The impact of the diesel price surge on South African logistics

By Gavin Kelly

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The cost of diesel for transporters will increase by R2,76 for 500ppm (R2,84 for 50ppm) tonight. That will raise inland pump prices to R23,05 and R23,28 respectively. The price of both grades of petrol - 93 and 95 - will increase by R1,71c per litre.

Source: Unsplash

The Central Energy Fund (CEF) attributed the price hikes to rising international fuel prices and the weakened rand.

These prices were last seen in June 2022, the first in a four-month climb that saw diesel prices reach the lofty heights of R25,74 in November 2022. July 2022 had also reached R25 per litre.

Road freight transporters use both petrol and diesel – but diesel is the main fuel in most road operations. Once fuel prices increase, transporters will need to increase their pricing to cover the increased cost of diesel. Whilst this sounds like an “easy” or simple process, there will be transporters who will not be able to increase costs (either they are contractually bound or they just price themselves out of the market), and thus might not be able to carry on running the business.

One of the biggest challenges faced by transporters is the need to fund operations (the use of fuel) whilst only being paid months after the work has been done – in some cases up to three months afterwards. In the meantime, the next load needs to be moved, and so on, and that all needs fuel for the vehicles. There just aren’t limitless reserves of cash to continue the high level of fuel expenditure against the delayed payment for work already done.

More businesses in stress/business rescue

The Road Freight Association (RFA) is hearing from more and more of its members how the fuel cost strain is affecting survival – with more and more businesses in stress/business rescue, whilst customers reduce volumes that need to be transported or even curtail stock movement (depending on consumer consumption levels).

Transporters will feel this impact on their businesses. Many transporters will not be able to muster the guarantees required for purchasing fuel on credit (this is required as customers take up to 90 days to pay **after** the transport has been provided) – and the transporter has paid for fuel, paid the driver, covered other costs and still needs to operate a business – whilst others just don't have any cash to carry themselves for 90 days.

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Whether we like it – or not – the continuous increases in the price of diesel inevitably drives the cost of transport and logistics up – step by step. And, with roughly 85% of all goods moved through and around the country having a road leg at some part in the journey, there will be increases to consumers (you and I), as the cost to transport goods increases.

Fuel breached the 50% mark in daily operating costs during the third quarter of the year. Now, as we head into the final months of 2023 – with this 3,6% increase – the sector is heading towards the 60% level seen during the last months of 2022. That's a huge increase in cost to company (any company or business that requires goods to be transported to manufacturing/processing/packaging/staging/distribution or retail operations) that simply cannot be borne by the company.

Paying more for everything

That cost will – in most cases – be borne by the consumer. You and I will pay more for – well – everything. From food to fuel, from clothing to electronic goods and everything in between. Prices will rise – some immediately, but more so a domino effect will ensue, the next in a long line of such domino effects that we have seen too often in the last few months.

Transport costs will rise. There is no alternative for transporters – and those that cannot afford to carry loads at the rates or prices customers are prepared to pay, will simply close down.

More business closures, more unemployment, less business and revenue driven through the transport sub-sector industries, and of course, higher prices at the till!

Consumers have enjoyed – for the first time in the Reserve Bank Repo Rate cycles –a breather (rates remained the same). However, these sorts of fuel price increases could wipe out the gains in taming inflation that the Reserve Bank has won. Hopefully, the inflation monster will not revive – and another reprieve will be afforded to consumers in November.

However, should an interest rate increase occur: that, together with transportation costs for goods and services, will grip the consumer in another tight financial squeeze just before the Festive Season – where traditionally many retailers have generated income to carry them through the financial year.

This may – as in 2022 – reduce any chance of a bountiful retail season as has been enjoyed in the past – and there are many consumers who will “stay at home” and cut the “lavish spending” associated with the Festive Season.

ABOUT GAVIN KELLY

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