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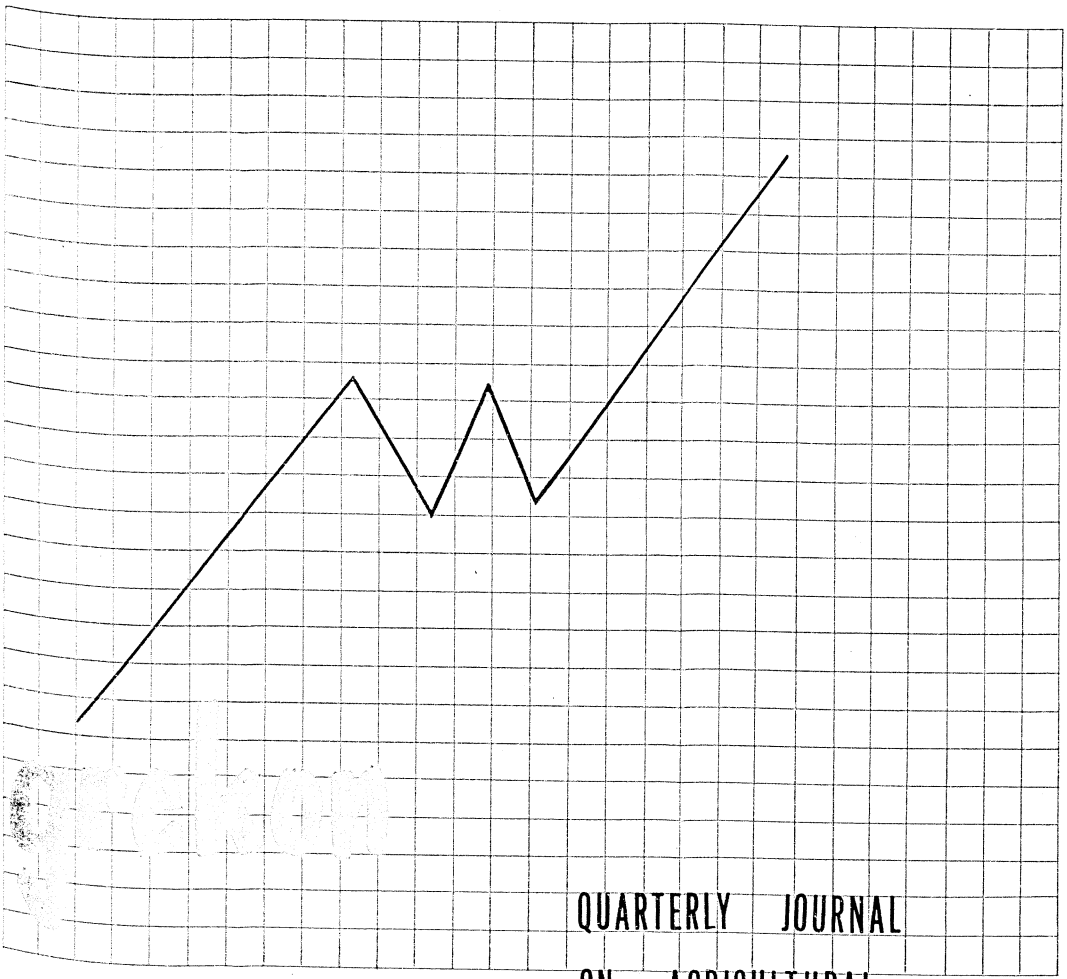

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REQUIREMENTS FOR CONTRIBUTION

Deserving articles in the field of agricultural economics, for publication in this journal, will be welcomed.

These articles should have a maximum length of 10 folio pages (including tables, graphs, etc.), typed in double spacing. All contributions should be submitted in triplicate (preferably in both languages) to the editors, c.o. Department of Agricultural Economics and Marketing, Pretoria, and should be received by the editors at least one month prior to publication date.

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Prices of Dairy Products for the 1963/64 Season

Report prepared by the National Marketing Council

PRICE DETERMINATION DECISIONS OF THE DAIRY BOARD

On the 29th and 30th April, 1964 the Dairy Board reviewed the prices of dairy products for the 1963/64 season, and decided with effect from 1st June 1964 -

1. to increase the basic producers' prices by 3½c per lb. for butterfat and by 13c per 100 lb. for industrial milk;

2. to leave the winter premiums undisturbed; and

3. to increase selling prices by 3c per lb. of butter and 2c per lb. of cheese.

The relative prices are shown in Annexure 1.

PRODUCTION AND CONSUMPTION

The course of production and consumption of butter and cheese, as well as the milk intakes by condensing factories since the 1952/53 season, are shown in Annexure 2. In respect of butter and cheese the position can be summarised as follows:-

Since 1960/61 a marked decrease in the production of butter and cheese, and a marked increase in the consumption, occurred. On the basis of sales, the increases in consumers' prices on the 1st June 1963 (see Annexure 3) would not appear to have affected consumption noticeably.

Due to a substantial reduction in stocks, 2,4 million lb. of cheese had to be imported during 1962/63 at a loss of about R100,000, and recently arrangements had also been made for the importation of a further 2½ million lb. during the current season; an estimated loss of R125,000 will be involved on this transaction. These losses represent about 5c per lb., which is more or less equal to the import duty which the Dairy Board has to pay. Since the end of the 1962/63 season arrangements have been made for the importation of 15 million lb. of butter, of which 12½ million lb. are for the current (1963/64) season. On the first orders for 2.9 million lb. a loss of about 7c per lb. was incurred after payment

	Butter		Cheese	
	Net increase (+) or decrease (-) in:		Net increase (+) or decrease (-) in:	
	Production	Consumption	Production	Consumption
	Million pounds			
1952/53 till 1958/59 (average p.a.)	+ 2.4	+ 2.9	+ 1.2	+ 0.6
1958/59 till 1959/60	+ 8.8	+ 0.8	+ 2.4	+ 0.7
1959/60 till 1960/61	+16.2	- 0.2	+ 5.2	+ 0.8
1960/61 till 1961/62	- 5.6	+ 5.4	- 3.0	+ 2.5
1961/62 till 1962/63	- 6.7	+ 6.6	- 2.2	+ 1.9
1962/63 till 1963/64 (1963/64 estimated)	- 4.8	+ 4.0	- 1.1	+ 1.3

of import duty of 1.65c per lb. On the further importations it is expected that a small profit will probably be shown.

During the past (1962/63) season the consumption of condensed milk products increased appreciably, and a substantial increase in the intakes of condensing factories was experienced. For some years now large quantities of skimmed - milk powder have had to be imported, whilst in the case of condensed milk and full milk powder it is only possible to satisfy the demand by importing baby foods, which would otherwise have to be manufactured from the industrial milk intakes.

PRICES

The prices of dairy products for each year since 1952, calculated for the full year on the basis of the prices effective during June of each year, are shown in Annexure 3.

The prices of butterfat and industrial milk were reduced by 6c per lb. butterfat and 24c per 100 lb. milk during the period November 1960 to December 1961. Compared therewith, the average prices till November 1963 were increased by 2½c per lb. for butterfat and 17c per 100 lb. for industrial milk. During the period 1st March to 31st May 1964, dairy products also received, by way of an interim arrangement, a special premium of 1½c per pound for butterfat and 3c per 100 pound industrial milk. According to the proposals of the Dairy Board, the average prices, calculated over a full year from 1st June 1964, will be further increased by 3½c per pound for butterfat and 13c per 100 pound for industrial milk - this includes the special premium which has been incorporated in the present proposed prices.

PROCESSING AND MARKETING COSTS

The manufacturers' margins for the 1963/64 season have been calculated on the same basis as that applied in the past, with the exception that provision has now been made by the Board for an allowance for interest on working capital at the rate of 9 per cent, as against 8½ per cent in the September 1963 estimates. The present estimates for processing and marketing costs show an increase of about 0.18c per pound on butter and a decrease of 0.10c per pound on cheese when compared with those of September 1963.

STABILISATION FUND

The balance in the Stabilisation Fund at the end of the 1962/63 season is estimated at R3,305,000. On the basis of the proposals made by the Dairy Board in regard to prices, it is estimated that at the end of the 1963/64 season the fund will show a credit balance of about R5,012,000.

GOVERNMENT SUBSIDY

The subsidy approved by the Government for the 1963/64 dairy season is as follows:-

1. A fixed amount of R4,530,600 on local sales; plus

2. a conditional liability of the Treasury in the event of an under-estimate of the manufacturers' margin on butter.

As regards (2), the conditional liability of the Treasury is limited to the amount of 0.125c per pound. For this purpose an amount of R100,000 has been provided in the 1963/64 estimates for subsidies.

VIEWS OF THE DAIRY BOARD

The Dairy Board points out that strong representations had been made to the board for substantial price increases, to enable producers to continue with dairy farming and to revive interest in the industry. Representatives of the Commodity Committee for Industrial Milk of the South African Agricultural Union requested an increase of 20c per 100 pound for industrial milk and 5c per pound for butterfat.

Since December 1961, when prices of dairy products were reduced, production declined appreciably whilst consumption increased steadily. These tendencies resulted in a further accentuation of shortages in the industry during the current season.

The present position in the industry can be attributed to the combined impact on the industry of drought conditions and the relatively unremunerative prices. The Board draws attention to the severe drought which has been experienced since December 1963 and which has adversely affected the position; but it considers it doubtful whether the present demand could have been met even if the season had been fairly normal. Statistics at the disposal of the Board show a marked decline, especially during the first quarter of 1964, in the number of producers supplying cream and to a lesser extent also in the number of those supplying milk. The production per producer dropped appreciably for both cream and milk. Under present world conditions, and the limited sources from which supplies can be drawn, it is essential that the Republic becomes self-sufficient again as soon as possible.

In the light of these circumstances, the Board unanimously decided that prices should be increased. The problem was only by how much prices could reasonably be increased to stimulate production, without affecting consumption adversely. It was generally felt, and also evident from the reactions of the producers, that the special premiums of 1½c per pound butterfat and 3c per 100 pound industrial milk, which the Board has been paying from its stabilisation fund since 1st March 1964, were insufficient to have the desired affect.

Because the consumption of butter has such an important effect on the economy of the dairy industry, the Board was particularly concerned as regards the effect which a further increase in the price of butter might have on consumption. As the price of butterfat is already high in relation to that of cheese milk, and it was doubtful whether it could face a further increase, the price of butter has largely become the determining factor in the price of cheese milk. With an increase of 2c per pound for butter, cheese milk could only be increased by 8c per 100 pound which represents a mere 5c increase in the present price. It is felt that an increase of 5c per 100 pound for industrial milk, as compared with 20c per 100 lb. for fresh milk, which has been approved for Natal, will not have the desired effect on production. The Board, therefore, considers it necessary to increase the price of butter by 3c per pound, which will thus enable an increase of 13c per 100 pounds in the price of industrial milk - 10c more than the present price; The corresponding increase in price for butterfat will then be 3½c per pound - 2c more than the ruling price.

It is not anticipated that the proposed increase in the price of butter will affect sales of butter to the more well-to-do section of the community to any marked extent. The lowering of prices in 1961, however, brought about an appreciable increase in the consumption of the lower grades of butter, and an increase in prices now might have the opposite effect. In view of the present shortage of butter it is, however, no longer possible to meet the demand for the lower grades. When the price of butter was increased by 2c per pound in June 1963, the price of butter, sold under the Board's Eat More Butter Scheme in the Bantu townships, was not increased. The difference in price is at present 5c per pound and is financed out of the Board's Stabilisation fund. This resulted in black-market operations, and the Board has therefore decided to reduce the difference once more to 3c per pound. The price of butter under this scheme will therefore be increased by 5c.

The Dairy Board requests that favourable consideration be given to the suggestion that the Government subsidises part of the proposed increase in the price of butter. The Board is of the opinion that in present circumstances of rising

prices, and inflationary tendencies, such action would be to the advantage of the industry and of the population generally.

An increase of 1½c per pound on cheese would be sufficient to cover the proposed increase in cheese-milk prices. In practice, however, the increase will probably be 2c as the retail trade does not operate in half cents. The price of cheese will therefore be increased by 2c, and the extra ½c per pound will be for the credit of the Stabilisation Fund. As cheese is not sold in pound units like butter, price does not have an equally important effect on consumption.

As far as the manufacturers' margin is concerned, the Board decided in August 1963 to increase the return on working capital from 7½ per cent to 9 per cent. The Board felt that, as in the case of fixed capital, an allowance of 10 per cent on working capital would probably be warranted. The Board, however, decided to await the results of a cost investigation which has just been completed, in order to obtain clarity as regards the concealed benefits the industry might derive - and which had not been taken into account in the calculation of the margin. The Minister accepted an allowance of 8½ per cent on the understanding that the Dairy Board's resolution would be reviewed when the results of the cost investigation became available.

At the recent meeting of the Dairy Board the manufacturers made representations for a simplification of the procedure in calculating the margins, by taking into account all costs incurred and all revenue earned and then determining the remuneration on capital at an appropriate level. Although this proposal has certain definite advantages, it would require further consideration before it can be adopted. The Board accordingly decided to hold the matter over for consideration at its meeting during July 1964, with a view to possibly applying a different method during the 1964/65 season.

The most recent cost investigation, covering the 1962/63 season, shows that the over-allowances in the margin exceed the under-allowances by .021 cent per pound in the case of butter and .010 cent in the case of cheese. Compared with these, an increase of one per cent in the allowance in the remuneration on working capital represents about .05 cent and .07 cent per lb. for butter and cheese respectively. In the light of these figures the Dairy Board is of the opinion that an allowance of 9 per cent for interest on working capital, by way of an interim arrangement, is justified. The Control Board accordingly now confirms its previous resolution to allow in the interim 9 per cent for both the 1962/63 and 1963/64 seasons. As far as the 1962/63 season is concerned, it will make no difference in the case of cheese, since a small surplus was shown by the factories and no refund is therefore necessary. In the case of creameries the refund from the Contingency Fund will be increased from .086 to .110 cent per pound.

As regards the Stabilisation Fund, the Dairy Board considers it imperative to strengthen the fund to a level which would enable it to adsorb possible shocks in the industry, and for this purpose to avail itself of the present favourable conditions in the economy of the country. With a strong Stabilisation Fund it will also be possible to render assistance to producers in times of drought by way of specially increased prices. It will, however, be necessary to adjust producers' prices more expeditiously when climatic conditions become favourable again.

VIEWS OF THE MARKETING COUNCIL

The Marketing Council wishes to point out that the drought conditions, particularly since December 1963, undoubtedly contributed to the present unfavourable and unsound state of affairs in the dairy industry. Consequently it is necessary to proceed cautiously, in order to ensure that the price structure

in the dairy industry is not raised unduly on the basis of circumstances which are of temporary nature.

In view of the necessity that steps should be taken to relieve the serious position at present prevailing in the industry, the Marketing Council supports the price proposals submitted by the Dairy Board. The Marketing Council, however, desires to emphasise that producers' prices must be adjusted timeously when climatic conditions once more become favourable and when supply and demand would justify such action. The proposals of the Dairy Board in respect of the margins for manufacturers also seem reasonable, and the Marketing Council recommends approval thereof by the Minister.

THE "DIRTI FIVE" AND THE "SIX M's"

An indication of the extent to which farming is becoming a business undertaking is contained in the fact that the modern farmer is increasingly making use of certain economic terms, previously known only to industry and trade.

Thus, the farmer has always known (and respected) "working" costs, but "overheads" was a mysterious word to the majority of farmers in the past.

However, no farmer can be an efficient manager without keeping constantly in mind the five letters D.I.R.T.I. - referring, of course, to depreciation, interest, repairs, taxes and insurance.

Similarly, the "Six M's" are slowly but surely creeping up on the farmer. Because what used to be "essentials for economic development" in the past in respect of mining, industry and trade only, is now becoming equally essential in respect of farming: Money, materials, machinery, manpower, markets and management.

(Submitted anonymously).

ALL-RISK CROP INSURANCE: EMPHASIS ON EXPANSION

Expansion of this service to farmers in the U.S.A. is now being given primary consideration. This is a major shift in emphasis after a period of experimenting on a limited basis with the primary aim to develop a sound basis for providing all-risk insurance of farm crops, which could be expected over a representative period of years to result in premiums paid by farmers balancing with the insurance indemnities paid to them. This is the objective of the legislation providing for the development of this basic farm insurance which otherwise would not be available.

Attesting to the fact that all-risk insurance can be offered and operated on the basis contemplated by the legislation are the five consecutive years in which premiums have exceeded indemnities, and the cumulative loss experience for the 1948-61 period during which only 94 cents of each premium dollar was required to pay indemnities.

- Federal Crop Ins. Corp.: Annual Report for 1962.

RULING AND PROPOSED PRICES FOR DAIRY PRODUCTS: 1963/64 SEASON

	Ruling	Proposals by the Dairy Board as supported by the Marketing Council
Producers' prices		
Basic price for butterfat - per pound	31.5c	35.0c
Winter premiums - per pound	June and October: 3c July/September : 5c	June and October: 3c July/September : 5c
Average winter premiums for year - per pound	1.4c	1.4c
Special premiums - per pound	March/May 1964: 1.5c	-
Basic price for cheese milk - per 100 pounds	150c	163c
Winter premiums - per 100 pounds	June and October: 15c July/September: : 25c	June and October: 15c July/September : 25c
Average winter premiums for year - per 100 pounds	8.1c	8.1c
Special premiums per 100 pounds	March/May 1964:3.0c	-
Milk for condensing	Basic price: 10c higher than cheese milk Winter premiums: As for cheese milk Special premiums: As for cheese milk	
Stabilisation Fund - Estimated net contribution 1963/64 Season	According to ruling prices and discontinuation of temporary special premiums from 1st June 1964	According to Dairy Board's proposals as supported by Marketing Council
	R	R
Butter	594,000	911,000
Cheese	413,000	554,000
Milk for condensing	347,000	347,000
	1,354,000	1,812,000
Less Advertising costs	200,000	200,000
	1,154,000	1,612,000
Add Estimated credit balance at 30th September 1963 (after deduction of the Board's share of R121,000 in respect of losses on butter imports during 1962/63)	3,305,000	3,305,000
Allowance for interest	95,000	95,000
Estimated position of fund at the end of the 1963/64 dairy season	4,554,000	5,012,000

PRODUCTION AND CONSUMPTION OF FACTORY BUTTER AND FACTORY CHEESE AND THE INTAKE OF MILK BY MANUFACTURERS OF CONDENSED MILK - REPUBLIC OF SOUTH AFRICA, 1952/53 TO 1963/64

Season (October to September)	Factory butter					Factory cheese					Intake of milk by manufacturers of condensed milk	
	Production[1]	Consumption	Index[2] Production	Index[2] Consumption	Consumption as percentage of production	Production[1]	Consumption	Index[2] Production	Index[2] Consumption	Consumption as percentage of production	Intake	Index[2]
	1,000 lb					1,000 lb					1,000 gallons	
Basis	101,693	95,717	100	100	94	33,879	30,652	100	100	90	30,101	100
1952/53	72,929	71,298	72	74	98	23,169	22,894	68	75	99	21,237	71
1953/54	83,643	76,982	82	80	92	28,172	24,173	83	79	86	27,387	91
1954/55	86,065	81,254	85	85	94	26,663	25,821	79	84	97	21,465	71
1955/56	89,418	83,198	88	87	93	26,862	26,145	79	85	97	24,217	80
1956/57	89,315	85,218	88	89	95	25,469	26,437	75	86	104	23,885	79
1957/58	91,665	86,536	90	90	94	25,897	26,649	76	87	103	26,423	88
1958/59	87,000	88,411	86	92	102	30,249	26,768	89	87	88	29,361	98
1959/60	95,797	89,205	94	93	93	32,650	27,507	96	90	84	28,696	95
1960/61	111,983	89,020	110	93	79	37,832	28,287	112	92	75	29,831	99
1961/62	106,336	94,380	105	99	89	34,833	30,791	103	100	88	28,132	93
1962/63	99,598	100,978	98	105	101	32,580	32,673	96	107	100	31,046	103
1963/64[3]	94,750	105,000	93	110	111	31,500	34,000	93	111	108	32,800	109

1) Including imports from South West Africa and High Commission Territories.
2) Basis - 1959/60 to 1963/64 - 100.
3) Actual figures for 5 months and estimates for 7 months.

PRICES OF DAIRY PRODUCTS

For year from	Producers' prices (calculated over a full year)				Wholesale prices	
	Butter fat[1]	Cheese milk	Condensing milk	Difference between butterfat and cheese milk	Butter	Cheese
	Cents per 100 lb milk				Cents per pound	
June 1952	128	157	165	29	28.3	20.8
June 1953	133	165	174	32	31.3	24.6
June 1954	130	159	169	29	31.3	24.6
June 1955	130	159	169	29	31.3	24.6
June 1956	130	157	167	27	31.3	24.6
June 1957	130	161	173	31	31.3	24.6
June 1958	129	165	177	36	31.3	25.4
June 1959	132	175	185	43	31.3	25.4
June 1960	136	171	181	35	33.3	25.8
June 1961	127	161	171	34	32.5	25.5
June 1962	113	147	157	34	27.5	24.0
June 1963	118	159	169	41	29.5	25.5
November 1963	123	164	174	41	29.5	26.0
March to May 1964[2]	128	167	177	39	29.5	26.0
June 1964[3]	136	177	187	41	32.5	28.0

1) Price of butterfat in calculated on a butterfat content of 3.726 per cent.

2) Includes the special premium of 1½c per lb. butterfat and 3c per 100 lb. industrial milk applicable during this period.

3) According to proposals by the Dairy Board.