RESOURCES TREND ANALYSIS
an Indication of Export Cost Escalation

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Inflation targeting in South Africa was offset by an all-time high of Brent Crude as well as an increase in the cost of Electricity during the 2008/9 financial year. This would have negatively influenced the CPI and therefore inflation was seen to rise above target. Various indications relevant to fruit exports have shown an upward trend of late and are likely to influence the cost of harvesting, production and FOB cost of exporting. The rand is growing stronger against major trading currencies and thus may negatively impact on returns against market sales. When we evaluate Market Price inflation against the basket of Input Costs we begin to grow concerned over the longer term sustainability of southern African fruit exports. Each market has a unique set of variables and therefore the inflationary measurement may vary and returns may also depend on that market’s trading currency at the time. Generally most of the key markets show price inflation that may not run parallel to our own input cost inflation rate. Therefore one can anticipate that at some time or other we may encounter a break even point where a market price equals the input cost of exporting.

Key indications used to determine these factors are as follows:
1. Rand exchange rate against major trading currencies.
2. Electricity price increase.
3. Consumer and Production index adjustments (CPI / PPI).
4. Price of Brent Crude in relation to the Basic Diesel Price.
5. Bunker price adjustment.

NERSA has approved Eskom’s price adjustment from 2008 to 2012 as 27.5%, 31.3%, 24.8%, 25.8%, 25.9% respectively. The result is that the compounded cost of electricity will increase by 230.9% during this period. In monetary value the cost of R100 worth of electricity in 2008 will cost R331 in 2012 based on the approved tariff increases. Fruit relies on a Cold Chain throughout its lifespan which is largely maintained by cooling plants dependent on electricity. Handling equipment is mostly electrified and relies on electricity to recharge battery life. Electricity increases could have a negative impact on the cost of production, handling and storage.
The Consumer Price Index (CPI) saw a sharp rise during 2008 when the price of Brent Crude and other commodities rose to historical levels. CPI gives an indication of annual increases in the cost of goods and services. The Producer Price Index (PPI) gives an indication of the cost of a basket of goods used for the production and manufacturing of goods. The PPI for domestic output shows a sharp increase from the 2008 year, this is an indication of cost escalation of production of goods domestically.

The Basic Diesel Price is a uniform measure to ascertain the effect of the price of Brent Crude on local price of Diesel fuel. The price of Diesel at the pump is dependant on a sliding scale per region as is between R2 – R3 higher than the Basic Diesel Price. Economists anticipate the price of Brent Crude to rise above US$100 by the end of the year. At the time of writing the price of Brent Crude has risen sharply to US$86 per barrel. The Basic Diesel Price has risen by 45c/ltr on 7th April. Diesel fuel is used during harvesting and transportation; transportation costs are a very significant cost factor for production in the Northern regions which are 3 – 5 times higher than production regions closer to ports.

Bunker Adjustment Factor (BAF) is the floating cost of sea transport which is largely determined by the average Rotterdam and Singapore average. Most of the shipping terms to Europe markets are based on CIF, DDP or DAF terms where BAF then becomes an important aspect to consider. Europe is the key market for the fruit industry and therefore BAF adjustments are used to determine the conditions of sea transport to Europe. BAF levels may be 3 times higher in current times compared to 2004 by indication of the Bunker Price adjustment. BAF levels weighed heavily on the industry during 2008 which moderated during 2009 but can be seen to increase for the coming season. Bunker Fuel is not only used to drive the ship during voyage but Reefer containers also use Diesel Fuel to power generators to keep the refrigeration units in operation during the sea voyage. BAF levels for Reefer containers are not only influenced by Bunker Fuel and Diesel fuel but also by trade imbalances on any given trade route.

In conclusion, the time may be upon the fruit sector to begin to evaluate more stringently the input cost of fruit exports. This will become critical within the next three to five years. From harvesting, production, packaging, transportation, to handling and storage the entire value chain should be evaluated and cost trends determined.

Economic factors and environmental demands are going to persuade the industry to think more carefully and be more innovative about how to harvest, produce and transport fruit to global markets.

One sure way to decrease costs in the short term is to evaluate the supply chain where inefficiency and costs are hidden and can be reduced significantly. It is a critical time for growers up north where total input costs are likely higher due to transportation costs being a major cost contributor. "A way to reduce the cost chain is to reduce the cold chain", Dr M Dodd (Phi). The principle is to stuff containers ambient at source (packhouse direct or at inland facilities) and rail to port.