

Report examines food price drivers and discrepancies during pandemic

The Competition Commission has said that of the 1,600 complaints received under the excessive pricing and consumer protection regulations by the end of June 2020, 307 (or 19%) related to basic food products in retail stores.



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According to the Commission, food constitutes 30% of low-income household expenditure and is essential for maintaining a healthy immune system, so containing price inflation is a priority during the crisis.

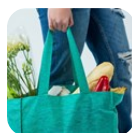
Earlier this week, the Commission released a report on food price monitoring, culminating from its efforts on enforcement aimed at containing excessive pricing and price gouging on essential food items, in addition to face masks and hand sanitisers, during the Covid-19 pandemic.

Drivers of price increases in food markets

The Commission said the report highlights its efforts in monitoring pricing food commodity and fresh produce markets upstream which were subject to some initial price increases too. The food price monitoring report identifies rand depreciation and panic buying as partial drivers of price increases in food markets at the beginning of the crisis. However, these have been exacerbated in some cases by markets not functioning efficiently in addition to instances of price gouging by retailers.

For instance, the Commission found that the lack of liquidity in smaller fresh produce markets makes them vulnerable to larger price movements and possible manipulation by agents. "This resulted in advocacy to ensure compliance with the regulations across all fresh produce markets nationally," the Commission said.

The Commission also found that some food suppliers and retailers were prone to increasing prices based on higher cost announcements but before the higher cost stock reached their shelves. Through enforcement of the regulations and advocacy with the larger food suppliers, the Commission has sought to eliminate this practice.



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Prices now stabilised

The report has also established that the forces that initially drove up prices in food markets have since subsided and prices have now stabilised. This means that some of the initial cost justifications for some food price increases in retail stores no longer exist and consumers should be seeing price reductions coming through from food companies and retailers.

However, the experience in the past is that food prices are quick to go up and slow to come down, another market feature that needs to be corrected. The Commission will therefore remain vigilant and continue to enforce the price gouging regulations to ensure that consumers benefit from the lower costs for food.



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Disparity between market and retail prices

The monitoring of how food markets have responded to the crisis has also exposed some other underlying features which warrant further investigation, the Commission said. Amongst these is the large disparity between food market prices and retail prices that continues to raise serious questions as to the distribution of risk and profits in the value chain.

"Farmers appear to be exposed to almost all the price movement risk but most of the profits lie with agents, distributors, food companies and retailers," the Commission said.

Related to this, the Commission is concerned about some of the high markups it has seen for fresh produce and essential foodstuffs in some retail stores both pre and post the crisis. This is potentially related to the [exclusive leases](#) which have been prevalent in the retail industry and which the Commission is looking to end through voluntary settlement or otherwise litigation.

The Commission said it will continue to monitor food prices throughout the Covid-19 crisis in order to ensure that vulnerable low-income households suffering under the economic crisis are protected. "Where excessive pricing is identified, the regulations will be enforced, and where markets fail to function efficiently, the Commission will investigate how these failures may be corrected."

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