The Future of Dairy Farmers in South Africa Conference

Cedara College

13 November 2006

Nicky Findlay
KZN Department of Agriculture and Environmental Affairs
E-mail: findlayn@dae.kzntl.gov.za

The Milk Producers' Organisation (MPO) recently organised and sponsored a conference aimed at getting milk producers together to discuss a strategy for the way forward for the dairy industry in KwaZulu-Natal. Consultants Derick Broom and Jeff Every painted a bleak picture of the future for dairy in South Africa. Threats to milk producers include financial insecurity, the threat to land resources in the form of land claims, the land redistribution policy (30% by 2014), undervalued land and global warming. Other concerns are the effect of AIDS on labour and the threat of farm attacks (more farmers have been killed in South Africa than the rest of Africa combined).

The most immediate threat to dairy farmers was identified as small and declining profit margins. In 1973 dairy farmers experienced an average cash flow margin of R1.50 per litre. By 1986 this had dropped to 80c per litre. In October 2006 the average cash flow margin on a litre of milk was 20c. Farmers believe they are in the middle of a "price squeeze" between increasing input costs (maize, fertiliser, labour), which average around R1.75 per litre, and decreasing prices offered by distributors and processors. The benefits of increased efficiency in production are being realized by the distributors who pay producers between R1.56 and R2.03 per litre (the 22c per litre decrease in the milk price paid by distributors was not passed on to retailers such as supermarkets). The low cost of importing milk (especially powdered milk) has exacerbated the problem as local farmers are struggling to compete with subsidised legal imports (e.g. UHT milk is duty free) as well as illegal milk imports. Reconstitution technology has improved to the extent it is nearly impossible to tell the difference between "fresh" milk products and those made with powdered milk.

Clem Sunter is a well-known strategic-planning advisor and co-

From left to right: Jeff Every, Clem Sunter and Derrick Broom. Picture courtesy Farmers' Weekly

author of "The mind of a fox" and "Games foxes play". He spoke on the different options facing dairy farmers. Due to globalisation, the world market is far more competitive than it has been in the past. Essentially, the biggest player wins. This is evident in the textile industry, where China's production costs are one tenth that of those in the West and Chinese imports are crippling local textile industries. It is therefore important that dairy farmers assess their situation and adapt their strategies to survive. Options include adding value personally, i.e., moving down the product chain and expanding product ranges. Rebranding milk as a "drink of choice" (i.e., generic advertising) would increase the customer base as would a move to exploit untapped African markets.

Clem stressed the importance of defining what "winning the game" would be for milk producers and then choosing an option with measurable outcomes.

The panel discussion focused on the threat imports are to the future of the KZN dairy industry. Economist and consultant Derick Broom suggested one way of achieving an increased profit margin would be to demand an increase in the milk price to the true producer import parity price. It was agreed that lobbying for an import tariff increase would not meet with success as this is not government or international trade policy.

While a few decisions were made in terms of the way forward, the meeting concluded (as have many similar meetings in the past) without a strong action plan. Many positive suggestions were made but farmers appeared to feel powerless to change their current situation. One was left with the impression that dairy farmers are afraid of change, afraid to take responsibility for their situation and once again they would be waiting for someone else to take up their cause.