

Value of maize harvest is overrated

By Fanie Brink

22 May 2017

The gross production value of this season's maize crop is totally overrated.

The average price of maize lately traded on the local South African Futures Exchange (SAFEX) market is about R2000 per ton, compared to an average price of R5000 per ton last season. The main reason for this lower price can be attributed to the much larger maize crop which, according to the third estimate of the Crop Estimate Committee, amounted to 14,5-million tons this year compared to 7,8-million tons produced last year.

This means that the gross value of last year's maize crop was almost R39bn compared with the estimated gross value of about R29bn this year.

Maize production in US

According to Grain SA, the total exports of surplus maize should be about 3,6-million tons this season. At an average export parity price at this stage of R1785 per ton, according to the latest calculations by the SA Grain Information Service, it means that the total final local and export realisations may possibly even be less than R29bn this year. The main reason for the low export parity price is due to the very large maize crops that the USA, the world's largest maize producer, has produced for the past three seasons and the very high maize stocks in the world.

ZC - Corn - Monthly Candlestick Chart



As a result, the maize crop will make a much smaller contribution to the total gross domestic product (GDP), according to which the country's economic growth rate is measured, contrary to the overall optimistic expectations that the agriculture industry will help to drive the economy in 2017.

Although the maize producers are very grateful for the good harvest they are producing this year, it must be realised that South Africa has never been able to compete with maize exports in the world market. Mainly due to lower yields and higher production costs compared to other maize producing countries, as well as the tremendous financial support in terms of production, export and crop insurance subsidies, which especially the US farmers receive.

Area scaled down

Maize producers have scaled down the area planted to maize from more than 4-million hectares in 1990 to the current season's 2,6-million hectares to solve the problem of maize surpluses.

However, the new technological developments over this period, such as improved maize cultivars, new fertiliser products and application methods, new crop protection remedies and highly advanced mechanisation equipment, enabled producers to significantly increase the efficiency of maize production from an average long-term yield of two tons per hectare to four tons per hectare.

Surpluses a major problem

As a result of these developments, maize producers have actually started producing themselves out of the market again, with the result that surpluses in the years with above average yields, such as this season with an average yield of 5,5-tons per hectare, have again become a major problem for the industry. Specifically because maize in South Africa cannot be produced profitably at the export parity price. Consequently, the government will have to realise that food security for the country will only be sustainable if the production of food is profitable. Therefore, the unnecessary cost and tax burden on agriculture should be reduced to ensure food security over the long term and producers should be financially supported during climate or other disasters.

The only alternative that maize producers have to produce profitably and sustainably, is to further scale down the production of maize by reducing the area planted by even as much as 500,000 hectares.

ABOUT FANIE BRINK

Fanie Brink is an agricultural economist with a masters degree in agricultural economics and with more than 40 years experience in the agricultural industry in South Africa. He was from 1988 to 2006 a senior economist and deputy general manager: research & development at Grain South Africa and is still very much involved in the agricultural industry as an agricultural economist, adviser and mentor.

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