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Price of Success for S. Africa Corn Farmers Is Ruin (Update3)

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(Adds latest prices in 15th paragraph.)

By Carli Lourens

May 17 (Bloomberg) -- South Africa's corn farmers, buoyed by unexpectedly good rains and increased use of genetically modified seed, are preparing to reap their biggest crop in 28 years. The reward for their success may be bankruptcy.

The government's Crop Estimates Committee will confirm on May 20 an estimated harvest of 13.1 million metric tons, according to the median estimate of 12 grain traders surveyed by Bloomberg.

The resultant surplus, estimated by Grain SA at a record 4 million tons, may "destroy" the industry, threatening the country's food security, Agriculture Minister Tina Joemat-Pettersson said last month. The price of the most commonly traded type of corn on the South African Futures Exchange slid to a four-year low this year as traders anticipate a glut.

"We're going to lose farmers," Kobus Laubscher, general manager of Grain SA, the country's biggest grain farmers' group, said by phone from Bothaville, in the corn-growing central Free State Province. "We don't want to cry wolf, but we have to now fight for the sustainability of future production."

A 14-fold increase in the use of genetically modified seed in the past decade to more than 70 percent of the land under corn has boosted yields, cementing South Africa's position as the continent's biggest producer of the grain.

Over-planting, after the national meteorological agency warned of a drought that never materialized, also helped cause this year's bumper harvest, which will mostly be reaped by August. The harvest may be the biggest since the 14.4 million tons reaped in 1982 and 8.7 percent higher than last year.

Bread and Rice

With an ageing rail system that prioritizes moving higher value coal and iron ore to ports, South Africa's corn farmers have to largely rely on consumption in their home market and neighboring countries where grain can be trucked.

The odds of finding a market are stacked against them. As the wealth of South Africa's black majority grows, the country is consuming more bread and rice, and less corn, used to make a stodgy porridge known as pap. At the same time, many countries in southern Africa have benefited from the same abundant rains.

The local market offers little scope to take up the surplus, Laubscher said. Per capita consumption will decline to about 80 kilograms (176 pounds) in the year through March 2011 from about 88 kilograms in 2008, the Department of Agriculture estimates.

"Huge amounts of strain are going to be seen and a lot of people are going to go out of business," said Thomas Mehl, an analyst at Pretoria-based trader Grainvest Futures. "There are going to be bankruptcies at the level of prices we're seeing."

Export Pool

South Africa may have corn supplies of as much as 15 million tons when left over stocks are included following exports of about 1.65 million tons in the marketing year ended April 30, Laubscher said. The country's average annual consumption is 9 million tons.

Farmers are looking at all options to sell the unwanted surplus, including forming a pool of corn dedicated solely to exports. That presents antitrust concerns and talks with the government are ongoing.

South African corn may be too expensive to export in large quantities given the cost of freight over the long distances to markets on other continents.

Food Inflation

"We will have to move more than two million tons of corn. Given the current export challenges, we probably won't even come near that," Standard Bank Group Ltd. said in an e-mailed response to questions. "On the demand side there is no anticipated increase in local demand and exports look fairly bleak."

The most heavily traded contract for white corn fell 2.4 percent to the equivalent of about \$143 a ton in Johannesburg today, while the benchmark corn contract in Chicago traded at about \$141. In Argentina, which sells corn to African nations, the grain trades at about \$120 a ton. The prices exclude freight and other charges such as trade tariffs.

"South African corn is just too expensive to be really competitive in the international market," said Wouter Mentz, the former chief executive officer of South Africa's biggest publicly traded corn trader Afgri Ltd. "There just isn't enough market for the price at which corn currently trades."

Still, while bad news for farmers, the grain glut may keep inflation down. On May 13, central bank governor Gill Marcus said food-price inflation will

probably slow because of the slump in the cost of corn.

Many South African farmers were suffering even before the slump in corn prices and the jump in grain stocks. Their numbers have fallen to 35,000 from 60,000 10 years ago, Neels Ferreira, the chairman of Grain SA said.

'Quit Farming'

The mainly Afrikaans commercial farming community has been the subject of land claims under legislation designed to redress the inequalities of apartheid. The murder of about 3,000 farmers, a result of South Africa's rampant crime, since the first all-race elections in 1994 has also driven many off their land.

"We are seriously worried," Ferreira said. "That's why people decide they can't live with this uncertainty and quit farming."

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