnerable communities. The most important were:

- Poverty relief measures to cushion the effect of rocketing food prices on the country's poor in the form of cheaper maize meal and welfare increments (known as the food emergency scheme).
- Agricultural 'starter packs' distributed by the government among poor rural farmers. These packs include: seed; fertilizer; information packs; basic tools, such as hoes and hand tools; day-old chicks; point-of-lay chickens; pregnant cows; and bulls.

The food emergency scheme was launched to provide emergency food parcels for a period of three months by which time the agricultural starter packs would have enabled households to produce their own food. The emergency scheme was plagued by lack of co-ordination, long delays in issuing starter packs and also problems relating to the identification of beneficiary households. All in all the government response seemed to be rather superficial covering only a small portion of the most needy households and with little co-ordination between departments within the social cluster. Capacity issues in government, availability of finance, and non-compliance with the public tender and procurement system limited the further and continuous role out of this programme.

The appointment of the FPMC in 2003 was in itself an immediate government response to the food price crisis of those years. One can argue that the committee's appointment in some way focussed public attention on the food price issue but at the same time reduced the possibility for opportunism during the period of rising prices. The FPMC made a number of important recommendations following its investigations of the 2002/03 food price crisis:

1. The implementation of a reliable and consistent food price monitoring network.
2. Improvement in the accuracy of crop estimates by means of better technology, expertise and dedicated funding.
3. Increased budgetary allocation for agricultural information and statistics.
4. The government should introduce a statutory measure compelling all grain traders to report on a weekly basis on realized and planned (i.e. a finalized contract) imports and exports of whole grain and grain products.
5. An annual publication, to be known as the '*South African Food Cost Review*' should be published by the National Department of Agriculture to disseminate

information on food costs and trends in retail prices and farm-retail price spreads as widely as possible.

6. School feeding programmes should be expanded.
7. The competition commission should be requested to conduct a thorough investigation into the market structure of the food industry, as well as the agricultural input industry.

A number of the recommendations dealt with the issue of information given that it was argued that not enough information was around in the market regarding stocks, crop estimates, export trends, and the size of the harvest in other countries of southern Africa. In the grain markets of southern Africa it is often argued that one of the main drivers in formulating prices is the estimation of the local crop, as well as the regional crops. The under-estimation of the maize crop by one million tons during 2002 was considered to be one of the main drivers of the spike in maize commodity prices. The improvement of the crop estimates in South Africa and the southern African development community could contribute substantially towards household food security. Intervention to improve the accuracy of crop estimates would cost the government far less than strategic stock holding and would contribute substantially towards household food security.

Certain of the FPMC recommendations were implemented:

- NAMC and STATS SA and provincial departments of agriculture formed a food price monitoring network.
- The NAMC issue quarterly food price monitoring statements and since 2005 an annual 'Food Cost Review' has been published by the NAMC.
- Crop estimates have been improved largely through support by the private sector
- The Competition Commission implemented a number of investigations into anti-competitive behaviour in the food chain and has found a number of large food companies guilty of price collusion. Some of these investigations were concluded during the most recent food price spike.

All the monitoring work and the large volume of information made available in the aftermath of the FPMC's tenure and a much more vociferous Competition Commission have not prevented the 2007–09 price increases. It could be argued that the openness of the South African market and the strong transmission of world prices into the South African market made it rather difficult for the South African government to shield the poorest households from these price spikes. It, however, also suggests a limited understanding of the global and national food economy but also clearly illustrates a limited appreciation by top officials of the importance of analytical evidence.

4.4 Policy responses following the 2007–09 crisis

The political statements during the 2007–09 period were not really committing any firm 'new' policy responses or any change in the general policy direction. In early 2008 the then Minister of Finance, Trevor Manuel made the argument (See Box 1) that public policy responses to rising food prices should focus on two main areas—income support to the most vulnerable and efforts to increase production. This has also been the position in 2002/03 and summarizes the South African government's position on food price inflation. It is in this regard that the 'social relief of distress grant' was introduced as a temporary social grant aimed at dealing with precisely these types of emergencies. He then went on to mention other

options to mitigate the effects of rising food prices such as (a) increase the coverage of school feeding schemes; (b) increase support to non-governmental organizations and community-based organizations that run soup kitchens and similar feeding schemes; and (c) broaden the social security net by raising the threshold on means tests and by extending the grant. Here again only options were presented but nothing substantial was committed.

The notions presented here by the Minister of Finance correspond to the points made by the government officials who were interviewed but also show little deviation from the responses in 2003. It furthermore illustrates the lack of urgency despite acknowledging that the poor will be negatively impacted by the increase in food prices. The treasury—who to large extent influences the government policy because they hold the purse—rejected the possibility of introducing any form of price controls or any other form of government intervention in the market economy. The interviews also confirmed that the option of controls or any form of market intervention was never considered by any of the Ministries.

It seems to be clear now with having the benefit of hindsight and the collective memory of government officials that the treasury was driving the government's policy response to the food price crisis. Proposals on food reserves (more specifically a virtual food reserve) were circulated and debated in 2002/03 and again in 2008. The costs involved in such a scheme were considered to be too high and therefore never implemented resulting in money being allocated for immediate relief programme for the neediest.

In light of this policy context the process of dealing with the increasing rise in food prices in 2008/09 has been a major challenge for the South African government. The National Department of Agriculture introduced the *Ilima/Letsema* campaign to promote household food production by accelerating and improving agricultural crop production. The campaign was launched nationally in eight provinces (excluding the north west province) in pursuit of national and household food security to mobilize communities to leverage land as a resource to fight poverty and hunger. As part of the campaign, *agricultural starter packs* (similar to those provided in 2003) were provided for household vegetable production and promotion of food gardens.

Additional funds were also allocated for production projects such as mass food production, investments in production-enhancing infrastructure, including irrigation schemes and soil reclamation. Obviously these programmes were not blanket interventions and were only applied in selected communities.

One of the provincial governments, Gauteng, argued that one of the best ways to deal with high food prices and the unaffordability of food was to develop community gardens. The province established a total of 29 579 homestead food gardens between 2004/05 and the 2007/08 financial years. Additionally, over R108 million was spent on establishing 2,447 community food gardens.

Box 1: Extract from an article by Trevor Manuel, South African Minister of Finance, July 2008

(Available at <http://www.athlone.co.za/news/showspecial.php?showthis=7c3d94fe09da0c8cb2d8e53a601027a4>)

Rising food prices do have benefits. They encourage food production and make it easier for African countries to produce and export more food. Countries where a high proportion of the poor live in rural areas may well benefit if they are able to increase production. Investment in the infrastructure, technology and support systems required to increase production are critical. In general, urban dwellers, including poor urbanites, are negatively affected by rising food prices.

In South Africa where the poor are not large producers of food, the big net gainers are not the poor (either in rural or urban areas). As a result of high levels of subsidies in developed countries and artificially low prices for decades, many African countries have seen their agricultural sectors decline and have become net importers. Now that food prices are rising, African countries either have to respond quickly to increase production or they face significant import bills.

South Africa has not been immune to these global developments. Food prices have increased rapidly here too. In the past year to January, the price of milk has gone up by 32 per cent, brown bread 19 per cent, mealie meal 22 per cent, samp 23 per cent, rice 24 per cent and breakfast oats 27 per cent. The food component of the consumer price index increased by 15 per cent in the last year.

The poorest half of our population spends well over a quarter of their incomes on food. Food price increases of this magnitude have severe implications for the poor. As food prices rise, the proportion of income that the poor spend on food is likely to rise, squeezing out other spending. After solid progress in the past five years to roll back hunger and reduce poverty, these trends in food prices could potentially reverse these gains.

The maize story is a good case study for how agricultural markets work and provides some lessons for the country. In general, if we are a net exporter, we are less impacted upon by global price changes than if we are a net importer. The lesson is simply that if we produce more, prices are likely to fall or grow by less. It is a cause for concern that South Africa has become a net food importer for products such as wheat, rice and meat. For much of the past decade, too little policy attention has been focused on how we could increase agricultural production. This goes for both large-scale commercial farms and for small-scale subsistence farmers. Higher prices provide the opportunity for our country to feed our people and to earn export revenue by increasing production.

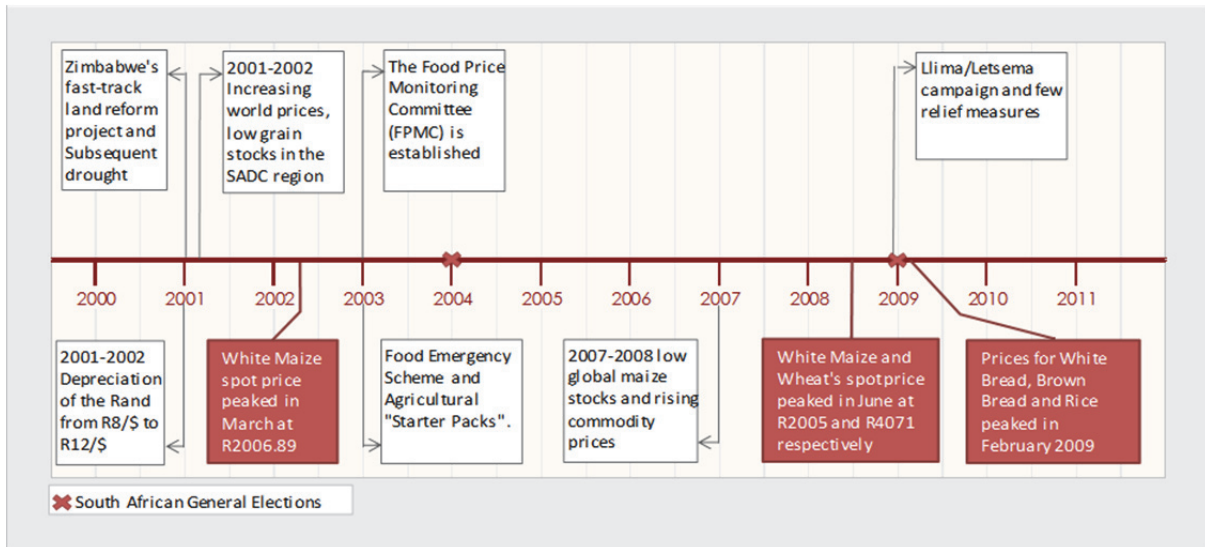
It is true that parts of our food supply chains are uncompetitive. The competition authorities have dealt with producers of bread and are investigating a number of other sectors including the dairy chain. It is important that our competition authorities take firm action against people and companies who distort prices for short term gain at the expense of the poor. Nevertheless, it is important to understand that while government must step up efforts to improve competition in the food industry, the reasons for the present increase in prices have little to do with poor competition in the industry.

Public policy responses to rising food prices should focus on two main areas - income support to the most vulnerable and efforts to increase production. The social relief of distress grant is a temporary social grant aimed at dealing with precisely these types of emergencies. Government could also increase the coverage of school feeding schemes and increase support to Non-Governmental Organisations and Community Based Organisations that run soup kitchens and similar feeding schemes. Continuing efforts to broaden the social security net by raising the threshold on means tests and by extending the grant will further assist the poor to mitigate the effects of rising food prices.

The two policy options that are not recommended at this point in time are price controls and direct food subsidies. Price controls are likely to work in the short term but they are likely to impact negatively on the supply response resulting in higher prices in the future. As the electricity experience shows us, when prices are kept artificially low, no one invests to expand production. Subsidising food is a feasible option but has a number of disadvantages including the likelihood that the subsidy is captured somewhere along the supply chain before the food reaches the consumer. Ensuring that the poor or the end user benefits from a subsidy is neither easy nor straightforward.

In conclusion, rising food prices pose an increased burden on the poor. It is correct that government acts to intervene in the interest of the poor to ensure that the poorest of the poor are able to survive. More importantly, it is also important for our communities to get organised, to produce some of their own food. Policy interventions must be well targeted and appropriate, taking both short-term needs and longer term requirements of food security into account. Managed well, high food prices can be a boon for South Africa, but the impact on the poor must be a key feature of government policy.

Figure 9: A timeline showing price peaks and policy responses between 2000 and 2011



Source: own interpretation based on personal recollection and media reports.

The perceived lukewarm approach by the South African government to the crisis can partly be explained by the comprehensive social welfare system that has been in place since 1998 and managed by the Department of Social Development. The welfare and safety net programmes are central to the 'developmental state' paradigm in South Africa. The numbers below report the extent of these programmes in 2007—just at the time the second period of high food price inflation was observed. Income transfers to households, mainly through social assistance grant programmes, stood at R77 billion in 2007. In April 2007, 12.1 million South Africans were receiving social assistance grants, amounting to R5.1 billion. Grants are disbursed in the following categories (April 2007 figures) (Source: Department of Social Development 2007):

- foster care grant: 405 813 recipients (R620 a month)
- care dependency grant: 98 690 recipients (R870)
- war veterans' grant: 2 317 recipients (R890)
- old age grants: 2 194 066 recipients (R870)
- disability grant: 1 425 105 recipients (R870)
- child support grant: 7 910 748 recipients (R200)
- grant-in-aid: 32 280 recipients (R200)

These grants amount to some R61 billion a year, about 3.3 per cent of GDP, and contribute more than half of the income of the poorest 20 per cent of households. This is obviously an important state intervention but in the context of this paper it should be mentioned that these programmes have been in place for a number of years and no major budgetary increases related to these programmes were introduced during the crisis period of 2008–09. It can therefore with reasonable certainty be argued that South Africa's well-developed safety net programme for all practical purposes prevented a major crisis in the wake of rapid food price inflation in 2008.

4.5 Summary

Taking into account all the government responses during the two periods of rapid food price inflation, the South African government implemented actions that can typically be classified as responses in the so-called ‘second class’ of interventions (see Watson 2011). The second class actions target the poorer populations in an attempt to mitigate the negative effects of price changes and include elements such as welfare payments, school feeding programmes, food parcels, etc. In the South African government these responses did not require any regulatory or legislative changes but were possible in terms of current government mandates and only required additional funding from the treasury. This additional funding was small compared to the 3.3 per cent of GDP that has already been allocated to social welfare payments in years prior to the 2008–09 crisis. The funding for the additional small interventions was made available fairly quickly given the seriousness of the crisis in terms of political repercussions. Note should be taken that 2004 and 2009 were election years in South Africa and distributing food parcels or providing food relief were these useful instruments to show that the government is looking after its people! Nevertheless, South Africa has a well-funded social safety net programme in place which provided an important cushion during the periods of high food prices.

5 Political economy context

5.1 Introduction

Section 4 illustrated that the South African government did not implement any major policy changes in the aftermath of the two periods of food price inflation. Most responses were in the category of responses introduced to mitigate the impact of food price inflation on the poorest communities. South Africa had, as part of the developmental state paradigm, already in place a comprehensive social welfare programme that served as an important buffer during the relevant crisis periods.

South Africa therefore did not experience any food riots, civil unrest, and did not introduce any mechanism to control food reserves and food trade. Given the history of the political economy related to agriculture, land and food there are important political dimensions to be considered to explain why the food crises did not lead to civil unrest or any political instability in the country. The following sections endeavour to do just that.

5.2 Political institutions in the context food and agricultural policy

Since 1994 South Africa is a democracy based on the principle of majority rule but with an element of proportional voting also entrenched in the way members of parliament are elected. The ANC has since the first democratic elections in 1994 secured just under two-thirds of the votes in all the general elections in 1999, 2004, and 2009. As such the party and its officials play an important role in policy formulation and execution. It is also a well-established fact that the National Executive Committee (NEC), the highest organ of the ANC, is the most important policy-making institution in South Africa that produces documents and policy positions. In the years between the National Conference that take place every 5 years the NEC convene a policy conference, as a recommendation-making body on any matter of policy. The NEC has to convene a national policy conference at least six months before the national conference to review policies of the ANC and to recommend any new or to amend

any present policy for consideration by the national conference (last policy conference took place in June 2012).

The NEC makes recommendations on the deployment of ‘cadres’ to ministerial and public servant position and thereby ensures that policy positions of the party are carried into all organs of state. Many of these positions do not really pass through parliament. Policy positions and programmes have to be confirmed by cabinet which is preceded by agreement in the economic cluster of ministries.

Food and agricultural policy forms part of the economic cluster and therefore necessitates a discussion on the country’s economic policy in broad terms. The economic policy adopted by the ANC are often criticized by analysts and observers arguing that the promise of the struggle has been sacrificed to a market-oriented economic policy that is tailored to the demands of national and global capital. Authors like Terreblanche (2002) offer interesting analyses and explanations of how the ANC was attracted to the benefits of business and global capitalism during the transition years between 1991 and 1994. He argues that this led to a behind the scenes compact between business and the political elite of the ANC which led the ANC to dispense with an emphasis on state-led growth and social expenditure in favour of the pro-business growth, employment and redistribution programme, betraying the ANC’s core constituency, the working class poor.

Terreblanche’s detailed analysis of the South African political economy unpacks this alliance between South African capital and business and the governing party and how it influenced and directed the economic policy. Economic policy was therefore typically embedded in the Washington Consensus of liberal market capitalism steering thus a non-interventionist role of the state. This economic policy made it difficult for the government to deal with the structural problems of the post-apartheid state and to make meaningful contribution to alleviating poverty and most likely also informed many of the decisions in the aftermath of the food price crises.

It is quite astonishing that this blend of economic policy is so well-entrenched in government policy despite that fact that the ANC is strongly aligned with the Confederation of South African Trade Unions (COSATU) and the South African Communist Party (SACP) in what is known as the tripartite alliance (ANC-SACP-COSATU) and which typically represents worker and left wing interests. Add to this the fact that the ANC in itself is not monolith and is intensely divided along many divisions it is no wonder that most spheres of government policy-making—especially in agriculture, food, land, and rural development matters are experiencing ‘policy paralysis’ or the inability to make important decisions. This situation of paralysis is present in land reform policy, general agricultural policy, but was certainly also present during the food price crises. This ‘policy paralysis’ can be ascribed to the fact that government (and the party) has succumbed to deep ideological divisions within the ruling alliance, which prevent any agreement on the way forward. It may well be that officials and ministers really do not know what to do or it could be that any sensible policy proposal is considered to be too controversial so it seemed easier to appoint a committee or to commission a study.

This so-called paralysis was not present when the new democratic government introduced sweeping and quick agricultural policy reforms in the late 1990s when all state support, subsidies and guarantees to commercial agriculture (mainly white farmers at the time) were abolished. Although agricultural economists argued for these changes for many years in order

to improve the efficiency in the sector, it is now clear that the ANC stalwarts thought by removing all farm policy benefits to white farmers it will encourage farmers to sell out and thereby speed-up the process of land reform. At the same time it was believed land values will drop to be closer to productive values and thereby assist the state to acquire land for land reform purposes. Given the racial history of South Africa it was considered critical to remove all privileges to whites. This was an easy one and it was also argued that the price of food was in any case inflated by all the inefficiencies and government support.

Removing the privileges and importing cheap food was considered to be a useful policy to bring cheaper food to the working class and the impoverished groups. The ruling party only after 2002 realized that relying on imported food does not necessarily bring cheaper food and gradually brought a stronger appreciation for the role of commercial agriculture in South Africa. The crisis in 2008/09 emphasized this point and with a new global recognition of the role of agriculture following the World Development Report in 2008 (World Bank 2008) it became apparent to policy makers in the ANC and government that agriculture should not be neglected. Local food production and ensuring a positive agricultural and food trade balance became an important national objective. Despite this acknowledgement, support to agriculture did not increase but at least there was no anti-agriculture bias any more.

More evidence of this new appreciation of the role of agriculture in the South African economy and specifically in the challenge of alleviating poverty and creating jobs was to be found in the National Development Plan – Vision 2030 released by the National Planning Commission (2011b). The document highlights the importance of agriculture in growing the rural economy and recommends a set of policies and programmes to ensure that agriculture creates an additional one million jobs.

Koch (2011) also argues that political support for food security is now high. He bases this conclusion on the fact that the ruling party needs the political support and votes of the white commercial farmers to maintain a healthy and successful tripartite alliance between the ANC, trade unions, and the SACP. By politicizing agriculture and food security the ANC managed to ensure high political support of agriculture and food security. This was also emphasized in the 2009 election manifesto of the ANC.

As an illustration of the limited ‘direct’ action by government during the different food price crises we have reviewed different statements of the South African cabinet on the issue of high food prices. The various extracts confirm our interpretation and views throughout this report. Before this can be done it is important to understand that any cabinet decision would have been prepared by the individual government departments and after which it would be discussed at the economic and employment cluster and then prepared for submission to cabinet⁴. To some extent this process confirms the limited role of the parliament. The parliament has a legislative mandate and also has oversight over the expenditure and programme design of the different ministries. But most policy decisions are rooted in the NEC of the ruling party and within the cabinet and its various clusters.

⁴ The Economic and Employment cluster is a meeting of the ministers and their directors general from the following departments: rural development and land reform (chair); science and technology (deputy chair); agriculture, forestry and fisheries; communications; economic development; finance; higher education and training; labour; mineral resources; public enterprises; rural development and land reform; tourism and trade and industry.

With the assumption that the issues related to food prices were discussed within these cluster and presented to the cabinet it is quiet revealing to note the content of the cabinet statements:

Cabinet statement on 18 April 2008⁵

The meeting discussed the rising food and fuel prices and the global economic situation. The global rise in food prices was largely due to the combined impact of production shortfalls in major supply regions, rising consumption in developing economies and some diversion of feedstock to bio-fuel producers. South Africa has also been affected by the rising prices, although our food prices have not increased at the same pace as in many countries across the globe.

Higher food prices impact more severely on the poor. The budget contributes to supporting the income of poor households through the social grant system and the school feeding scheme. Food security also depends on expansion and development of the rural economy, investment in agricultural capacity and technology and broader participation of emerging farmers in commercial agriculture. Nepad's Comprehensive Africa Agricultural Development Programme (CAADP) will also contribute towards achieving greater food security in the continent.

Collusive behaviour in some sectors of the economy, particularly in the food industry, is a matter of concern to many South Africans. Government is confident that the competition authorities will continue to be vigilant and to take strong action to curb these negative practices that have also contributed to higher food prices. The economic and social cluster Ministers were mandated to develop a strategy to address this challenge and to report back to Cabinet in the near future.

Cabinet statement on 28 July 2008

A draft framework for the national Food Control Agency has been completed and is now ready to go out for consultation. This arises out of this concern about the high and rising food prices and their impact on the poorest in the country. We thought it was necessary to have some institutionalised way to respond to these on a continuous basis, rather than on an ad hoc basis. Government had earlier set up a committee to examine the situation of high and rising food prices and to consider what sort of interventions government could make to restructure the situation for the country's poorest citizens. One of the suggestions made by the committee was for the major food companies to simplify their packaging, thus saving costs and enabling it to sell mielie meal—a key element of the national staple diet - at a significantly reduced cost. However, food prices have continued to rise consistently, leading

⁵ All cabinet statements can be found at: <http://www.gcis.gov.za/content/newsroom/media-releases/cabinet-statements>).

government toward a more systematic response towards addressing the question of high food prices. As a result, a more “permanent ... less ad hoc” approach is now required to address the issue of high food prices, which seems to be becoming a long-term feature of both the domestic and the global economy. The Food Control Agency would thus create a capacity to look at the entirety of the food system, and which would particularly look at the impact of this on the poor, and ways of lessening the impact of high food prices on them. Other responses to high food prices would include the need to look again at the question of increasing agricultural production in the country, as well as addressing the challenge of South Africa being now a net importer of food. This would also include the implementation of the agricultural strategy that government had agreed to with organised agriculture in South Africa. The agency to be established would need to study all these issues continuously so as to be able to recommend to government what it is that can be done which is focused, which is specific, which is likely to produce the results that we need.

Note: The food control authority was never implemented or appointed.

Cabinet statement on 26 October 2011

Cabinet noted the challenges faced by South Africa and the rest of the world pertaining to high and volatile food and agricultural commodity prices. Cabinet further noted the action plan developed by the G20 aimed at addressing volatile food and agricultural commodity prices and a commitment made by South Africa to implement the plan in collaboration with all Ministers in the Continent.

South Africa is cognisant of the fact that food is secure due to the fact that food is available at the national level but for many households with little or no purchasing power, it is unaffordable. In addition, many subsistence producers are resource-poor and cannot afford to produce food for own consumption purposes. South Africa will continue to participate actively in the multilateral bodies and partner in efforts to boost production and productivity in the Continent and to advance food security.

Most of the Cabinet statements presented here illustrate the non-interventionist and rather neutral approach by the government. The statements have not indicated any major policy shifts and thus confirm our initial hypothesis of no or limited policy response. The social welfare programmes have, since they already take a large chunk of the budget, not been boosted as a result of the crisis. There were only small areas of targeted interventions by different ministries. The government, however, refrained from intervening in any of the agricultural commodity markets or changed its trade policy.

5.3 Pressure groups, public uprising, and food riots

In South Africa the various labour unions, specifically COSATU, were very vocal while the different consumer lobby groups also made a lot of noise during the two periods of sharp food price increases. Most of these institutions blamed the food manufacturers and then later on the retailers for the sharp food price increases. The same line of critique was presented by

the ANC's alliance partner, the SACP, in a press statement issued in October 2002 (available at: <http://www.sacp.org.za/>)

The South African Communist Party (SACP) generally welcomes the modest measures to address high food prices announced by cabinet today. However, we believe that we require stronger and decisive action. The increase of welfare grants and the provision of maize at a lower price will go a long way to ensure that the poor have access to basic food supplies. The SACP specifically welcomes the investigation of a Strategic Grain Reserve which would act as a buffer in times of food crises. Given that the increase in welfare grants is between 3 per cent and 7 per cent, the SACP is concerned that this increase is subordinated to the inflation target and is not sufficiently redistributive.

The SACP calls for attention by government and all South Africans to ensure a basic minimum level of household security through the revival of the school feeding programme and the redirection of Integrated Development Plans at a local government level. The SACP is concerned that the long-term measures announced by cabinet fall short of achieving a greater degree of subordination of profit maximisation by private capital involved in the food chain to the social imperatives of guaranteeing sufficient affordable food to the poor.

The SACP is concerned that major retail chains have increased their profits in the same period that food prices have soared. Earlier this week, media reports indicated windfall profits for the shareholders of Pick 'n Pay and Shoprite. This is a case of unwarranted profiteering in the midst of poverty. The SACP calls on government to act on this including effective early warning mechanisms and progressive taxation on such profiteering.

From the stand point of working people and the poor, what we are confronting is a serious 'market failure' – or more precisely a systemic inability on the part of capitalism to guarantee sufficient affordable food to the poor. Rising food prices are manifestly not a result of any 'excess' demand by or credit in the hands of the poor. What we need, as a country, is a combination of immediate, short-term relief measures and the development of longer term interventions to deal with structural and systemic issues in line with a state-led economic growth and development strategy.

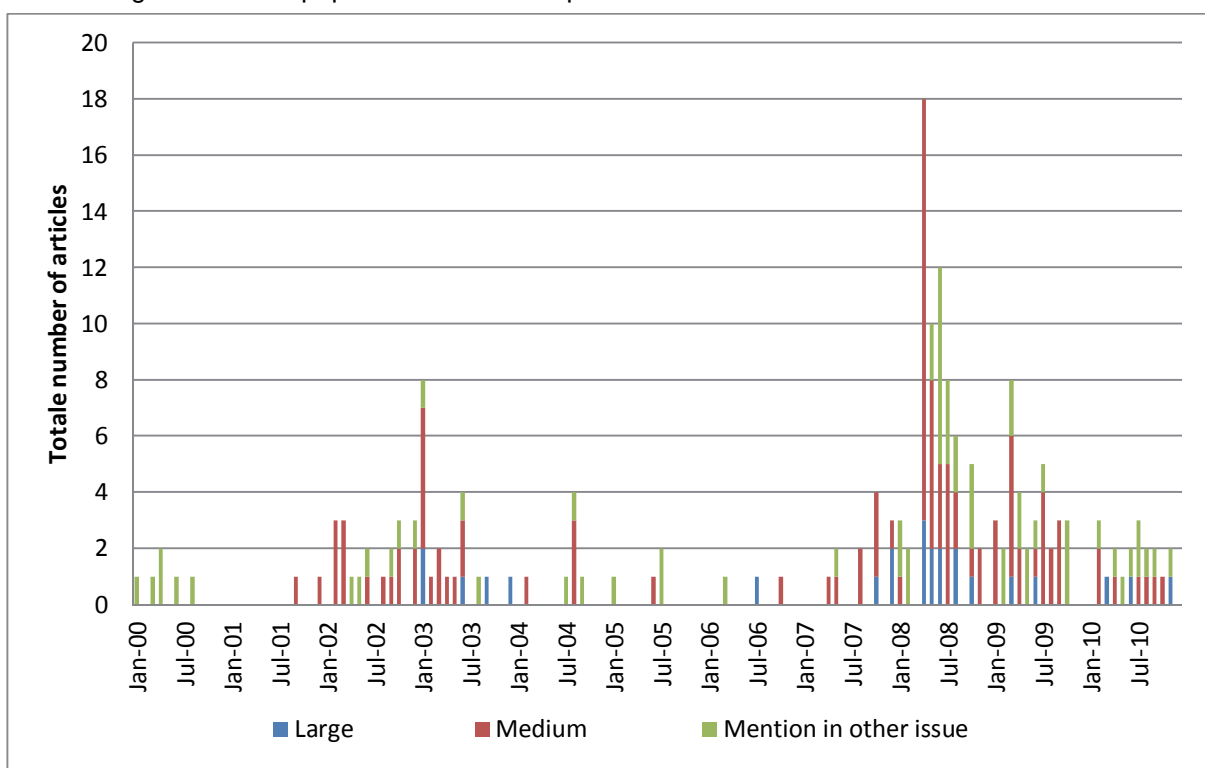
The current food price crisis clearly reinforces the case for an early major extension of the social security system, as well as of public works and other programmes to deal with unemployment and respond to income poverty. Adjustment in the levels of wages and social security benefits to take account of the greater proportional impact of food price crises on the living standards of the poor are also warranted.

The pressure from COSATU, the SACP, the Consumer Union and NGOs and some suspicion within government circles increased the concern that there is collusive behaviour in some sectors of the economy, particularly in the food industry. These concerns as well as specific complaints lodge at the Competition Commission led to several investigations by the

Commission into the conduct of several food companies. A number of them were found guilty of misconduct and fined large penalties.

At the same time the media also used the food price crisis to stir sensation and hype while academics, commodity traders and farmers' groups tried to explain the trends on the basis of market fundamentals and supply chain realities. We compiled a simple analysis to track the number of media reports related to the different periods of high food prices to assess the media hype and sensation around the topic. Figure 10 presents this very rough review of articles carrying an issue on food prices over the last decade. We only reviewed the major print media to get a sense what the media was reporting corresponded with periods of high food prices. Based on the figures presented in Figure 10 it is quite evident that the 2008/09 crisis received much more coverage in the local media than what was the case in the 2002/03 period.

Figure 10: Newspaper articles on food prices in South Africa: Jan. 2000 to Dec. 2010



Source: own calculations based on a recording of articles in the main daily newspapers.

Although the media covered the food price crisis during 2008 heavily it did not really had much impact. Most of the articles were informed by international media reports and furthermore only reported on the cabinet statements mentioned earlier or highlighted the information released by NAMC through its quarterly food price reviews. The numbers presented by the NAMC showed sharp retail price increases and provided useful material for the media in a period where other news was very stale and uninteresting. It was also good material to highlight the plight of the middle class and the poor in the run-up to the general election in May 2009.

6 Conclusion

Since the period of agricultural market deregulation South Africa experienced two periods of food price crises: in 2002/03 and again 2007/08. The 2002/03 crisis was largely caused by a sharp depreciation of the South Africa exchange rate but was amplified by staple food shortages in the SADC region. In 2007/08 global commodity price trends were dominant factors in South African food price inflation.

The main objective of this paper was to understand the food price changes during these two periods and to unpack the political reaction and policy responses to the food price crises in these two periods. Our personal recollection of events during the past decade, interviews with former politicians and state officials as well as a thorough investigation on all cabinet and government documents released during the specific years provided us with the conclusion that there were no major policy responses or changes in policy direction following the two periods of rapid food price inflation. It could be argued that the comprehensive social welfare programmes that were in place since 1998 would have provided a sufficient safety net for the most vulnerable suggesting to government decision makers that there is no need for substantive policy response. What the crisis did, however, is bring about a greater appreciation amongst politicians and members of the ruling part of the role of a domestic agricultural sector and how important it is not to depend on international trade for domestic food needs. This new 'understanding' did, however, not bring about specific policy changes.

We established that the policy of neo-liberal capitalism is so well-entrenched that it was difficult for the cabinet or bureaucrats to contemplate radical interventions in the market for agricultural commodities and food products. The fairly neutral response by government happened despite the call for action by the trade unions, the South African Communist Party and some strong media reporting. The evidence clearly suggest that that the government's response was more focussed in the line of statements and comments by senior politicians and a few pockets of government programmes introduced to deal with the negative consequences of the crisis within the neediest communities. The social safety net programme by the government that reaches about 14 million people also provided some reassurance that the poorest people are already protected by substantial government programmes. At the same time the government made sure that any possible collusion by agribusiness firms and food companies was dealt effectively by the Competition Commission.

We have shown in this paper that agricultural and food policy in South Africa remained largely unchanged with no controls or regulations introduced. The policy of unregulated agricultural and food markets continues although the Competition Commission increased the number of investigations into uncompetitive behaviour in food supply chains resulting in heavy fines for a number of food companies.

Taking into account all the government responses during the two periods of rapid food price inflation, the South African government implemented actions that can typically be classified as responses in the so-called 'second class' of interventions that mostly target the poorer section of the population in an attempt to mitigate the negative effects of price changes and include elements such as school feeding programmes, food parcels, etc. In the South African government these responses did not require any regulatory or legislative changes since it could be taken care under the existing social welfare system and were thus possible in terms of current government mandates and in some cases only required additional funding from the treasury. This was made available fairly quickly given the seriousness of the crisis in terms of

political repercussions. Note should be taken that 2004 and 2009 were election years in South Africa and distributing food parcels or providing food relief were these useful instruments to show that the government is looking after its people. Nevertheless, South Africa had a well-funded social safety net programme in place prior to the crisis period and thus provided an important cushion during the periods of high food prices.

In closing it is worth noting that South Africa still does not have a comprehensive food security policy in place. The oversight role for food security is allocated to the National Department of Agriculture, Fisheries and Forestry, and specifically to a weak directorate in the department. This in essence prohibits the South African government from introducing a comprehensive and co-ordinated food security strategy. It could well be argued that the current social welfare payments are insufficient and that much more co-ordinated and well planned food security interventions are needed in the neediest communities of South Africa. This, however, is part of an ongoing debate in South Africa and not necessarily following from the crises in 2008–09.

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