

FROM THE DESK

SUB HEAD Frosty brining relations, maize price wars, and SA goes global

Many of you will be reading this at Avi Africa. For those so doing, welcome to the AGMs, conference and exhibition. For those reading this at home or the office, I hope next year you'll be able to join us. Each year, we try improving the delegate experience. This year, we've planned two seminars on topics of great interest. We're also working hard at giving the conference theme - 'better together as partners' - real meaning for all delegates. Please let us know what we can do next year to make your attendance even more worthwhile for you.

Brining

I've been with SAPA for almost ten years, and in that time we've done our best to work with DAFF as partners. So it greatly saddens me to say that by the time you read this, we'll be locked in a legal battle with DAFF on the recently gazetted brining regulations. As our lawyers explained, DAFF left no more room for negotiation on the subject; only a Court can undo what they wrought on the industry and on consumers. I hope this dispute can be conducted in a professional manner, on the facts, and that a more sensible set of regulations will result from the legal process.

You might wonder how we got to this point. The industry, including all major players, agreed on some key points a good few years ago. These were that brining of portions should be regulated; that a cap on the level of brining is an acceptable way to do this - and all major local producer parties agreed to the 25% level SAPA proposed; that there should be technically valid measurement techniques coupled to a permanent full-time monitoring system, done by an independent third party, for which the industry is prepared to pay; that the regulations should apply to all parties, including importers and those who rework - thaw, inject and refreeze - chicken; and that definitions and some other clauses should be updated so there's as little overlap as possible with other government departments' laws and regulations.

Our primary concerns are that the regulations are technically invalid, unenforceable and unlawful. DAFF admitted they haven't tested the measurement techniques, and we believe there's no adequate monitoring system in these regulations. DAFF have done no regulatory impact study so they don't know what the effect of these regulations might be on any party. Also, these regulations cannot be realistically applied to imported products or to anyone who further processes chicken, especially if they don't sell the product in the retail sector. In simple terms, these regulations are very poorly drafted.

Consumers are still buying the current product at the current price, so one can't say with complete certainty what the final effect of these regulations will be. What one can say is that there's no consumer body that can truly claim to represent the views of the bulk of South African consumers - the people who buy our products, so voices claiming to speak for consumers have no grounds to do so. Put another way, the fact that consumers love this product should not be discounted by those who think they have the right to tell South Africans what they should or shouldn't eat. There are good existing laws dealing with food safety, and this is not the prime remit of DAFF; it belongs primarily to the Department of Health. The Department of Health said in Parliament that this isn't a health issue but one of quality issue. DAFF have said something similar in the last few weeks. In simple terms, any reader can go to their local discount retailer and buy a fresh braai pack for about R40/kg and, at the same retailer, buy a 2kg bag of mixed portions for about R20/kg. We don't sell brine as though it is meat; we sell brined chicken product at a much lower price compared to meat-only products. We also sell the positive effects of brine, namely that it makes the frozen product have a similar texture to fresh, it tastes better (think rotisserie and fast food chicken), and is much less expensive. This is the single biggest product in South African food retail, and retailers and producers make low margins on this commodity product. This is the peoples' product - priced accordingly. If you're rich, buy something else. And if you are rich, don't force your dietary habits onto others, especially when there's no good reason to do so.

This isn't about safety - or even salt for that matter. Only good labelling that's well understood by consumers can cure deception, and this certainly isn't an abuse of consumers. At the meat level, the current product is the cheapest way for South Africans to buy protein. That should be a good enough reason to not make changes that might well have negative effects.

We disagree with the various responses by people who say these regulations will have no negative effect: they can't know this! Of course, SAPA also can't be 100% sure that things will pan out badly. The point is that the regulations as they currently stand may well have negative effects - and it is possible to regulate brining without exposing producers, retailers and consumers to a risk of major price increases. A low risk solution is possible; these regulations are a high risk one.

I'm unsure how those who claim these regulations will have no negative effect have developed their understanding of the financial effects on the production costs of these products. When the new regulations come into effect, the industry will still be slaughtering the same number of chickens in the same abattoirs with the same number of people. So all processing costs stay the same, with the exception of a reduction in brine cost and a very small saving in freezing cost. So costs have to be allocated over 15% less product coming out the other end. Even if, as some seem to believe, you manage to convince consumers that 1,65kg packs are the same as 2kg packs, costs will go up. If consumers continue to prefer 2kg bags, then the cost of production goes up by about 20%.

It's worth noting that there's no reason why any company couldn't already have changed their production to new levels and smaller pack sizes, as there's no requirement to brine at 30% - and in future, there's no requirement to brine at 15%. Also, there's no fixed requirement to sell product in 2kg bags. If a company thinks it can sell un-brined or lesser-brined products with ease, they can do so now and in the future. Companies who've tried this haven't succeeded to date. Once the regulations are implemented, we'll see how consumers react. If they buy less chicken and we shrink, imports become even more cost competitive and a larger threat to local industry and local jobs, none of which we can afford to lose.

If consumers choose to buy other protein-rich products available in the lower price point market we serve, these are all (with the exception of eggs) a poorer nutritional choice because of their amino acid profile, protein content, fat type and content, or salt levels. In other words, current brined chicken is a good, inexpensive product that's allowed the national diet to improve, especially for those with limited disposable incomes. When we become a richer country, this market will shrink, as people are likely to buy fresh rather than frozen. These regulations are a massive assault on those who can't afford to make such choices yet.

It's important to note that we'll be asking a Court to review all the required parts of the regulations, not only brining level cap. The affidavits of SAPA and DAFF will be in the public domain for those interested in reading more. We believe in the need for regulations, only not these ones. If the State had been more open to expert advice from a range of nutritionists, scientists and economists that we've given them over the last few years, this issue could've been resolved years ago; after all, we asked for the regulations to be updated in 2006. Ten years later it finally happens - and happens wrongly.

This is clearly an important media story and industry matter, which is why I presented to the National Press Club last month on the issues at hand. We're able to help all members with advice on how best to present your respective positions on the matter if you want such advice.

Maize tariffs

Grain SA have, once again, withdrawn their application to increase the US\$-based reference price of maize. Had ITAC granted the application, we would've been doomed. The current price of yellow maize, less than what it would have been if the GrainSA application had succeeded, has already forced some egg farmers to depopulate earlier or not place pullets for the next cycle. While this will initially be compensated for by an increase in the egg price, it isn't a long-term solution. For broiler producers, such an option is more difficult as the more they down-place, the more imports come in - and their financial woes worsen. These woes are real as can be seen by the latest round of results or SENS announcements relating to pending results.

Just as we thought that we needn't worry about the attempts by GrainSA to punish their customers anymore, ITAC announce they're to review the US\$-based reference prices for maize, wheat and sugar. Now why all three industry measures are being reviewed at the same time is a bit hard to understand, but perhaps ITAC are seeking a better justification for the appropriate support tools to use. It's common cause with GrainSA and us that most maize farmers can make a profit at export parity price levels i.e. a tariff is not needed, but support for farming constraints might be. When it comes to wheat, the picture is less certain. Without some kind of support, wheat farmers in South Africa cannot survive. Giving them a tariff of some sort doesn't in itself solve all their issues, as without new cultivars better adapted to local conditions being developed, their competitiveness will always be poor. In the case of sugar the fact that this industry has been governed by its own Act for many years speaks to the distorted nature of the global market and our need to intervene. Hopefully the outcome will be a fairer system for all three commodities. I find it strange that the maize industry, as represented by GrainSA, seems to be uncomfortable with the fact that we're a major customer of theirs: they don't grow maize to fill a silo, they grow it to sell to us. We've a vested interest in their sustainability at export parity price levels and would be more than willing to support any sensible actions that lead to lower production costs, as long as these don't artificially increase the price of the product.

Egg Organisation

You'll hopefully have heard by now that the egg producers have managed to find a plan that they believe can rescue them from their current financial difficulties as an organisation. Now to make it happen. Charlotte has a busy time ahead of her and all volunteers who can help get the Egg Organisation (EO) back on its feet are welcome to call her and offer their practical support. At least we'll be able to continue with the Galliova awards, a competition that has given the egg industry of South Africa very good publicity over the last 25 years or so.

The Broiler Organisation (BO) held a special telephonic meeting prior to the special egg producers meeting to see how they could help. The EO and the BO agreed that it wouldn't be in the interests of the broader poultry industry for the EO to fail. Support as needed will be offered. Thank you to the BO for this willingness to involve themselves in the broader interests of the poultry industry.

OIE

On behalf of the IEC I attended the general session meeting of the OIE. After writing this letter but before publication, I'll be attending the Animal Welfare Working Group meeting of the OIE where I'll be carrying a torch for meat and eggs - and in fact all species, as this small group sets the framework for animal welfare for the world. Although I do this at the request of the IEC, there's a considerable benefit to local producers of both chicken meat and eggs. The world is not Europe, even if much of what we understand about humanity is still driven by European philosophy. The issue of water bath stunning of poultry, where the current OIE standard that's driven by European interpretations doesn't allow for the practicalities of production in most parts of the world, will take some further work before a compromise that can be acceptable to most parties will be found. More on this in my next letter.

At the OIE general session, the issue of antimicrobial resistance (AMR) took up a fair amount of time. There's a joint project with the FAO, Codex Alimentarius, the WHO and the OIE to develop solutions to this problem. As many of you are aware, our industry uses antimicrobials of different sorts - ionophores that are not used in human medicine at all with no carry through of resistance to humans; true antibiotics that are used exclusively in animals which have little, if any, carry through to humans; and antibiotics that are used in both human and animal medicine where the possibility for animal use creating potential human use problems is a real risk. From a tonnage perspective, most of the use in our industries is of antimicrobial classes that have no human link but may have an impact on animal production. We should be concerned about the effects of AMR in both animal and human terms. As DAFF are required to come up with a plan in terms of this joint strategy, we'll be asking you for assistance in the next few months.

Trade

Our first dossier required for export purposes - for Saudi Arabia - has been completed, and we hope that it'll shortly be delivered to the Saudi authorities. Our DAFF approved consultant completed this dossier, and it's such a relief to know that we can expedite the DAFF processes by assisting with their staffing constraints. I hope you acknowledge that we have a good national veterinary service - even if it is understaffed. Of course, the dossier on its own will not open up the market, so with assistance from the dti and another consultant, we're considering what we believe will resolve any issues presented to us by the Saudi authorities. Our Export Forum Committee that met last month discussed this in some detail. If there are any producers who have an interest in exporting and would like to be more involved in the work we're doing, please contact me directly. There'll be oral representations made to ITAC by various parties in June and July on the EU safeguard application. That means that it's unlikely ITAC can make a decision before their meeting in July, so our goal is to do whatever's possible for that to happen at that meeting. Unfortunately for us, ITAC must be extremely careful that it has followed all its required administrative procedures so that it's harder for their actions to be challenged on procedural grounds. When it comes to the substance of our case, the recent results announced - or indicated - give credence to our position. We hope ITAC sees it that way as well.

General

Last month I mentioned that we're working with the NAMC to try understand what's gone wrong with the price reporting of chicken meat products as we don't believe in the accuracy of the data being issued publicly. Using a service that collects all the promotion pricing data from around the country, it's clear that prices of frozen mixed portion products haven't moved much in the last while, and so the public data is a problem that remains to be solved. As AMIE and others are misusing this incorrect information being released by StatsSA, it's important to correct it, whatever the problem may be. Since we haven't seen any problems with the data until recently, it's baffling as to what's changed. Thankfully the NAMC are working on this and it should be resolved in due course.

We met with an agency last month that could help us with our planned social media campaign. If one can't track conversations on social media, it's easy to end up chasing a story rather than leading one. Of course, this means more time must be found to develop and follow social media, and we look forward to the BO determining its needs so that we can plan better.

Regards until next month,
Kevin Lovell,
CEO.