

## **DAIRY FARMERS FACE PRICE SQUEEZE**

Milk: Low retail prices and higher costs are making farming 'untenable'

Natal Witness

Monday July 11 2011

Consumers are likely to pay more for dairy products as the milk production cost which have increased sharply in the last four months threaten to derail many dairy farmers in the country, Agricultural Consultants have said.

Allan Penderis of Tammac Consultants said that in the last four months the major production cost in the milk farming business have increased significantly. In particular these are dairy meals which constitute 41% of the cost, fertilizer at 12% of costs, wages at 9% of costs, electricity and diesel which each constitute about 5% of total costs of milk production.

The price of the major inputs being dairy meals and fertilizers, have increased sharply in the last four months. Dairy meal prices have increased by 19%, fertilizers by 16% and diesel by 18%.

"Over the last three years, because the major input costs have remained largely unchanged, it allowed for the retail price of milk to remain the same since the production cost of milk remained much the same. Over the last four months this situation has changed dramatically," said Penderis.

Penderis said while the dairy farming remained profitable, the recent surge in the costs of major farming essentials would have a detrimental effect on dairymen if something is not done quickly to address the situation. "In fact, the increases we see in just the last four months results in a 36% decrease in the net farm income of milk producers."

"Of the three role major role players in the milk chain, the producer, the processor and the retailer, it is only the retailers who set prices."

"If the retailers set low prices so as to be competitive, the processors will in turn set low milk prices for the farmer who in turn only sees his profits decline because he has no other option."

He said the farmer is a price taker on both ends; the dairy processor tells him how much they will pay for his milk, and on the supply side, the producer of dairy inputs tells him how much he must pay for their products.

He said if the situation persisted, there were two kinds of farmers that were likely to drop out of the farming industry. "The inefficient farmer and the farmer with a large debt burden will be at risk should current rising costs not be offset by increased milk prices."

Penderis warned that the retailers needed to increase their prices, and hence what the farmers receive for their milk, because the situation was fast becoming untenable for farmers which would surely lead to a further shortage of milk.

Dr Koos Coetzee, the economist the Milk Producers Organization said because milk was a perishable product, the farmer could not fix their won prices but must accept whatever price the processor is prepared to pay.

Thamsanqa Magubane