

Wheat import tariff does not lead to a significant increase in the price of white bread

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Bread is an important staple food in South Africa and plays an integral role in ensuring national food security. The majority of consumers for the most part do not buy food directly from farmers, and the price consumers pay for food is exceedingly higher than what farmers receive for the raw commodity.

In this article, we highlight the share of income that the average wheat farmer gets per loaf of white bread at its retail price. The wheat farmer's share of the retail price of white bread will be examined to clarify a common misconception that farmers are responsible for high bread prices.

Background on the wheat price

The price of wheat for a South African buyer is normally determined by the international wheat price, the exchange rate and the local supply and demand for wheat. South Africa is not self-sufficient in the production of wheat; therefore approximately 60% of our local consumption is imported.

South Africa's wheat demand has been growing, which has increased our dependency on imported wheat. As a result, the domestic price of wheat, as reported by Safex, has also shown an upward trend towards the import parity price. To reduce our dependence on expensive imports, the South African wheat industry is currently working on strategies to boost domestic wheat production. While this is in progress, there is an import tariff imposed, which provides protection for the local wheat industry. At the moment this tariff is R911.17 per ton and it is expected to increase to R1224.31 per ton due to a fall in international wheat prices. It is important to note that the import tariff has been factored into the calculations below.

How much wheat is in a loaf of white bread?

In order to calculate the difference between the real farm value and real retail value, the following assumptions were made: to bake a 700 g loaf of white bread; an average of 480 g of flour is needed. In order to mill that 480 g of flour, 588 g of wheat is required. Thus, approximately 1 700 loaves of white bread can be produced from 1 ton of wheat.

The price consumers pay for bread versus the price farmers receive for wheat

Figure 1 presents a derived wheat farmer price required to produce 588 g of wheat for one loaf of white bread.

The derived farmer price is calculated by taking the average annual Safex price for each marketing year and deducting relevant costs, such as the location differential as well as handling and storage costs for grade B2 wheat.

Figure 1 compares the derived farmer price for 588 g of wheat against the annual average price of a 700 g loaf of white bread in a retail store. During the eight year period, wheat farmer prices declined twice, but bread prices consistently increased, indicating that farmers did not fully benefit from these higher retail prices. If one focuses on the past season, 2014/15; wheat producer prices (588 g) increased by 3% while the price of a 700 g loaf of white bread increased by 8% from R10.28 to R11.11

over the same period.

Overall, raw wheat price movements were in most instances not the main contributing factor to the increase in the bread price, even with the additional import wheat tariff effects.



Figure 1: Derived farmer price vs bread price

Source: Grain SA and Stats SA

Wheat producers' percentage share of retail white bread price

While input prices increased both for farmers and retailers; the farmers' share of the consumer's rand remained relatively stable or even decreased in some years. Between 2008 and 2015, a wheat farmers' share of a 700 g loaf of white bread fluctuated between 15% and 20%.

This implies that when a consumer bought a loaf of white bread, the raw material (wheat) simply costs R2.38 in comparison to the total loaf of bread at R11.76. For example if one loaf consists of 21 slices, the farmer's income equals 4 slices while the rest of the wheat-to-bread value chain enjoys the rest of the slices (Figure 2).

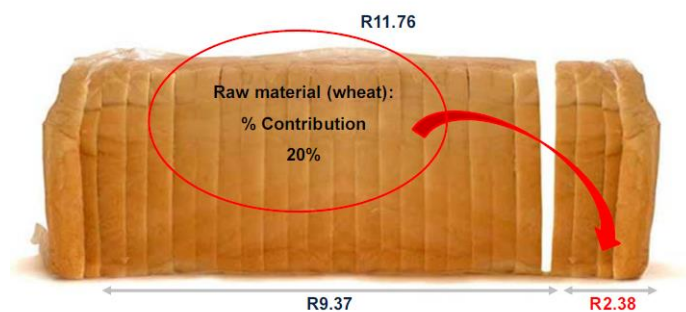


Figure 2: Wheat producers' percentage share of the retail price of white bread (2015/16)

Conclusion

It is imperative for consumers and other stakeholders to be made aware that increases in bread prices are not necessarily linked to increases in the wheat farmers' payments (producer prices), but rather can be attributed to costs further down the value chain.

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