

Namibia Dairy Industry October 2023



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1. Background

The Namibian dairy industry plays a significant role in the country's economy, particularly in terms of employment. According to Namibia Agricultural Union (NAU) in 2021, the industry provides jobs for approximately 1500 individuals. Recognizing its importance, the Namibia Industrial Development Policy of 2012 designated the dairy sector as a crucial and strategic component of the nation's food security. Comprising milk-producing cattle farmers who supply their product to Namibia Dairies, the primary distributor of fresh and long-life milk, as well as value-added dairy items and other beverages in Namibia, the dairy industry's impact is substantial. Namibia Dairies offers a diverse range of products, including long-life milk, soft cheeses, yogurts (derived from dairy), traditional fermented dairy products, fruit juices, dairy blends, and carbonated and still mineral water. These items constitute a significant portion of daily consumption for the majority of Namibian households, contributing positively to nutrition. To enhance milk production, the dairy industry relies heavily on animal feed (fodder).

Since 2004, the Namibian dairy industry has been on the verge of extinction due to the influx of cheaper dairy imports from South Africa. To shield the industry, an eight-year Infant Industry Protection (IIP) initiative was implemented, concluding in 2008. Despite this protective measure, the sector struggled to fulfill domestic demand even during the IIP period. The Namibian dairy industry grapples with an array of challenges that have led to low milk production. Currently, a mere 10 farmers persist in supplying milk to Namibia Dairies, marking a significant decline. These formidable obstacles include cheap imported dairy goods, unfavorable exchange rates, escalated feed expenses for cattle, recurring droughts impacting dam water levels—particularly evident at the Hardap Dam—and the adverse repercussions of the COVID-19 pandemic on the economy. The country remains a net importer of dairy products from countries such as South Africa, Zimbabwe, Sweden, Denmark, and Portugal, with the importation of UHT and extended shelf-life milk witnessing substantial growth. In 2022, the dairy industry contributed approximately 0.63% to the nation's food manufacturing sector and accounted for 0.07% of the Gross Domestic Product (GDP), as depicted in figures 1 and 2.

2. Analysis

2.1 Milk Production

According to Namibia Dairies, the country's annual domestic milk consumption requires approximately 38 million liters. However, between 2010 and 2022, Namibia's average yearly milk production amounted to a mere 21 million liters, signaling an evident shortfall in meeting the nation's yearly milk demand. Imports account for roughly 62% of the milk supply, with the remaining 38% sourced locally. Notably, the year 2015 recorded the highest production, totaling about 24.4 million liters, attributed to favorable water levels in the Hardap Dam. It's crucial to highlight that water availability at the Hardap Dam significantly impacts the production of vital dairy feed, such as lucerne, pivotal for optimizing milk quantities.

Since 2019, the local supply of raw milk began to decline due to recurring and devastating droughts. The Namibia Dairy Producers' Association reported a significant drop in raw milk production, plummeting from 21 million liters in 2019 to 17.2 million liters in 2020—a staggering 21% decrease in volume. In 2020, Namibia Dairies invested approximately N\$577 million in milk production, yet no profits were realized. The trend continued into 2021, with milk production remaining stagnant at 17.2 million liters, reflecting the challenges faced by the industry. These hurdles included a reduction in the number of milk-producing cows and diminished animal feed (fodder) supply—critical for milk production enhancement. These setbacks resulted from inadequate rainfall, leading to poor grazing conditions, compounded by the cost escalation in production brought about by the Covid-19 pandemic (figures 3 and 4).

According to Namibia Agricultural Union (NAU), the annual expenditure of the dairy sector on milk production is estimated at N\$1 billion. Alarming is the fact that for three consecutive years—2019, 2020, and 2021—the dairy industry has reported negative revenue. In 2021, a notable 12.3% decline in production value was recorded, highlighting the ongoing challenges confronting the sector.

The fourth quarter agri-review of 2022 revealed a notable development: after a span of stagnant milk prices, producers were met with a welcome increase towards the year's end, a shift seen in the fourth quarter of 2022 with a substantial year-on-year rise of 5.2%. However, the overall milk expenses surged by more than 20% on average for the entirety of 2022. This surge was primarily propelled by heightened costs of fuel and animal feed. A considerable number of dairy farmers downsized their cow herds due to prolonged drought conditions, leading some to even exit the sector altogether. Average production costs surpassed milk price, contributing to a dampened enthusiasm for investment in raw milk production (figure 4). The production of milk also faces potential disruption due to inadequate rainfall. Already, Q1-2023 recorded a milk output of 3.50 million litres, marking an 11.8% decline compared to Q1-2022's 3.96 million litres, signifying a possible overall reduction in total milk production for 2023.

Within the national consumer basket, food maintains a significant prominence, securing the second-largest weight. Between 2010 and 2023, food inflation maintained an average of 6.4%, spiking to an unprecedented 14.6% in March 2023. Data emanating from the Namibia Statistics Agency (NSA) illustrates that overall food inflation in June 2023 settled at 12%, a slight decrease from the previous month's 13%. In contrast, June 2022 witnessed an overall food inflation rate of 7.1%. A particular focus on the milk, cheese, and eggs subcategory reveals a notable surge in annual inflation, escalating to 8.4% in June 2023, compared to 4.2% in June 2022. Over the years, prices for cream, eggs, and baby milk powder have demonstrated a consistent upward trajectory (figure 5).

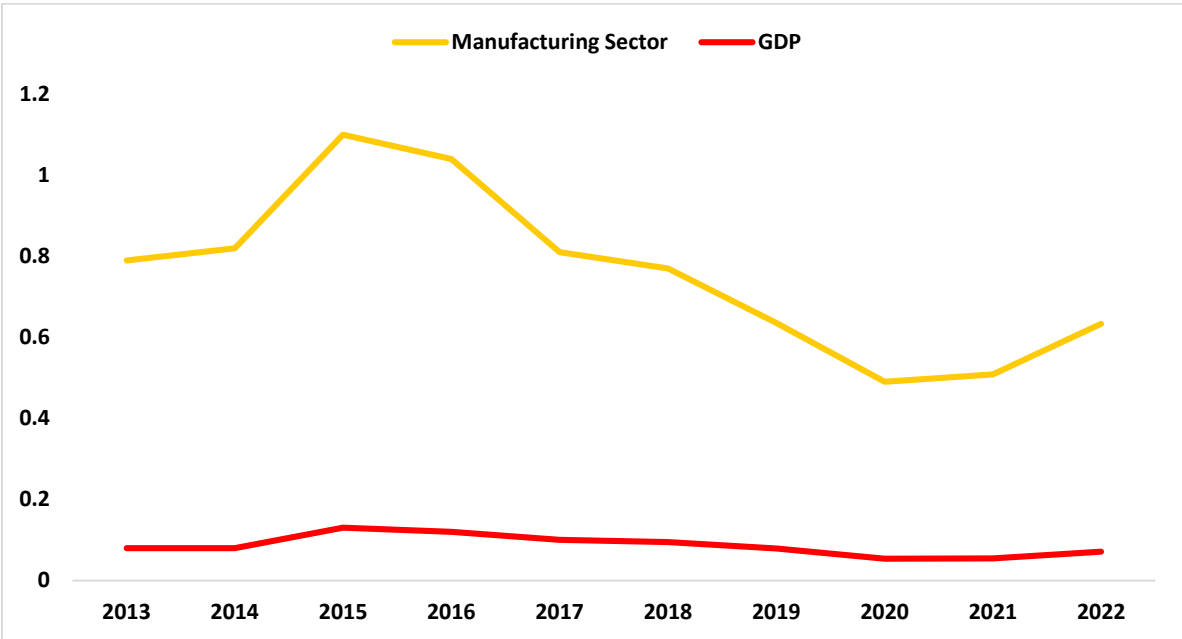
Furthermore, as depicted in figure 6, the data spanning from 2013 to 2022 highlights a noteworthy trend: an elevation in producer prices for dairy products correspondingly translated into heightened inflation rates. This observation depicts a noticeable positive correlation between producer prices and inflation pertaining to dairy products within the context of South Africa throughout the reviewed period. Moreover, in the course of 2022, the producer prices of dairy products experienced a striking surge, soaring to 11.7%, a substantial increase from the 5.2% recorded in 2021. This increase could potentially be attributed to the occurrence of load-shedding days in

South Africa. The imposition of load-shedding, which brought about disruptions in the electricity supply, emerges as a plausible contributing factor that halt dairy farming operations. The ramifications of such power interruptions extended to crucial dairy processes, encompassing the functioning of milking machines, refrigeration units, and other pivotal facets of dairy production. Consequently, dairy farmers encountered formidable challenges in upholding their customary levels of productivity, inevitably leading to escalated expenses as they grappled with managing alternative power sources or mitigating the repercussions arising from these power outages.

2.2 Dairy products imports

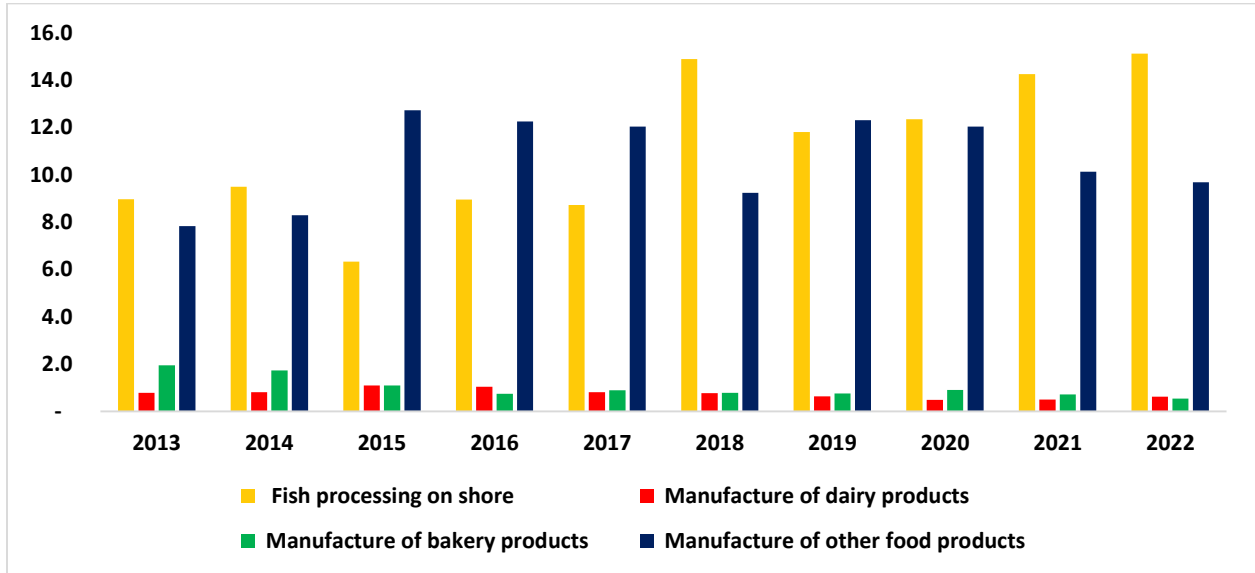
Over the years, Namibia has witnessed a significant increase in the importation of dairy products. Between 2010 and 2022, Namibia’s average annual imports of dairy products amounted to approximately N\$ 5 million (figure 7). During 2022, the total value of imported dairy products surged to about N\$ 476 million with a monthly average of N\$ 39.7 million. The highest value was recorded for the month of September valued at N\$ 61 million while the lowest was recorded in July valued at N\$ 28 million (figure 8). In December 2022, the country imported dairy products valued at 39 million, with the highest value being that of (UHT) long-life milk, unflavored milk and cream without added sugar or other sweetening matter, and yogurt (figure 9).

Figure 1: Dairy products % share to the manufacturing sector and GDP (2013-2022)



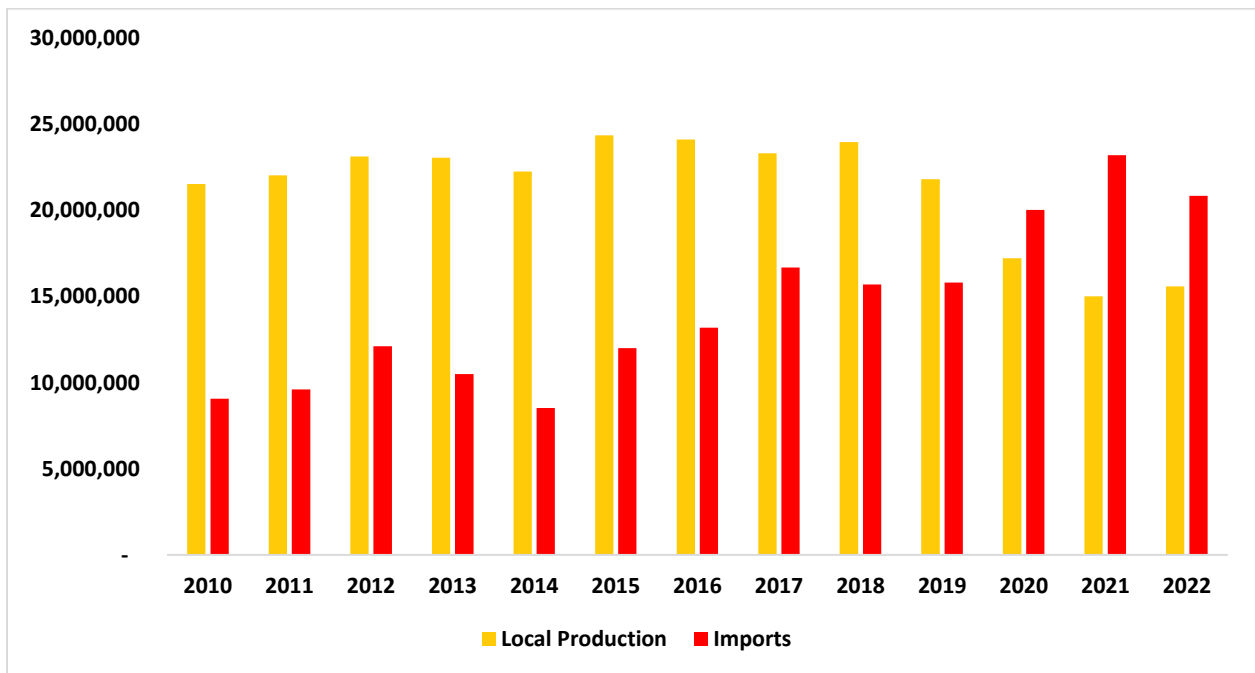
Source: NSA & HEI RESEARCH

Figure 2: Other food products % share to the manufacturing sector (2013-2022)



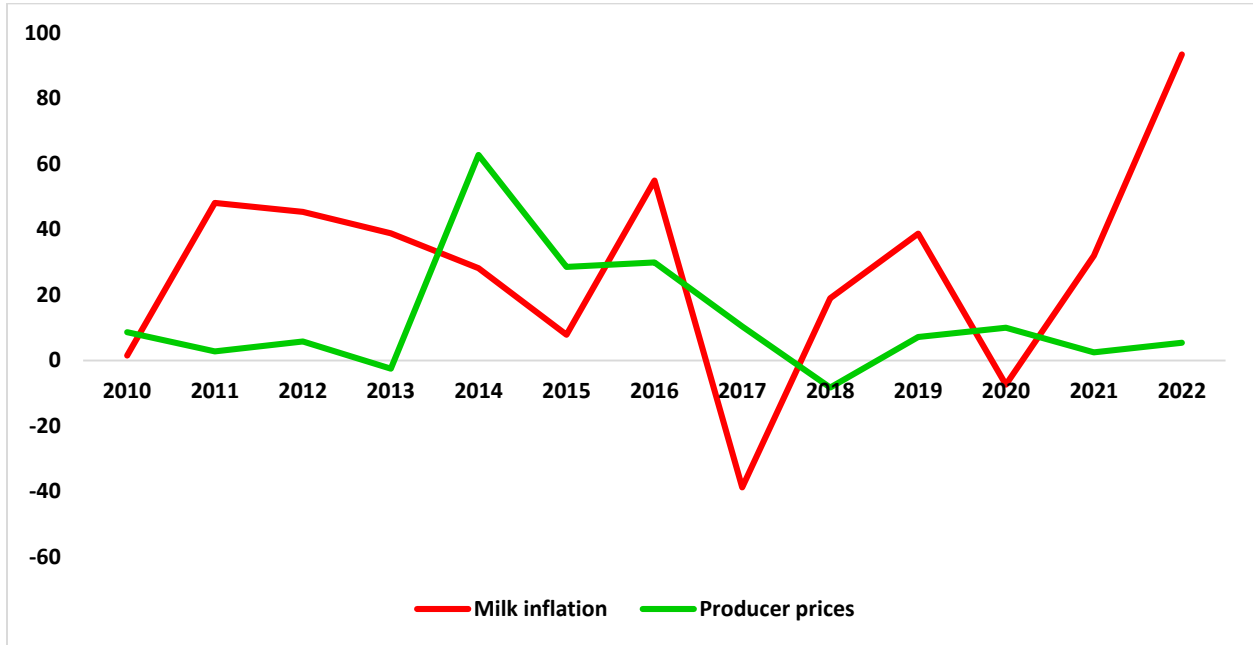
Source: NSA & HEI RESEARCH

Figure 3: Local milk production vs. Milk imports (2010-2022)



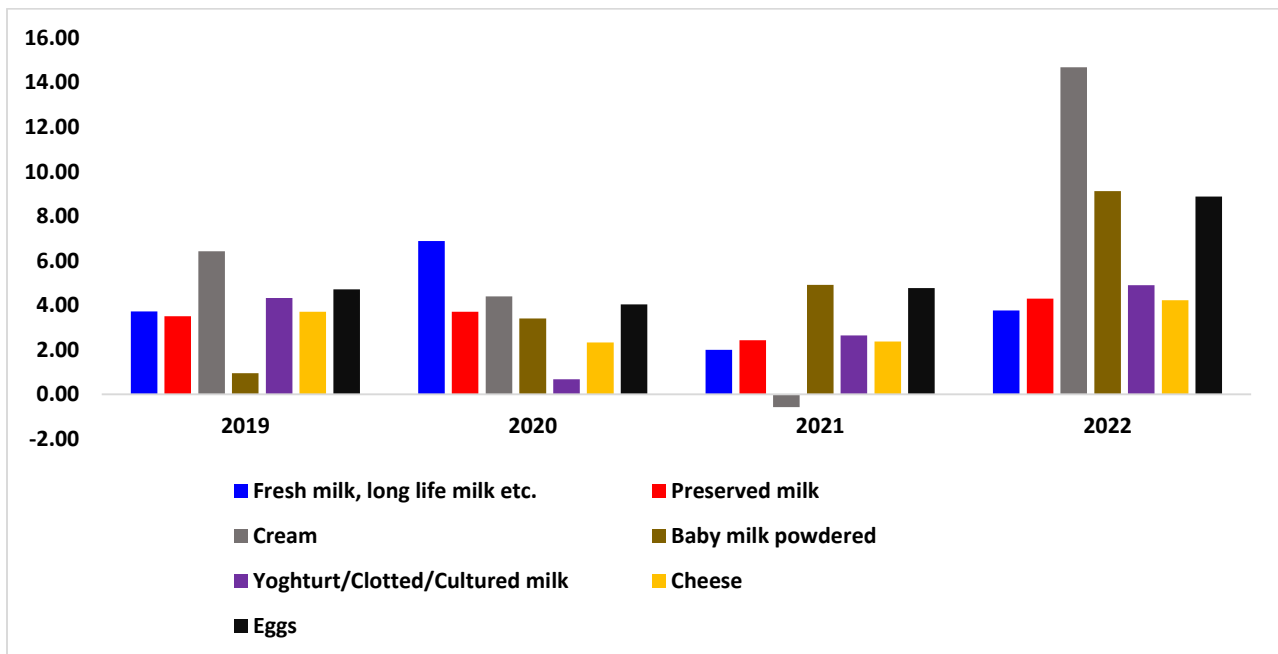
Source: MIT, MAWLR & HEI RESEARCH

Figure 4: Namibia's Milk inflation vs producer milk prices (2010-2022)



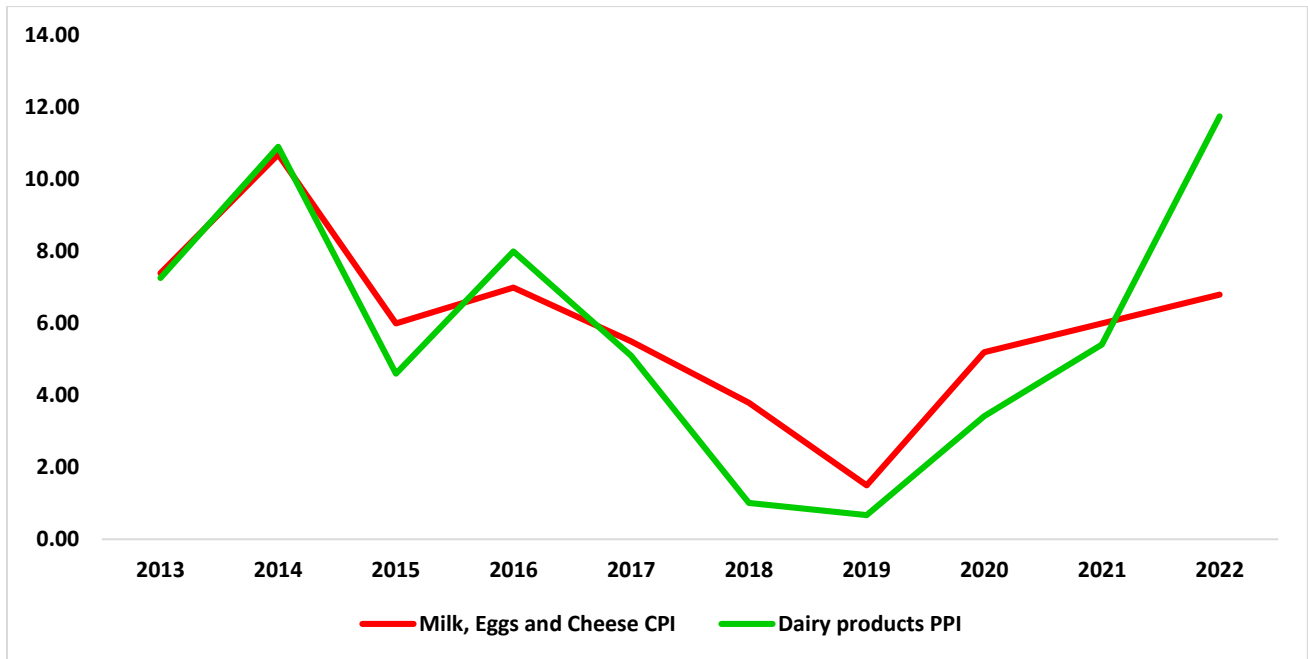
Source: MAWLR & HEI RESEARCH

Figure 5: Namibia's Annual Inflation Rate for Dairy Products, 2019 – 2022



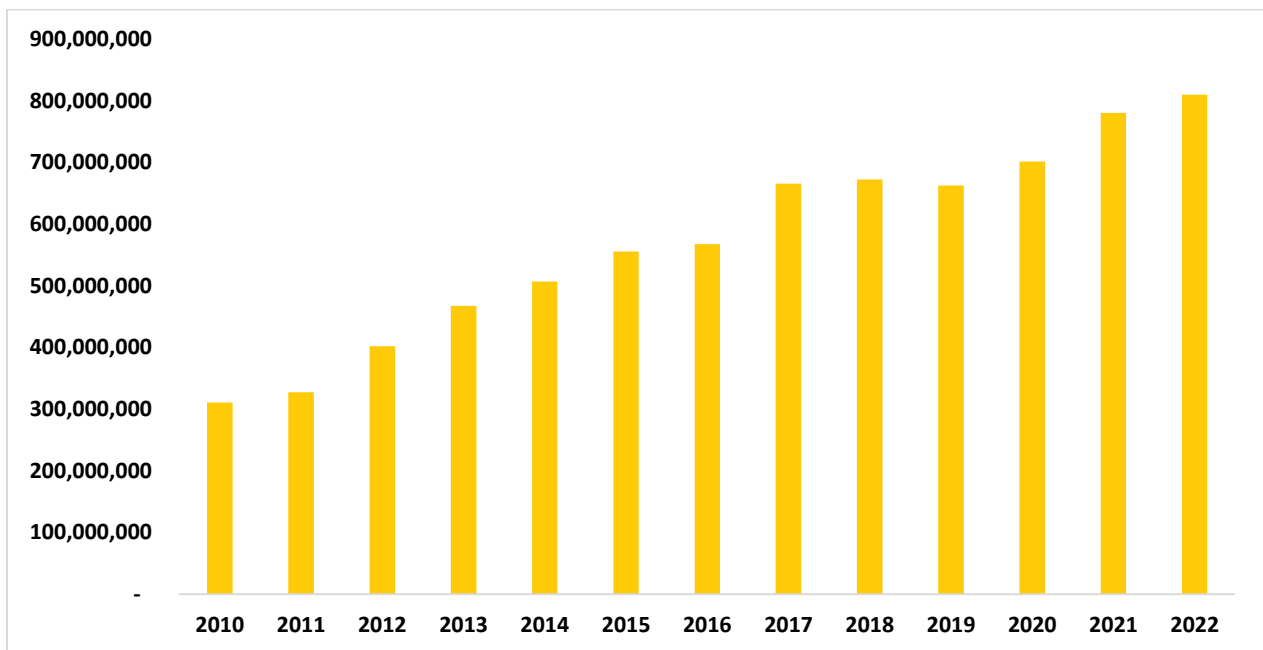
Source: NSA & HEI RESEARCH

Figure 6: South Africa’s Milk, Eggs, and Cheese CPI VS Dairy Products PPI, (2013 – 2022)



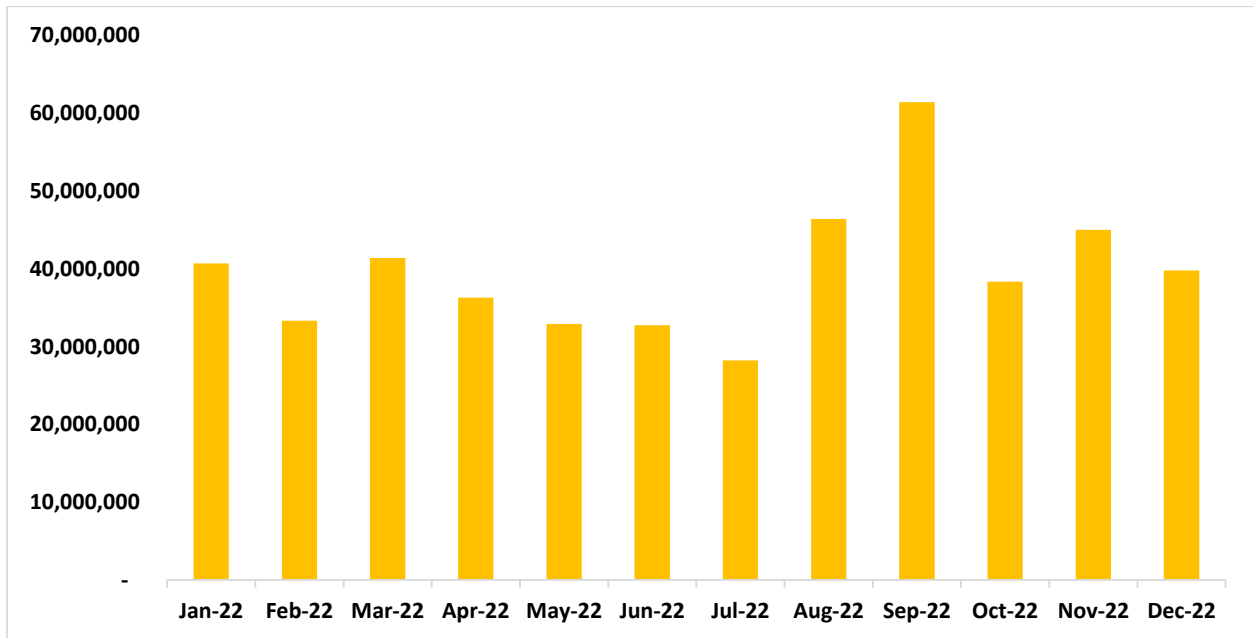
Source: STATSSA & HEI Research

Figure 7: Annual dairy products import value N\$ (2010-2022)



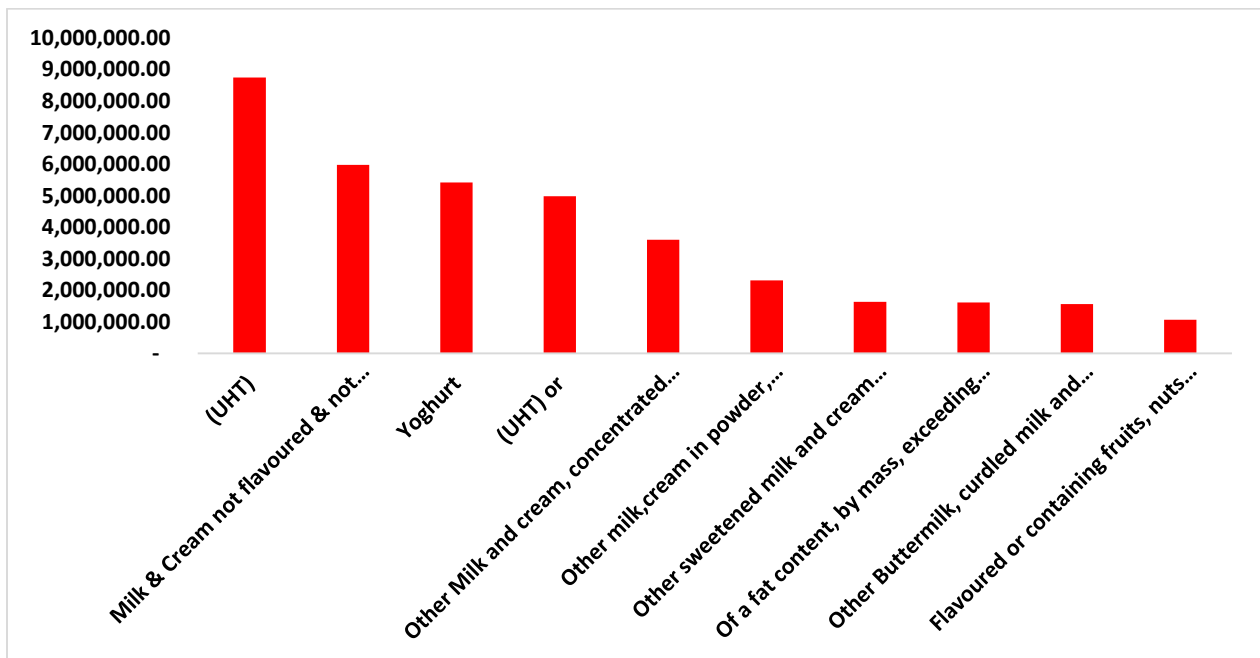
Source: NSA & HEI RESEARCH

Figure 8: Monthly dairy products import N\$ value (2022)



Source: NSA & HEI RESEARCH

Figure 9: Top 10 dairy products imported into Namibia in N\$ (December 2022)



Source: Namibia Statistics Agency & HEI RESEARCH

3. Recommendation

Sectors reliant on net imports often exhibit inherent fragility, rendering them susceptible to external market shocks that disrupt sustainable growth. The prospects for the Namibian dairy industry remain uncertain, given the compounding challenges it confronts. To ensure the industry's viability, it becomes imperative to cultivate a favorable environment or enact interventions that foster economies of scale across various segments of the value chain. This strategic approach is vital as the influx of low-priced imported dairy products undermines the domestic value chain and erodes returns for dairy producers. Furthermore, constrained by a diminished dairy cow herd, local dairy farms struggle to meet substantial milk demands, consequently impairing producers' profit margins.

Realizing a stable local production hinges on multifaceted investments. Vital components encompass research and development initiatives, training endeavors, and the acquisition of knowledge in innovative farming techniques. Concurrently, the establishment of government support systems, robust dairy cooperative networks, diversified feeding sources, and efficient milk processing (cooling) facilities stands paramount in safeguarding industry survival. An integral facet of securing the dairy industry's prosperity entails refining the legislative framework, encompassing strategic policies, standards, and ordinances. This comprehensive strategy collectively addresses the industry's challenges and sets forth a path toward a resilient and thriving dairy sector.