



RINUS VAN KLINKEN > DAIRY

With milk prices reducing, we need action to minimise looming crisis

Dairy farmers in southwest Uganda have gone through turbulent times. From ticks developing resistance to acaricides to prolonged droughts, both of which have led to significant loss of cattle. Just when things were starting to stabilise, the price of milk dropped from Shs1,250 per litre in August to Shs600 in October. Not surprisingly, the farmers are confused and angry. But who (or what) is to blame for the 250 per cent drop in milk prices within a period of two months?

That is an important question for all parties in the dairy sector. It is worth noting that dairy price fluctuations is not something new, especially to farmers in the southwest where much of the marketable milk comes from. In the dry season when milk production is low, prices are high, and in the wet season when production is high, prices are low. However, since the beginning of this year, the price has stayed uncharacteristically high during the March to May rainy season. This was in part due to the uneven distribution of rain, which suppressed uniform production across the region.

However, a more significant factor for the high prices was right next door - the Kenyan market. Kenya experienced severe drought, which subsequently affected dairy production. Dairy processors in Uganda increased their exports to Kenya, sustaining relatively high prices for dairy farmers in southwest Uganda. During the July-August dry season, production plummeted, but the demand in Kenya for milk remained high due to the prolonged drought.

Prices reached unprecedented high levels, exceeding Shs1,200 per litre.

Then two things happened: Rain in Southwest Uganda led to increased production and demand from Kenya dropped completely. The obvious conclusion would be that with the coming of the rain in Uganda, Kenya received rainfall as well, which led to a sudden increase in dairy production. While this is true, it was not the primary reason, but a political one. The government of Kenya took the unprecedented step of unilaterally allowing the importation of milk powder from the world market.

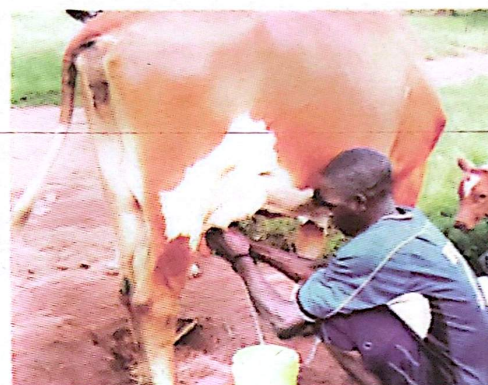
In a gazette notice, milk processors were exempted from paying duty on imported milk powder until July 31 (which was later extended until the end of 2017). What is interesting to note is the contradiction of this seemingly unilateral decision by the Kenyan government.

The East African Community has a common external tariff barrier of 60 per cent on all imported dairy products from the world market that member states are supposed to adhere to. Yet, there seems to be no public record of any consultations between the Kenyan and Ugandan government prior to the lifting of this barrier. What is certain is that with the lifting of the tariff barrier by the Kenyan government, the Uganda dairy sector lost a key market in Kenya, paving way for the world market as the main export outlet where dairy prices are suppressed and dairy farmers cannot compete favourably.

Already, dairy processors are pushing prices



What should be done. The government needs to be concerned about the current dairy prices. The current prices are a disincentive for farmers to invest, which impedes development in the dairy sector. Action is required, but it needs to be more holistic than a simple blame game.



down to as low as Shs600 per litre in order to maintain margins and to maximise profits during the season of plenty.

With the current market price of Shs600 per litre, no dairy farmer will be able to proceed with the commercialisation drive that recently has been on the rise. Farmers are now put pressure on government to intervene.

The easiest target for the government are the processors. By simply raising their price, dairy processors could solve the problem. But whether it is as simple as that, is an open question.

One factor that cannot be overlooked is the fact that Uganda is no longer an island when it comes to milk. Whereas for years Ugandan exports of dairy products were negligible, in the last few years, there has been an exponential growth in dairy exports, initially mainly to Kenya, but increasingly to other parts of the world. Any discussion on milk prices has to take this into account. There are many hurdles between the price, as declared by the processor, and the price that the farmer receives at the farm gate. In addition to having to pay for transport and chilling, farmers also pay for the operational costs of the cooperative societies that are bulking the milk or the profit for the traders, if supplying to traders.

These costs are extra high in the southwest, as many cooperative societies are paying off loans incurred in the purchase of milk coolers. For those farmers that are located far from a milk cooler, or where the relationship with the cooperative society is weak, vendors or transporters levy additional costs. With a declared factory price of Shs600 per litre, some farmers may be getting it at Shs500 at the farm gate, while others at the end of the chain may be only earning Shs300 per litre!

The government needs to be concerned about the current dairy prices. The current prices are a disincentive for farmers to invest, which impedes development in the dairy sector. Action is required, but it needs to be more holistic than a simple blame game. There are plenty of studies worldwide, demonstrating that for a sector to develop, value chain actors need to cooperate rather than see each other as enemies. The government can facilitate that process.

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