

Low maize prices drive farmers out of business

Banks, agricultural futures brokers risk losing billions as growers default

Chief Reporter

GRAIN SA has called for emergency talks as plunging maize prices force farmers out of business putting banks and agricultural futures brokers at risk of losing billions of rands.

Maize prices hit four-year lows of R600/ton for white maize on the SA Futures Exchange (Safex) this week, down from R1024 as recently as November.

"It is no longer possible to produce at the current price levels," Grain SA said yesterday.

The fallout from the drop in the maize price more than 50% in the past year saw agricultural futures broker Dimitra Futures suspended from Safex last week, as it was unable to provide enough security to a banker, Standard Bank.

Contributing to the price slide is a 3-million-ton oversupply of maize from last year's harvest, which has been carried over into this year. The situation is so dire that farmers are defaulting on their payments to futures brokers, and Grain SA has confirmed reports of a number of farmers committing suicide as a result of the financial strain.

Grain SA GM Steve Shone said his organisation had called two emergency meetings for next week to try to find a solution.

The current low maize price was caused by a number of factors, including the rand's strength against the dollar, last year's 3million ton oversupply and better-than-expected rainfall, which has boosted the prospect of a full harvest.

In addition, government subsidies in other countries make it difficult to export excess maize.

"This is a real crisis facing agriculture. Input costs (such as diesel and machinery) remain high, while we are battling to export excess maize," Shone said.

This year, SA's farmers are expected to harvest about 9-million tons of both white and yellow maize, adding to last year's 3-million-ton excess.

"This will put about 12-million tons of maize into a market which can realistically absorb about 8million tons," he said.

The price at which maize sells on Safex acts as the benchmark for pricing in the rest of the market. White maize, used in human food, is seen as a more important indicator than yellow maize, typically used in animal feed.

AgriSA president Lourie Bosman said that with the cost of producing white maize still high, the break-even cost for farmers was about R1000/ton.

"This means a lot of farmers are not going to make it, and will not be able to repay their loans," he said.

This is important, as agricultural debt in SA is R31bn, of which R15,6bn is owed to commercial banks. AgriSA economist Johan Pienaar estimates that R10bn of the money owed the banks is short-term debt.

"Farmers are experiencing a liquidity crunch, and we could soon see them defaulting on their short-term loans," he said. Bosman also warned of job losses in the sector, which employs about 940000 people, more than any other sector of the economy.

The crunch has also put pressure on the 60 agricultural broking companies who are members of Safex and are owed money by farmers .

Mone de Jager, a director of Dimitra Futures, said other brokers were also feeling the pinch.

Safex's GM for agricultural products, Rod Gravelet-Blondin, conceded that brokers were under pressure.