

FROM THE DESK

SUB HEAD Imports, exports, trade and maize.

The drought continues and the second Crop Estimates Committee report estimates a harvest of about 7,2 million tonnes. We're still of the view that the harvest is more likely to be around 6,7 million tonnes. Whatever the final harvest is going to be, the level of imports will be higher than we've needed for many years, and with the white maize GMO issue not yet resolved, it's still possible white maize will run out before the next harvest is in. Last minute white maize imports, if supplies are found, will probably lead to logistical problems for yellow maize imports. It'll be prudent to ensure that you have a buffer of yellow maize in your feed pipelines.

We've been keeping DAFF informed as to the effects of the drought on our industry, and presented to the Parliamentary Portfolio Committee on Agriculture at the beginning of March. If you go to the Parliamentary Monitoring Group website, you'll find our presentation as well as those of the pork and beef industries. What's of interest is that the net income to the maize industry for 2014 (which was a good year), 2015 (the first drought season), and the expected 2016 income are all more or less the same. There's a short period of the 2015 marketing season to go and the 2016 marketing year has yet to start, so the 2015 estimate might change slightly and the 2016 estimate considerably. What this means is that a white maize farmer who planted the same area in 2014 as he did in 2016 needs to get about 45% of his crop to be on an equal income footing. For yellow maize farmers, the yield required for equivalent income is about 55%. Many maize farmers have done reasonably well in 2015 and will do reasonably well in 2016; some will do very badly. We hope the State is able to distinguish those in need from those about to have an expensive holiday. We're certainly in need as our current calculations show that all users of maize will pay about R 22 billion more for their maize over the two drought seasons. Will we all be able to pass this onto the customers and consumers?

I hope the budget is to your liking and that somehow you can see a way to make money in a struggling economy. The first of the major producer company interim results came out in February and the effects of higher feed prices, higher imports and weak consumer spending were plain to see. Market conditions will only be getting worse in the next while.

The setting of the month for municipal elections has drawn the bulls-eye on the dart board. Expect many darts to be thrown and it will probably be wise to not play in this game until after the elections. With the real possibility of a shift in voter behaviour, it's to be expected that the period leading up to the elections will be fraught and, if predictions of a shift in voter behaviour prove to be true, there might be some unrest after the elections as well.

IPC

The IPC meeting in Abu Dhabi was quite successful as there were a number of active working groups in place, one of which - the animal health and welfare group - is chaired by me. The different approaches by the EU and the US to animal health issues played out quite strongly and there was a lot of negativity - or perhaps fearfulness - around the topic of vaccination for HPAI control. Clearly current vaccines have major shortcomings but if the developed world continues to suffer outbreaks, a new solution is going to be needed. If we don't try, we find no answers. HPAI has suppressed the price of leg quarters in the USA, and the low prices are expected to remain for 2016 since stock levels are high. As the rendering value is about 22 US cents a pound, prices can fall quite a bit before it becomes less effort for the leg quarters to be rendered rather than exported.

AgriSA

The AgriSA Commodity Chamber conference was held at the end of February and we were invited guests. Only one member of the Parliamentary Portfolio Committee on Agriculture was in attendance - and then only on the one day, but the conference was fortunate that General Cele addressed us on day one and stayed in the meeting for most of the day so that he was better informed on the issues facing agriculture. The commodity chamber of AgriSA is alive to the fact that some sort of changed structure is needed if it's to be a comfortable home for more of the producers and producer bodies. They're also clear that this is likely to be a journey rather than a once-off solution, and will keep engaging with AFASA, ourselves, PotatoesSA and others who are not in the fold.

Organisations, committees and meetings

Charlotte has been working hard at visiting egg producers and trying to bring more people back into the fold. She has also developed a framework brief for our transformation activities.

Christopher has been working on the proposal by Department of Higher Education to collapse the SETAs into a different body, a proposal which Christopher and our Training Committee think is both unwise and unnecessary. Hopefully with all the 'fees must fall' type of activities on the go, reason will prevail.

I think there's still some confusion as to how the new structure affects old DPFO and CPO members. With the new structure, you can be a member of one or both of the EO and BO depending on your business model. You simply need to choose which of the bodies will serve your interests best. In all cases, the basic membership fee is the same for all members and the project fee model takes into account the size of the enterprise. There'll probably be some further development of these models, but in the interim you'll all pay your R 400 annual fee and an additional specific monthly fee. Please speak to Charlotte or me as need be if you're still unsure how the new system works.

The Transformation Committee met in February to prepare for its March meeting with the World Poultry Foundation, a charitable arm of the US export industry that will be offering some, as yet undefined, support for poultry development in South Africa. The TC did not have the time to discuss the provincial structures proposed in our new constitution and will do so at their next meeting. If we don't make ourselves attractive to farmers with a local or regional perspective, we're likely to lose the support of many smaller producers.

A good Export Forum meeting was held in February with DAFF in attendance. Both parties were able to find out that we all need to learn a lot more about each other if we're to succeed with our export strategy. Quite a few companies were at the Gulf Food show to press their wares and export markets most certainly exist. We look forward to the publication of the LEI (a Dutch research institute) poultry producer cost report, which'll show that our broiler cost structure is not that far off from some of our major competitors. In particular, our cost structure at the whole bird level is not that far off from the US and much less than that of Europe. We are very similar in costs to Thailand, an established and profitable exporter. The South Americans continue to lead in the cost of production stakes. The PPECB Act is being amended, and as the PPECB has a role to play in meat and egg exports, we believe that the additional costs that their certification requirements must be taken into account.

IMI meetings have been held by DAFF and various stakeholders. The BO wants to proceed with its own scheme before DAFF finally regulates, with the scheme to be effective from 1 September based on their current timeline. Although our industry scheme will be voluntary we are hopeful that customer support will allow it to be driven more widely through the industry.

Hopefully one of the two remaining labour matters will be disposed of during March and there was a fair amount of preparation during February. It seems as if the parties responsible for the 'hijacking' of the DPFO name are not going to give up without a fight, so more money will be wasted to recover what should never have been taken.

Trade

The good news for this month is that ITAC have at last initiated the safeguard action against the EU and, the stars being aligned, a return to the MFN duty is possible later in 2016.

The first anti-dumping duty free leg quarter shipments from the US have made their way to our shores, unsatisfactory Salmonella and NAI conditions notwithstanding. We don't believe we can let this matter stand, and will approach it in the most constructive way possible. The pork producers are also likely to fight the AGOA SPS issues, and we're not sure what the red meat industry will be doing. The March 15 deadline for the removal of South Africa's agricultural AGOA benefits, as set by the US, is after the date of writing this letter and we remain, as always, at the whim of American political sentiment.

In a similar vein, the first allocations of quota to HDI's should have been made by the time you read this. A workshop for new importers has been arranged by the dti for early in March. There's much to be learned by the new importers and we wish them well in their endeavours - not that we wish them well to take away our productive capacity, but we need them to succeed to prevent the US from using their potential practical difficulties as importers from bedevilling the continuation of AGOA.

Our submission to ITAC re the maize tariff was submitted as were those of all the other users of maize; they appear to be at one in that the GrainSA tariff application is to be rejected. This application will only harm the users of maize and doesn't deal with the causes of maize farmer low profitability, such as they may need state intervention. The application by GrainSA strikes me as very misinformed, and their commitment to ask that a tariff be approved - but suspended - serves little purpose as with a reference price of \$233, we'd continue to pay around about what we are paying now for yellow maize. That's about R1400 per ton more than the US farmer is currently paying for his maize.

Brining

We continue to work hard on the brining matter and remain hopeful that the Minister can see that support for the draft prepared by his officials won't be sustainable. Answers to the problems we have with the draft have been provided to DAFF, so no major delays are needed to end up with good regulations. We're hopeful the PAIA application we have with the ARC will be resolved soon. We will then be able to demonstrate that the research on which DAFF made its decisions doesn't provide support for their position. By the time you read this, we'll have supplied DAFF with a revised rationale for the 25% portion brining proposal, a valid and enforceable set of regulations with explanatory notes for review by DAFF, and an updated SOP that can be used by producers to comply with the needed monitoring requirements.

The SANCU AGM had a speaker on brining - one of our former members who is a fresh chicken producer and for whom brining is not a major part of their business model. It appears as if our representation at the AGM steered the discussion to the safer waters of imports and their effects on our industry.

General

We're still working on the potential Competition Commission issues around the selling of our statistics that we prepare on your behalf. If we can find a viable way to do this, we'll be able to reduce our cost structure by an unknown amount.

Christopher and Louisa are working hard on the Avi Africa programme with a number of good speakers confirmed. Please go to our website to find an updated version of the programme which we will keep current as more information is received. Early discounted web-based registrations are available to members. There are still a few exhibition stands available for those of you considering exhibiting. Also, we're expecting some side events to be arranged on the first evening by some suppliers, and this will hopefully keep at least some of you gainfully busy.

How many of you have signed up to the ombudsman scheme established by the CGCSA? I realise this is an additional cost, but as the CGCSA scheme is gazetted by the Minister of Trade and Industry, it's a compulsory scheme, not an optional one. If you need any information on the scheme, we'll be happy to assist or refer you to the correct people at the CGCSA, whichever is required.

Our 2015 audit is complete, and as at the time of writing, the final audit report back had not been held so I'm unable to report on the auditors findings. That said, I have few concerns other than that our reserves are depleted and that it will take some time for the EO to recover from its negative financial position. I ask that all members exercise patience as we restore the EO to operational and financial health.

Regards until next month,
Kevin Lovell
CEO.