Farming a tight turn for tractors

Food prices in SA might have to rise to keep farmers at their ploughs and producing enough to feed the country growing population.

By Shannon Sherry 8 Aug 2011

"Though increased food prices will affect a large proportion of the population, one has to consider that food prices are probably too low at the moment," says Standard Bank agricultural banking director Willie du Plessis.

SA's relatively low food prices, combined with tight margins for primary producers, are becoming unsustainable for farmer in many sectors.

SA has seen food inflation of just 5%-6% over the past year, enjoying the protection from higher world prices provided by huge grain surplus and a strong currency.

In some other countries, by contrast, food inflation has galloped along at record levels of about 30%. In the other Brics countries - Brazil, Russia, India and China - food inflation of 8%-13% has been recorded.

Lower food prices and tight margins contribute to the steady reduction in the ranks of SA's farmers.

"It is critical that producer prices enable farmers to survive, expand and remain profitable," Du Plessis says.

But consumers simply paying higher prices at retail level will not help farmers because it does not necessarily translate int higher producer prices.

Du Plessis identifies the main forces behind rising food prices as insufficient investment in research and development, val chain inefficiencies, infrastructure decay (such as that of SA's rail network) and inadequate government support mechanisms.

He refers to a study a few years ago by wine producers' organisation Vinpro, which found a waiter earns more from servi a bottle of wine than a farmer does from growing the grapes.

The study showed that the average retail price of a 750ml bottle of wine then was R24 - on which the grape producer mad 44c. That bottle in a restaurant - marked up a standard 100% - would go for R48 and a waiter's 10% tip would be R4.80.

Beyond increasing prices and improving efficiencies, Du Plessis says farmers must ensure they benefit from the value ch of their commodities, either by adding value through activities such as processing and packaging or by investing in the bi companies that do.

Co-operatives used to provide farmers with access to the retail value chain, but many of these organisations lapsed almos 20 years ago, says AgriSA deputy president Theo de Jager.

He says small and medium-sized farmers should start co-operatives again to give them access to markets and lower input costs.

Among the farmers hardest hit in SA are dairy farmers, who continually battle against "their declining share of the consum rand", says Du Plessis. In January 2008 milk producers received about 43% of the retail price, but this has fallen to 34%. SA had 30000 dairy farmers in the late 1980s, but this number has declined to 2600 as smaller players have been squeez out.

However, not all farmers are under the whip. Cattle and sheep farmers do reasonably well out of the value chain. In beef t take almost 53% of the net margin (the gross margin minus production costs) and almost 46% in lamb. Retailers take 26% and 30% respectively. Abattoirs take the balance (see graph).

Du Plessis says there are also opportunities for wheat growers. SA is forecast to increase its wheat output by 8% this season but will still need to import about 50% of its requirement for bread and other products.

"Because of our climatic conditions and the requirements for the greater protein content of the imported varieties, SA will always need to import wheat. But there is no reason why we have to import up to 60% of what we need. There appear to b opportunities there for local producers."

Source: Financial Mail

For more, visit: https://www.bizcommunity.com