Wise men once said...

1952 : "A HUNGRY MAN IS NOT A FREE MAN."

— Adlai Ewing Stevenson II

1985 : "ONLY A FREE MAN CAN NEGOTIATE."

— Nelson Mandela

2015 : PRODUCER COSTS CONTRIBUTE LITTLE TO FOOD PRICE INCREASES

Only a small portion of the final food product price that consumers pay reaches the agricultural producer.

Given this, it cannot be argued that agricultural producers' costs are the primary driver of food price increases. Costs beyond the farm gate such as processing and logistics are major contributors to the final price that the consumer pays. These in turn are very dependent on fuel, labour and electricity costs. It may be argued that food prices reflect the state of the economy in general, but even this is an oversimplification and the true situation has many dimensions.

There are two key reasons for the decline in the agricultural producers' share of the final consumer price: Firstly, the concentrated market power of major supermarket chains in relation to the amount of producers, and secondly the fact that consumers have more stringent requirements with regard to product content, packaging, processing and availability.

Considerable concentration of economic power in the South African food supply chain (beyond the farm gate) occurred since the deregulation of the agricultural market in the early 1990s. Research shows that market power is unevenly distributed between producers, processors and retailers. More than 80% of food products reach the final consumer through the South African supermarket channel, which is dominated by four big supermarket groups. According to reports these groups possess more than 80% of the market share. The situation differs between food industries, but in many cases there is little or no correlation between the producer's price and the retailer's price. The farm price's variation is determined by supply and demand but the shelf price is not. The latter tends to continue to rise, sometimes slower, sometimes faster, but with few declines. This is particularly apparent in times when farm prices decline and shelf prices increase.

The primary agricultural producer's share of the consumer price ('before the farm gate') is dropping consistently as consumers prefer more processed food. Other costs such as the cost of packaging, processing, transport, electricity, to name but a few, form an increasingly larger share of final price.

Statistics & Research Courtesy of: Prof. B. Johan Willemse, M Com (Economics) Ph.D. Chairperson of the Department of Agricultural Economics at the University of the Free State

Simply stated, the consumer is spending more and more money on these costs rather than on the primary food product itself.

The producer's gross share of the price that a consumer pays for eggs is about 40-45% of the shelf price. From this, the producer has to pay all the production, packaging, transport and labour costs. In South Africa the producer's share of the shelf price for food products varies from below 20% to about 45% for beef. In the case of bread, about half of the bread's wheat content is imported from mostly Eastern European countries. This makes the South African producer's actual share of the shelf price very small indeed.

In this context it is also noteworthy that government subsidies and support for the South African commercial agricultural producer is of the lowest in the world. Producers in OECD countries received 19% of their annual gross income from government support in 2013 according to the report: Agricultural Policy Monitoring and Evaluation-2014. In South Africa the main part of government support is aimed at subsistence farmers and land reform, and even when this support is included, the comparable figure is less than 3%.

The agricultural producer has a weak price bargaining position and is a price taker, not a price maker. The producer must cover all costs, without government support, from the price determined by market demand. All the while, consumer demand for processed and packaged food drives costs beyond the farm gate upwards. This negates the perception of some that the producer is to blame for food price increases.