

Better milk prices fail to stem exodus

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While dairy farmers have benefited from a 20% rise in raw milk prices over the past 12 months, the Milk Producers Organisation says this is not enough to stem the exodus of farmers from the sector.



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The MD of the organisation, Bertus de Jongh, said the number of producers was still declining by about 10% annually, and had fallen from about 12,500 in 1991 to 1,820 at the most recent count.

Increase not enough

He said though producers were "grateful" for the 20% hike in raw milk prices paid by processors, this had not made up for below-inflation increases in recent years. Margins for farmers had improved, though "the biggest relief for milk producers is coming from the lower maize price and not as much from the increase in producer prices".

De Jongh said despite the falling number of producers, the number of dairy cattle had remained stable. This indicated that struggling small farmers were being taken over by larger producers who survived thanks to economies of scale.

Farming sector trend

Representative organisations for other sectors have reported similar trends. A number of small and medium-sized poultry producers have left the industry in the past year, through liquidations or by being swallowed by larger firms.

De Jongh called this "the industrialisation of commercial agriculture". He said while much time and money were being spent on growing the emerging farmer base, these efforts were being stifled by difficult conditions in which economies of scale were necessary.

He predicted an "unreliable supply" of milk this year, as producers had until recently been unable to invest in their operations and grow the supply amid high input costs and falling prices for raw milk in real terms.

Clover results

Clover last week reported a 21% fall in its profit to R189m for the year ended June, which was partly attributed to higher prices paid for raw milk as milk shortages fuelled competition for the product, as well as other input cost increases such as fuel and packaging. These could not be recovered timeously in the market before year-end, it said.

Clover CEO Johann Vorster said Clover's results included about a R50m increase in the cost of raw milk, which could not immediately be passed on to consumers.

Also reflecting difficult economic conditions is the performance of Clover's products, with price-sensitive items such as water and fruit juice under more pressure than others. Among Clover's strongest performers is maas, which it reintroduced in February last year. The fermented milk product is targeted at lower living standards measure consumers, with most sales going to the Free State, KwaZulu-Natal and Mpumalanga, Vorster said.

Maas has a number of uses, including being served with pap, used in baking, as a dip for breads, or as a beverage.

While maas was only included for five months in Clover's 2013 financial year, its volumes jumped 292% in its 2014 financial year ended June.

Clover is introducing higher-margin yoghurt and custard products to its portfolio, while it was also "working on a number of ideas" for new products, Vorster said.

The company is buying DairyBelle's yoghurt and ultra-high-temperature milk businesses.

Source: Business Day

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