

## Bread price likely to rise 10% after hike in wheat import duty

Bread prices are expected to rise at least 10% as a result of the 34% increase in the import duty on wheat announced by the Treasury on Friday.

By Linda Ensor <sup>11 Apr 2016</sup>



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The increase excludes the effect of the recent rises in electricity and fuel costs that are also expected to affect bread production. Bread is a staple food for poor households already struggling against increases in the cost of food due to the extended drought, which has plagued the agricultural sector. It is for this reason that the Treasury has been reluctant to grant Grain SA's application for a wheat tariff increase, which it lodged with the International Trade Administration Commission in December.

The government could also face the political consequences of raising the price of a staple food in an election year.

After waiting over three months without any outcome, Grain SA sent a lawyer's letter to the Treasury to demand that the automatic wheat formula be implemented.

The Treasury and Grain SA officials met on Tuesday last week, but Grain SA officials were not satisfied with the outcome and lodged an urgent application in the High Court the following day for the tariff increase to be announced. Grain SA applied for a higher tariff on the basis of the fall in the global wheat price. The Treasury then announced the tariff increase from R911.20/ tonne to R1,224.31/tonne, which will apply for the rest of this year.

But the Treasury is concerned about the effect of the automatic tariff formula on the price of bread and other staple food and has asked Trade and Industry Minister Rob Davies to institute an urgent review of it, and to later review the formulas for sugar and maize as well.

University of the Free State department of agricultural economics head Johan Willems estimated on Sunday that bread prices would rise by at least 10% due to the tariff hike. He noted that SA imported about

60% of its wheat requirements and because of the drought would have to import an estimated 2.2-million tonnes in the year to end-October, with the local crop estimated to be about 1.5-million tonnes.

He said that several years ago a reference price for wheat was established at \$294/tonne. When the global wheat price fell below this price on a moving average basis, the difference was made up by adjusting the wheat tariff upwards. As there was a surplus of global wheat, the price had dropped, providing the basis for Grain SA's application for the tariff hike to bring the price of imported maize to \$294/tonne.

Willemse said the reference price system had been introduced to encourage farmers to grow more wheat and to save SA from having to import the grain.

**Source:** Business Day

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