

# Food producers warn of higher prices in SA as infrastructure crumbles

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South African food producers, among the biggest on the continent, are spending hundreds of millions of rand mitigating prolonged rolling power blackouts, water supply issues and crumbling infrastructure.



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This investment, sometimes at the cost of essential capital expenditure, will eventually be passed onto consumers, making food prices higher for longer, food companies, economists and lobby groups told Reuters.

## Mitigating power cuts

It comes at a time when South Africa is already struggling with acute unemployment, 14-year high interest rates and ballooning inflation and complicates efforts of the South African Reserve Bank (SARB) to ease interest rate hikes.

"We are very aware of the struggles that consumers are going through ... but inevitably some of it will be passed onto our consumers unfortunately," chief manufacturing officer Derek McKernan of Tiger Brands, said.

The group, one of the biggest food producers in Africa, has allocated R120m in capital expenditure for the second half of

its financial year to mitigate the impact of power cuts, he said.

This includes additional back-up generators, fuel and water storage facilities, rooftop solar, mobile generators and water tanks to be operational from July.

It has even supplied a generator to one of the local municipalities, he added.

South Africa is facing daily power cuts - its worst in history - as creaking, old power plants breakdown, plunging Africa's most industrialised economy into prolonged blackouts.

This has impacted sectors across the board from telecoms to insurance.

For most part of this year the country was in the throes of "stage six load shedding" with almost 10 hours of daily power cuts, forcing companies to scramble for alternative power and water sources.



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South Africa implements power cuts in stages from one to eight with eight being the highest and translating to 16 hours of outages in a 32-hour cycle.

Premier Group, amongst the top five food producers, has invested in diesel generators and boreholes to isolate any impact of power cuts up to 16 hours a day, Kobus Gertenbach, its CEO, said.

It said last month it would take all necessary steps to protect margins.

Rival Libstar told *Reuters* it has built storage capacity to ensure up to three days of production at most sites.

Poultry producer Astral, diversified food producers AVI and RCL Foods have indicated in their recent earnings statements the mitigating measures would eventually translate into higher food prices.

The listed food producers have collectively lost almost 15% in their market value since the beginning of the year.

Blackouts have eased in the past few weeks sparking hopes of better times ahead, but there is a palpable fear that as the southern hemisphere winter takes a deeper hold in July, power demand will far exceed generation.

## Nightmare to be a farmer

It is not only companies which are on the receiving end.

Their suppliers - farmers - are also being battered by power and water problems and general infrastructure bottlenecks.

"It's a nightmare to be an irrigation farmer today," the CEO of the lobby group Grain SA, Pieter Taljaard, said, adding, he expected local wheat production to fall by 15% this year.

The South African Cane Growers' Association estimates that continued power cuts between stages 4 and 6 would translate to a loss of R724m in irrigated areas, its CEO Thomas Funke, said.

While a stage eight could mean a loss of R2.4bn and an almost 65 tonnes per hectare drop in yield, besides hitting the

entire value chain, he said.

"To pack your sugar, refine your sugar and manage it in your warehouse and eventually transport it somewhere ... a lot of those processes also require electricity."

Amid falling yields, farmers are also forced to plant less to accommodate erratic supply schedules.

"This is actually (the) same situation (as) when you have a very severe drought ... we can't irrigate enough, so you plant less," Charles Rossouw, managing director of Rosle Boerdery, a citrus farming group, said.

And as supplies fall, prices will increase, he added.

South Africa's food price inflation in May eased to 11.8% from 13.9% in April but remained high, hovering in double-digits.

The central bank predicted in May food inflation would average above 10% for the year.

The mitigating measures are coming at a cost two to three times more than the price of electricity, Kandas Cloete, senior analyst at Bureau for Food and Agricultural Policy (BFAP), said.

And some people are worrying there could eventually be a threat to food security if power and water woes worsen.

"In my view, level eight would start to impact our ability to continue to produce enough product to service our market," Gertenbach from Premier said.

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