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THE MUSHROOM EFFECT IN DAIRY PRODUCER PRICE 'DISCOVERY'

The MPO is aware of certain communications from downstream role players in the dairy value chain to milk producers regarding dairy price increases, as they pertain to farmers, processors, and retailers during a period of national disaster. These communications are not correctly interpreting or portraying the guidelines from the South African government regarding pricing during a period of national disaster.

The gist of the communications from certain processors and retailers is that price increases will not be possible due to the 'restriction' that **basic food prices** are not allowed to increase during this period. Another angle of this communication is that no price increases will be actioned during the lockdown period due to the price sensitivity of food products during this period. Both these arguments are incorrectly used by downstream role players to motivate why negotiated producer price increases will not come into effect, or why recent producer price increases (like winter premiums) will fall away.

The opinion of the MPO is that *Government Notice No.R.350* issued on 19 March 2020 by the Department of Trade and Industry titled, *Consumer and customer protection and national disaster management regulation and directions*, indeed specifically caters for price increases of basic foods during this period, however, it issues a stern warning against excessive price increases. The government notice deals in detail with the supply of goods and services listed in Annexures A and B.

Annexure A:

1. basic food and consumer items;
2. emergency products and services;
3. medical and hygiene supplies; and
4. emergency clean-up products and services.

Annexure B:

Lists 22 products where measures from government may include limiting the number of items of the goods, which a consumer or customer may purchase in a defined period, or time:

- toilet paper
- hand sanitiser
- facial masks
- disinfectant cleaners
- surgical gloves
- surgical mask
- disinfectant wipes
- antiseptic liquids
- all-purpose cleaners
- baby formula;
- disposable nappies
- bleach
- cooking oils
- wheat flower
- rice
- maize meal
- pasta
- sugar
- long-life milk
- canned and frozen vegetables
- canned, frozen, and fresh meat, chicken, or fish
- bottled water.

The notice goes on to explain, "In terms of section 120 (1)(d) of the Consumer Protection Act (68 of 2008) that during any period of the national disaster, a price increase of a good or service contemplated in Annexure A which –



- does not correspond to or is not equivalent to the increase in the cost of providing that good or service; or
 - increases the net margin or mark-up on that good or service above the average margin, or mark-up for that good or service for the three month period prior to 1 March 2020,
- is unconscionable, unfair, unreasonable and unjust and a supplier is prohibited from effecting such a price increase.”

Hence, as long as the above is adhered to, reasonable price increases are indeed possible and plausible.

Furthermore, the MPO is of the opinion that price increases in the retail space of dairy products already occurred in January and February 2020. The consumer price index (CPI) for milk, cheese, and eggs increased year-on-year in January 2020 by 3% and in February 2020 by 3,29% (source: Statistics South Africa). These increases will have improved margins in the retail sector, serving as a prelude to price increases from March onwards to the role players upward in the value chain. Any notion by the retailers that negotiated prices cannot be implemented, or remain in effect where already implemented, falls short of the statistical evidence and the government notice dealing with price increases during any period of a national disaster.

The MPO is in a wide consultation process to understand the available remedies when dealing with dominant firms in a value chain during a period of national disaster and thereafter.

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