OPINION PIECE:

Contained cost pressures a welcome relief in SA agriculture

By Wandile Sihlobo, Business Day, 23 September 2019

In a *Business Day* column on September 4 2019, I noted that SA farmers have had one of the toughest years because of the combined effects of drought and animal disease that affected production and trade. But this is only one side of the story. Another side of the story relates to agricultural input costs, which, positively, have been relatively contained compared to this time a year ago.

To recap, in September 2018, SA farmers faced an average 20% year-on-year increase in fertiliser prices and a more than R1/litre increase in diesel price. In 2019, however, the local fertiliser prices were down by 9% year-on-year on average in August, according to data from Grain SA.

Admittedly, this does not put absolute fertiliser prices at levels prior to August 2018, but it is much welcome relief given that farmers are financially constrained after a drought season.

Given that SA imports about 80% of its annual fertiliser consumption and is a small player in the global market, accounting for a mere 0.5%, local prices tend to be influenced by developments in the major producing and consuming countries, such as India, Russia, the US and Canada. In the past few months, global fertiliser prices fell notably, partly due to a supply glut. The same is true for insecticides and herbicides; the decline in global prices has been an underpinning driver of slowing domestic prices.

The only diverging input price is fuel. After some increases at the start of September, daily data from the Central Energy Fund suggest further potential mild increases of 8c/litre for petrol and 19c/litre for diesel on October 2 2019. This is on the back of an uptick in Brent crude oil prices, which were exacerbated by the recent strikes on Saudi Arabian oil facilities. Although this will not offset the benefits SA farmers gained from declining fertiliser, herbicide and pesticide prices, it will add slight pressure.

The impact will also extend to the agribusinesses that operate in the transport and logistics industries. On average, 75% of SA's national grain and oilseed crops are transported by road.

Also, worth noting is that global fertiliser prices tend to follow the Brent crude price trend, with a few weeks delay. Therefore, if the prices of Brent crude remain relatively higher for some time because of the Saudi Arabia attack, then fertiliser prices could follow a similar trend over the coming months.

Developments will be closely monitored, but communication from Saudi Arabia suggests that oil production could normalise as early as the end of September. If this materialises, then fertiliser prices could remain at softer levels for some time, which will be beneficial for the farming community, not only in SA but globally.

This comes at an opportune time as the 2019/2020 summer crop production season will be commencing in a few weeks' time. Much of the fertiliser imported by SA is utilised in maize production, which accounts for 41% of total fertiliser consumption in the country, the second-largest consumer being sugar cane at 18%. Fertiliser constitutes about 35% of grain farmers' input costs and a notable share in other agricultural commodities and crops.

On balance, the 2019/2020 summer crop production season is starting on better footing than the previous one. The expected better weather conditions and the aforementioned price movements of key agricultural inputs will help ease pressure on farmers' financials following a difficult season that saw double-digit decline in production of summer grains and oilseeds.

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