Fuel price increase will hurt consumers and logistics companies

By Jyothi Laldas |29 February 2024 | 9:09 am

With yet another fuel price hike on the horizon for March, the potential impact on the already under-pressure agriculture sector raises concerns about heightened production costs, reduced profit margins, and potential ripple effects on food prices for consumers.

Although the most recent data from the Central Energy Fund (CEF) shows a slight easing in fuel price recoveries in South Africa, the continued depreciation of the rand, currently trading at approximately R19,30 to the US dollar, is expected to maintain pressure on fuel prices through the final week of February.

The under-recoveries for petrol are around R1,15/ℓ, and for diesel it ranges from R1,14/ℓ to R1,28/ℓ.

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Earlier this month, the unaudited data from the CEF estimated 95 unleaded petrol to rise by about R1,35/ℓ, with 93 unleaded petrol increasing by R1,31/ℓ.

Even more bleak was the outlook for diesel, which mainly powers agricultural machinery, predicted to rise by between R1,44/ℓ for 500ppm and R1,58/ℓ for 50ppm.

While the under-recoveries point to a modest improvement from mid-month prediction figures, it comes against the backdrop of a weakened local currency, still pointing towards potential fuel price increases of over R1 in March.

The estimated increases will follow the trend of recent increases of 75c/ℓ for petrol and up to 73c/ℓ for diesel in February.

Speaking to *Farmer's Weekly*, Agbiz chief economist Wandile Sihlobo said logistics would be harder hit than other businesses within the agriculture sector.

"While this expected fuel price uptick will increase farmers' input costs, it comes at a [relatively] quiet period in the sector. This is except for the agribusinesses in logistics, who will most likely experience an increase in activity due to an expected uptick in wheat imports and summer grains exports."

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He said it was worth noting that roughly 81% of maize, 76% of wheat and 69% of soya beans in South Africa were transported by road.

"On average, 75% of national grains and oilseeds are transported by road. Therefore, the price increases add pressure on agribusinesses."

Speaking about the potential impact on logistics, Gavin Kelly, CEO of the Road Freight Association, said logistics companies would likely have to increase their pricing to cover the rising costs of fuel.

He said this would result in a knock-on effect on the entire value chain, with fuel being a universal input into the economy. This would then potentially raise the cost base of all goods and services.

According to Kelly, with roughly 85% of all goods moved through and around the country having a road leg at some part in the journey, there would be increases to consumers as the cost to transport goods increased.

He said in the short term, general transport costs would rise, from food to fuel, from clothing to electronic goods and everything in between.

“There will be the inevitable price escalations, 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.”