



**potatoes**

SOUTH AFRICA

## **MEDIA RELEASE**

### **Increased input costs delivers warning signals to sustainable potato production**

The continuous increase in input costs is delivering warning signals to sustainable and continued potato production in South Africa. However, it is not only the producers that will bear the brunt, but also the price battered consumer who will have to pay more for potatoes.

As for any other producer of agricultural produce fertilizers and pesticides are the primary expenses determining the potato producer's the production costs. Unfortunately nearly 70% of all the raw materials used for the production of fertilizers are imported. In the case of pesticides all the chemicals required are imported. The fact that there is a worldwide shortage in these two commodities naturally leads to upwards pressure on prices. However, the picture would be incomplete if the weakening Rand, escalating oil price and the Eskom tariff increases are not included.

According to Potatoes South Africa's production cost calculations the current cost to produce a hectare of potatoes under irrigation is between R 75 000 and R 100 000 depending on the market segment, i.e. seed, fresh or processing market. Since March 2008 when these calculations were made the price of diesel escalated by a further R1.30 per litre and electricity tariffs increased by 14%. If everything is taken into account the production cost of potatoes increased by 25% the past six months and even more over the past year.

Unfortunately for the potato producer the price of potatoes are determined by supply and demand on the fresh produce markets and the producer can therefore do very little to influence the market price, except to produce less. The fact that fresh potatoes are perishable with a limited shelf life means that producers are not really in a position to delay a consignment once the potatoes have been bag, hoping that the price will improve. He well can delay the harvesting process to an extent, but that creates its own set of quality problems leading to down grading and lower prices. It would also lead to an overlap in the regions' marketing seasons resulting in oversupply on fresh produce markets and downward pressure on prices.

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*pure potato passion*

It is also imperative that cognisance be taken of the fact that for every 2 kg bag of potatoes sold in a supermarket the potato producer receives on average only 21% of the consumer rand spent on the purchase. In the case of a 10 kg bag the percentage is 48%.

During the first half of 2007 the abnormally large volumes of potatoes on the market floor negatively influenced prices, so much so that about 3 000 hectares potatoes less were planted earmarked for marketing during the first half of 2008.

If it is taken into account that the potatoes to be marketed during the first half of 2008, were planted “cheaply” (prior to the exorbitant input cost increases) the additional drastic increase in input costs will further handicap extensions in the production of potatoes and rather lead to less potatoes being planted this year. All indications are that the drastic increase will be the primary contributor to a further 1 000 hectares being withdrawn from potato production this year. More clarity on the real extent of the decrease in hectares will be available in August 2008 when the plantings in respect of the 2009 market season commence.

Although it is expected that production costs will increase by less than 25% for the next six months it will still make it impossible for a large number of producers to produce potatoes viably at the current average market price of less than R20 for a 10 kg bag. The survival of potato producers lies in the increase in the average potato price to about R30 per 10 kg bag - and since the price is determined by supply and demand the salvation of the industry depends on increased consumer demand and / or less plantings.

Increased consumer demand is definitely the desired outcome, but unfortunately it will not happen overnight and therefore cannot be seen as the solution for the current problem situation. All that remains is a decrease in potato plantings to ensure an increase in the producer price. According to estimates next year’s producer price will have to be 40% higher than the current price to prevent a further decrease in potato production.

Alternatives to address the lower production / higher price situation does not really exist. Imports are possible, but the exchange rate and increasing world prices will ensure that it is not a viable option. It is also possible that inland production regions with a lower production cost impact could increase production, but unique production and marketing seasons will prevent the industry from maintaining the existing twelve month fresh potatoes delivery cycle. It can only lead to bigger fluctuations characterized by periods of oversupply and lower prices countered by periods of undersupply and higher prices which will neither benefit the potato industry nor the consumer.

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Embargo : For immediate release  
Date : 05 May 2009