



competition commission
south africa

Media Statement

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**ESSENTIAL FOOD REPORT SHOWS INCREASING CONCENTRATION
AND CHALLENGES FOR SMALL-SCALE FARMERS**

The Competition Commission has released its latest Essential Food Pricing Monitoring Report focused on tracking the impact of the Covid-19 pandemic and the corresponding economic crisis on food markets.

The report, the fifth in a series, among other things, reveals that a clear drop in farmer numbers and an increase in concentration across the value chain. For instance, while there were around 3,899 dairy farmers in January 2007, there were just 1,053 in January 2021. There are concerns with market power across the value chain with farmers, especially small farmers, facing low operating margins.

These Commission reports have shown that there remain a number of concerns with the functioning of South Africa's food markets and commercial value chains within the industry. Some of these concerns include the wide farm-to-retail spread in prices, large price differences between regions for basic fresh produce, growing margins at the processor and retailer level, as well as the general trend of price inflation from the start of the pandemic for some fresh produce due to global supply chain issues and exchange rate effects.

The latest report shows that the agricultural value chain in South Africa is highly industrialised and characterised by the super commercialisation of production via large-scale farming as well as concentrated upstream inputs and concentrated processing.

The report considers the implications of this for small-scale farming and participation in South African agricultural markets. Small and emerging farmers face several challenges such as poor

yields and low productivity, and where small emerging farmers do exist, there are still barriers to scaling from smaller to larger growers, such as access to finance, infrastructure, and routes to market, which could provide the necessary scale to become more efficient.

The report reflects on these challenges and some of the market failures that smaller farmers are capitalising on in today's food markets.

In recent years, and particularly since the onset of the Covid-19 pandemic, there has been a global trend towards the localisation of farming and shorter supply chains where customers are increasingly 'buying local' for reasons including climate change and environmental concerns, food safety and quality considerations. Beyond the benefits for consumers, a trend towards local farming inevitably favours small-scale farming.

"The localisation of farming and shorter supply chains can generate more opportunities for smaller farmers as shorter supply chains forgo the high transport and high intermediation costs involved in longer value chains. This has the potential to improve small farmer participation in the value chain and also contribute to addressing issues such as rural poverty and the lack of access to affordable and healthy food," says Commission Chief Economist, James Hodge.

While there have been clear increases in pricing for products such as potatoes, tomatoes, and cooking oil, there is no apparent link to the progression of the pandemic and the Covid-19 third wave has not demonstrated any panic buying that has driven price changes. Rather, it seems that the increased frequency of extreme weather events locally and internationally is resulting in high food price inflation over the past 18 months.

The Commission has received complaints of price gouging in KwaZulu-Natal involving essential food products such as cooking oil, meat, rice, and sugar in areas that were affected by the KZN and Gauteng unrest and looting which started from 12 July 2021.

In response to the supply chain disruption of essential goods, the Commission released block exemptions on 15 July 2021 to permit certain types of conduct to address the disruptions to food chains and enable coordination around the production, distribution, and retail of essential goods to ensure food security in affected areas.

"In the context of the pandemic and the economic crisis, the ongoing monitoring of prices for essential food products is critically important to the welfare of citizens, particularly poorer

consumers. The pandemic and the recent rioting and looting have also shown that long food supply chains can be disrupted in the modern era. Globally there have also been questions around the structure of agriculture, particularly industrial agriculture, and the need to promote smaller, localised agriculture which also registers with the climate change agenda,” says Hodge.

The report also deliberates on the particular challenges faced by small-scale farmers in South Africa and considers examples of small-scale farming development initiatives (e.g. *U Can Grow Earth* and *Izindaba Zokudla*).

What these initiatives and the report more broadly show is that there are opportunities for small-scale and urban farming operations through capitalising on shortened value chains from local production, re-using food waste, and the production of organic, traceable food produce. The training and farmer development aspects as well as the securing of off-take agreements are also key to the success of these initiatives.

The Commission will continue to monitor prices for essential food products and track how the pandemic is affecting food systems and food security in South Africa and continue to identify market structural issues in agriculture that need to be addressed.

The report can be accessed here:

https://www.compcom.co.za/wp-content/uploads/2021/09/EFPM-Report_Aug-2021.pdf

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