FROM THE DESK

SUB HEAD Transformation at any cost?

All change is painful, but it's generally accepted that without change, growth can't take place. For SAPA and for South Africa, the last two decades have been all about change – a social and economic transformation that should take us forward on a path towards a brighter future for all the country's people. Added to this, changes in global markets, trade agreements, and economic interdependence have necessitated a complete rethink of the way plan and the way we work. This is change for all of us, not just for SAPA. Welcome to the journey.

Transformation

Recent media exposure promoting a beneficiary of the first AGOA Historically Disadvantaged Individuals (HDI) quota left me thinking about the real meaning of transformation in our country. For those who don't know, a newly formed food importing company received a part of the AGOA HDI quota. This company is chaired by family of a former SAPA employee, who serves as CEO of the new company, with the Chairperson the only HDI director, with the remaining three directors also directors of one of the major 'white' non-HDI importer companies.

Patronage is not transformation; all it does is merely redirect existing assets to others. Redistribution is also not patronage, because if it's done properly, careful redistribution can provide the tools for previously marginalised sectors of our society to claim their place in the sun of business success.

Transformation is about creating something new for most South Africans. As we've a racially prescribed past, this requires systems put in place to allow HDIs to develop their innate skills and apply these in the market place. White South Africans, as privileged parties who in the past benefited from a less competitive marketplace with labour supplied by excluded persons, have to assist in this process. They shouldn't expect to profit from the change process directly, but will profit by being part of a growing economy and more stable country.

If white-owned meat importing companies were genuinely interested in transformation, they could've offered their skills, facilities and goodwill to the new HDI importing company without requiring ownership. What's wrong with simply making some space in their warehouses at normal rates, helping with logistics processes, giving some tips on marketing, etc.? How can our government think that extending existing ownership patterns by having a 'partnership' with an existing importer is truly transformational?

Although these comments relate to the less than desirable actions of an existing importer, local producers can also consider how they can act to assist in transformation. Transformation will involve the sweat of HDIs who are given a mountain to climb, with the previously advantaged carrying the water to soothe parched throats. I hope the poor practice mentioned above doesn't continue with the next round of quota allocations, and that there aren't more such cases among the first quota recipients. It seems our struggle hasn't started and that the government we rely on to help with transformation is unclear what transformation really means.

As part of the AGOA deal, the US industry agreed to support some developmental work in the country. This was to be done by the World Poultry Foundation, a charitable arm with seed funding from a project run initially by USAPEEC, the US export body for poultry. The US government made its own commitments as a separate promise. The work of the WPF is unrelated to the assistance USAPEEC is giving to HDI importers who will benefit from AGOA. The WPF visited South Africa in March as part of a fact-finding mission to start the process of determining what it can - and should - do in South Africa. We'll be following up via email and will meet again later this year. Clearly there are many things that can make a difference to the transformation of our poultry industry, and we should try a few activities that can make a difference, rather than many whose outcomes might get lost in the wind.

Organisational matters

Meetings of the Egg Organisation (EO) and the Transformation Committee were held last month. You'll find a summary of these discussions in Charlotte's column. What's worth repeating is that we exist to serve members, need more members to join the EO, and for those who consider themselves as members to pay their dues. It's understood by all that the financial difficulties facing the EO are going to take a while to resolve, and all that's needed now is a demonstration of willingness to see the future more than the past: then a decent way forward awaits us.

We've noticed not all members are actively participating in the new membership fee system of either the broiler or egg organisations. In particular, I'm concerned about a number of the smaller producers. Please note

that in the absence of your full cooperation, you'll be excluded from Congress this year and won't be able to exercise your vote - a vote we need to co-determine our future.
One of the two remaining labour matters was settled last month, with the ex-employee required to ensure that the use of the DPFO name and other assets are returned to us before we can finalise the matter fully. I hope this'll assist the ex-employee in moving on with his career. The last remaining matter has lapsed, and if that ex-employee wants to resuscitate it, he'd need to first seek condonation. Perhaps this matter has also ended?

Parliament

We were fortunate to present to Parliament at the beginning of last month. Andy Crocker from Meadow Feeds, Charlotte and I made up our team at the Portfolio Committee on Agriculture, Forestry and Fisheries, and we all took turns to present. We had a good reception from Parliament and our presentation is available at www.sapoultry.co.za/home/sapa-news.php under the 'From The Desk' section.
Our three main proposals to Parliament are as follows.

- South Africa should develop a government funded, multi-peril, insurance scheme for grain farmers. This'll keep them on the land when droughts come and reduce their production costs as the risk quotient built into production financing can then be reduced. The costs of such a scheme might prove to be less than the ad hoc disaster relief now given and the scheme can intervene quicker than the current approach allows.
- South Africa should develop a strategic grain reserve programme. Doing so would reduce the likelihood of the current white maize price scenario occurring again, with this price currently way higher than the yellow maize price that is roughly at the internationally benchmarked import parity. A strategic reserve would also have a general price-lowering effect for maize users unless a drought is sufficiently severe to exhaust the strategic reserves. The cost of this reserve becomes a national cost and, as all users of maize carry the real cost of drought and therefore all consumers carry that cost as well, there can well be savings for consumers with such an approach.
- VAT should be removed from the various frozen poultry meat products that are the main protein source of the poor. Eggs are already VAT exempt.

We also repeated our plea to DAFF that support for maize farmers should only go to those whose yields were low enough to have truly suffered at the income level. What's so interesting in our analysis of maize revenues over the 2014, 2015 and 2016 marketing years is that the maize industry at the collective level will earn more or less the same over the three years in question: a very good year, followed by a drought year, and then a worse drought year under way. So, an individual white maize farmer who gets a yield of about 45% of his 2014 yield in 2016 will earn as much as he did then. For a yellow maize farmer, the figure is 55% yield equivalence. It's the users of maize who suffer – all of us. It's only some maize farmers who suffer when we have a drought.
Our general submissions remain applicable, namely that:

- Support to maize producers should be clearly targeted and distinguish between drought-related losses and general production-related losses;
- It makes sense to give a drought subsidy to the end user who's effectively financing the additional income of those grain producers who do get to harvest a crop;
- Soya tariffs should be suspended or removed;
- Reducing harbour and rail costs would reduce the SAFEX price of grains;
- Exports of grains should be controlled as an aid to keeping prices as close as possible to export parity levels;
- Actions that actually limit the volumes of poultry imports need to be implemented;
- An index of global average grain prices against which local prices are measured should be developed. South Africa is entitled to use up to R 2,1-billion of trade distorting measures per annum of which we make no use. This might be a sensible way to take advantage of the WTO framework that is available to us;
- A tax concession is allowed against the costs incurred because of the higher grain prices. This can be set using the benchmark mentioned above, and;
- The application by GrainSA for an increase in the reference price of maize - which at current exchange rates would make a complete mockery of the SAFEX system and require us to always pay more than import parity for yellow maize - should be vigorously opposed by government.

Currently we're paying well over R1,000 more per tonne for maize than US users of maize. It's this differential which is leading to the harm we're suffering - and will continue to suffer. In a year such as this, grain prices will always be import parity led. The real harm will be with the users of maize, not the producers, although with the current crop, the maize producers as a collective will also suffer, unlike in the last season.

When it comes to users of maize, expressed collectively (human use, animal feed use and industrial use), we'll be paying more than R12,4-billion extra for our maize in the 2015 versus the 2014 marketing year. All buyers of maize would've felt these price effects more or less equally unless a particular buyer had an unusually successful hedging position on maize prices. So it's the users of maize who are suffering much more than the producers of maize – at the collective level. The R12,4-billion cost difference is calculated using local demand and multiplying by the average price for the season. Comparing the 2015 marketing year with our current estimation of the 2016 marketing year (which can still change quite significantly in either a positive or negative direction), we'll have to pay an additional R9,7-billion for the maize we need. So, over a two-year period the users of maize will have paid an additional R22-billion and the producers of maize will have lost almost nothing at the collective level.

The effect of the current drought-related pricing on chicken meat and egg production cost can be calculated using a simple feed model where we look at the change in production cost as a result of the current maize and soya oil cake prices. This model compares the good year (2014) versus the very bad year (2016) and which is a forecasted year as opposed to an actual data year.

It's costing us an additional R3.60 in feed cost per live bird and an additional R1.65 per dozen eggs between the two periods mentioned above. Add to this the effects of greater storage costs for feed ingredients, transport premiums due to the congested logistical supply chain (about 50c/kg live mass produced), higher labour and electricity costs, and it should be clear that times are tough. The proposed changes in brining regulations would probably add another R3.50/kg to production costs. Taking the meat and egg industries together, the drought will cost us more than R4,5-billion extra in feed costs alone - before other cost increases are added. Adding R6-7/kg to chicken prices would simply make it unaffordable for most consumers. If these costs are recovered then it's likely the usual producer to retail margins will be added to consumer cost. These margins vary according to product but adding 35% to the producer cost will give a reasonable estimate of consumer costs as a result of the feed ingredient and other needed price changes.

Trade

Great news is that DAFF have agreed we can provide them with an external expert, at our cost, to help them expedite the export dossiers. We'll hopefully start working on these dossiers in April. Getting the paperwork right is the first of many challenges we'll face before products are shipped, but this is a significant step forward.

There've been some administrative mix-ups by ITAC on the EU Article 16 safeguard matter, which pushed back the timelines we anticipated for the investigation. None of the comments made so far by the various stakeholders has raised any major issues of concern for us, but I suppose it's not what we think but what ITAC thinks that counts. Realistically, we don't expect this matter to be finalised for a few months more.

We continue to prepare to challenge the weakening of standards agreed to between SA and the USA as part of the AGOA deal. Having seen pictures of the imported product, it's safe to say that its physical quality is not good, let alone its microbiological quality, and its possible HPAI transmission risk. President Obama has removed the threat of suspension of duty-free treatment placed against us for all agricultural exports. We can of course be subject to an out of cycle review at any time that US interests deem it useful to their causes. So the nervous use of AGOA benefits will continue.

There's been no further news on the GrainSA application for an increase in the maize tariff but we're watching this very closely.

Brining

There's been no further communication from DAFF on the brining matter although we've provided all documents that we committed to supply in our follow up letter to the stakeholder meeting of 27 January. We've requested a meeting with the Minister to see if we can expedite the resolution of the matter in a way that allows common sense to prevail. I don't believe DAFF really wants to defend itself in court over these regulations. We have at last received the raw data from the research trials done on behalf of DAFF. At this stage of the analysis, the determinations of the thesis they seem to rely on aren't supported by the data available. In our view, there are problems with the design, the analysis and the interpretation in this thesis. There's a reason why the null hypothesis is so popular in scientific circles; it provides good results. Here the student and her supervisors seem to have decided that the opposite approach is better.

General

Our auditors have given us a clean audit again, and we hope you're pleased to know that your money is being used responsibly.
The triennial AFMA Forum was held last month at Sun City with well over 500 delegates present - the most ever - and with a wide-ranging speaker programme. Good to see that our feed industry is succeeding with a range of important initiatives from which we'll benefit.
The first 2016 bilateral meeting between SAPA and the University of Pretoria relating to the joint management of the Chair in Poultry Production and Health took place last month. Professor Celia Abolnik continues to perform well as a scientist and as someone whose team is delivering good quality research that's applicable to the needs of the local industry. Please continue to support her in this worthwhile cause.
I presented an overview of the local industry to an Austrian meat marketing group who were visiting our country. Compared to many European countries, we have a larger population and a much higher chicken meat intake, so the scale of our industry is interesting to these visitors. Now if I could only say the same about our egg industry.
BFAP have been tasked by the Maize Forum Steering Committee to investigate the effect of land reform on food security. They've also been tasked to assist Minister Pravin Gordhan with data that can reduce the risk of a credit downgrade for South Africa. I've been helping them with their work on both matters. As I'm sure you're aware, we don't want our country to have to borrow money from the international equivalent of loan sharks.
Preparations for Avi Africa continue and we encourage you to register now and enjoy the benefits of discounted registration fees. The programme is largely finalised and is on our website for those interested in the speaker programme. I hope to see you there in June.

Regards until next month,
Kevin Lovell,
CEO.