A grain of truth

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Many of the costs that cause baking companies to increase prices are out of their hands.

Behind the emotional reaction to soaring bread prices, two indisputable facts stand out. One is that the dramatic surge in the cost of wheat in the past 18 months is here to stay; the other is that higher prices are likely to hit SA's independent bakers far harder than they will hit the big four bread-makers – and they produce 45% of the country's bread.

Criticism by the competition commission and trade unions against milling and baking companies shows no sign of abating. Tiger Brands (Albany Bakeries), Pioneer (Sasko & Bokomo), Premier Milling (Blue Ribbon), and Foodcorp (Sunbake & Woolworths) have all been implicated in price-fixing.

However, many of the costs that caused them to increase prices are out of their hands. Wheat consumption has outstripped global supply for the past four years. Five years of sustained global growth have seen rapid urbanisation and income growth in developing countries - particularly China and India. Hundreds of millions of people are eating more meat, milk, fruit and vegetables.

Then there is meat. According to *The Economist*, in 1985 the average Chinese consumer ate 20 kg of meat annually; now he eats more than 50 kg. It takes 3 kg of cereals to produce 1 kg of pork, and 8 kg for 1 kg of beef.

The biofuels bonanza is also altering the landscape. In the US, farmers are shifting from wheat to maize production to satisfy their country's rampant demand for biofuels. Last year the US, the world's biggest exporter of maize, used more maize in ethanol than it exported.

Global wheat and other grain supplies have also been hit by climate change. Two years of drought in Australia, a key wheat-producing country, have hurt supplies. Global wheat stockpiles are at a 30-year low.

A virtual doubling of the oil price in the past 18 months has contributed to increased costs. "Shipping costs for 1 ton of oil have increased from US$25 18 months ago to $90 today," says Pioneer Foods executive Tertius Carstens. "This is partly due to the oil price and partly the huge global demand for shipping services. There has been a capacity crunch in shipping."

The combined impact of these changes has contributed to the surging price. "We are at the mercy of global markets," says Tiger Brands corporate affairs executive Jimmy Manyi. "Over the past 12 months the price of wheat has risen from R1 700/tom to around R3 100/ton. The price of fuel has surged. These are major components of import costs."

He concedes that the timing of last week's 40c/loaf increase is particularly awkward after the price-fixing scandal.

However, small independent bakers are likely to feel it far worse. Carstens says flour accounts for 20%-25% of the input cost of a loaf of bread. However, at the Mpekweni Community Bakery, near Peddie in the Eastern Cape, it makes up 45% of the input cost, according to Cynthia Bekwa, the program promoter for Yebo Co-operative, which provides support and bulk-buying services to independent bakeries.

Mpekweni is the newest bakery in the Yebo network and supplies fresh bread to Prudhoe, Mgababa and Mpekweni, which are more used to the tired loaves that arrive weekly from King Williams Town. With its current stocks of flour, the bakery, which produces 1 500 loaves weekly, is still able to sell bread at about R4,40 a loaf. However, says Bekwa, "our strategy has not taken in the rising costs of flour".

Though independent bakers can benefit from volume discounts by buying through organisations like Yebo, it is tough going. "We do not yet have the kind of volumes that would make these large millers take us seriously," says Bernd Harms of DGRV, a German group that supports local co-operative activity. "Because the millers and bakers are vertically integrated, it is not in their interests to supply us with cheaper flour as we are also their competition."

SA consumers are not the only ones facing price hikes for bread and related goods. In the US, companies like General Mills, Kellogg and Sara Lee have all increased retail prices because of higher wheat costs.

Ironically, the rising wheat price is not helping SA's wheat farmers. Despite producing almost 2 million tons of SA's required 3 million tons of wheat, farmers are not reaping the full benefit. "Low yields and poor quality mean SA's grain farmers are not all making a living," says Johan Kirsten, head of the department of agricultural economics at the University of Pretoria.

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