

**TO: MINISTER FOR AGRICULTURE AND LAND AFFAIRS
DEPUTY MINISTER FOR AGRICULTURE AND LAND AFFAIRS**
FROM: CHAIRPERSON: NATIONAL AGRICULTURAL MARKETING COUNCIL
ENQ: SCHALK BURGER
TEL: 341 1115
REF: 8/1/18
DATE: 28 MAY 2007

REQUEST FOR THE CONTINUATION OF STATUTORY MEASURES FOR THE PORK INDUSTRY

1. The South African Pork Producers' Organisation's letter dated 13 February 2007 (**Annexure 1**), the NAMC Working Group Report dated 30 April 2007 (**Annexure 2**) and the draft Notices (**Annexure 3**), refer.

SUMMARY

In August 2005 the Minister approved statutory measures for the red meat industry (for cattle, sheep, goats and pigs). These statutory measures were approved for a period of two years (to lapse on 5 November 2007). These statutory measures are administered by the Red Meat Industry Forum (RMIF).

In November 2007 the South African Pork Producers' Organisation (SAPPO) decided to do a separate application to the Minister for the introduction of the following statutory measures in the pork industry:

- Statutory levies*
- Records and returns*
- Registration*

On 28 March 2007 the Minister referred the application to the National Agricultural Marketing Council (NAMC) for investigation and to make a recommendation to her within 60 days, in other words by 28 May 2007.

The NAMC hereby recommends to the Minister that she approve the request from the SAPPO for the introduction of the proposed statutory measures in the pork industry for a period of three years, from 1 November 2007 until 30 October 2010. Also that the Minister signs the attached draft Notices for promulgation in the Government Gazette.

2. PURPOSE OF SUBMISSION

The purpose of this submission is to recommend to the Minister to approve the proposed statutory measures in the pork industry.

3. BACKGROUND

3.2 On 28 March 2007 the Minister referred the application for the pork statutory measures to the NAMC for investigation and to make a recommendation to her within 60 days – in other words by 28 May 2007.

3.3 The SAPPO, on behalf of pork producers in South Africa, requested the Minister's approval for the introduction of the following statutory measures:

- Section 15 of the Marketing of Agricultural Products Act (MAP Act): Levies

The SAPPO envisages that a total of approximately R11.4 million per annum would be collected with the proposed levy to fund the following functions:

- Development of black emerging pork producers
- Consumer education
- Consumer assurance
- Research and development
- Industry information and liaison

The proposed levy would be R6.00 per slaughtered pig (VAT excluded) and will be collected at abattoir level. The current statutory levy is R5.20 per slaughtered pig (VAT excluded).

- Section 18 of the MAP Act: Records and returns

This statutory measure requires that all abattoirs involved in the pork industry and exporters of live pigs should keep records and render the returns as may be required by the SAPPO.

- Section 19 of the MAP Act: Registration

This statutory measure requires that all abattoirs involved in the pork industry and exporters of live pigs should register and re-register on an annual basis with the SAPPO.

- 3.4 The proposed statutory measures will be administered by the SAPPO, a voluntary organisation established by pork producers in 1992 to act as mouthpiece and representative organisation for pork producers in South Africa. The function of the actual collection of the proposed statutory levy will be outsourced to Red Meat Levy Admin (RMLA), a Section 21 Company, which is currently responsible for the collection of statutory levies in the red meat industry.

4. DELIBERATION

- 4.1 As part of its investigation the NAMC published a Notice in the Government Gazette of 13 April 2007 regarding the application for statutory measures in the pork industry. Directly affected groups in the pork industry were requested to submit comments regarding the proposed statutory measures to the NAMC within 14 days after the publication of the Notice. An article was also published in the Lanbouweekblad of 20 April 2007. PORCUS, the official newsletter for the pork industry, also carried an article regarding the NAMC's investigation and invitation for comments.
- 4.2 Notwithstanding these efforts to inform directly affected groups and to invite them to submit comments, the NAMC received only five comments. Two individual pork producers objected to the levy due to the maize price which increased substantially the past few months. The other three comments supported the proposed statutory measures.
- 4.3 Currently, the pork statutory measures form part of the red meat statutory measures (for cattle, goats, sheep and pigs) which were approved in August 2005. The red meat statutory measures will lapse in November 2007. The SAPPO decided to make a separate application to the Minister. One of the reasons given by SAPPO is the unnecessary delays by the RMIF to authorize payments to service providers in the pork industry. The second reason is the delay in the application for statutory measures - the SAPPO submitted its application to the Minister on 13 February 2007 while the RMIF has not yet

submit their application (by 2 May 2007) for the beef- and mutton industry to the Minister. The third reason for the separate application is the various levels of support for statutory measures in the red meat industry – in other words, there could be unanimous support in the pork industry but not the same level of support in the beef industry. If the three species (cattle, sheep and pigs) are covered in one application, concerns within one species could negatively affect the other species. For example, during the 2005 application for statutory measures in the red meat industry, some feedlot owners in the Eastern Cape / Kwazulu-Natal region objected to the statutory levy on beef, with the result that the promulgation of statutory measures in the red meat industry was delayed for almost 12 months – the pork industry was negatively affected.

- 4.4 The following income and expenditure are estimated for each financial year of the duration of the statutory levies.

CONSOLIDATED THREE YEAR BUDGET

	2007/2008	2008/2009	2009/2010	Total	
	R	R	R	R	
INCOME	11,400,000	11,400,000	11,400,000	34,200,000	
1 900 000 pigs @ R6 / pig					
					%
EXPENDITURE	10,829,975	11,400,000	11,970,025	34,200,000	
Development of black producers	2,166,000	2,280,000	2,394,000	6,840,000	20
Consumer education	4,967,075	5,228,500	5,489,925	15,685,500	46
Consumer assurance	1,082,900	1,139,900	1,196,900	3,419,700	10
Research and development	755,300	795,100	834,900	2,385,300	7
Industry information and liaison	775,700	816,500	857,300	2,449,500	7
Administration	1,083,000	1,140,000	1,197,000	3,420,000	10
SURPLUS / SHORTAGE (-)	570,025	0	-570,025	0	

- 4.5 The proposed business plan for the pork statutory levy is inline with the NAMC's guidelines in this regard, namely that approximately 20% of levy income be used for transformation and that not more than 10% be used for administration costs. A short summary of the functions to be financed through statutory levies, is as follows:

- **Empowerment and development of black emerging pork producers:** The SAPPO appointed a Transformation Manager to manage transformation projects. Data on all emerging pork producers will be collected and be used to organise and present training courses and information days. Projects to supply breeding and weaner pigs to emerging producers will also be implemented. Mentors in all provinces will assist emerging producers. Visits by veterinarians to the small units will also be arranged. A manual on pig farming by emerging producers

was compiled by SAPPO and will be distributed to emerging producers. The aim of these projects is to develop emerging producers into commercial producers, producing top-quality pork that will be marketed in the formal market.

- **Consumer education:** The consumer has to be educated regarding the health and nutritional advantages of pork and pork products. The message that will be conveyed to consumers is that pork is healthy, affordable and value for money. Loyal consumers as well as those consumers who are not familiar with pork will be encouraged to buy pork with confidence. The *per capita* consumption of pork in South Africa is only 3.7kg which is low compared to world averages.
- **Consumer assurance:** The vulnerability of the South African pig population to new infectious diseases is indisputable. The outbreaks of Porcine Reproductive & Respiratory Syndrome (PRRS) and Classical Swine Fever (CSF) in recent years illustrated the fact that the pork industry can never relax its monitoring and control measures in respect of so-called exotic diseases.
- **Research and development:** For the pig industry to increase its competitiveness and profitability, research and development should be maintained and increased. High demands on production efficiency require continuous improvement in genetics, nutrition, management and housing.
- **Industry information and liaison:** In the deregulated pork marketing environment a centralised source of reliable, objective and user-friendly statistics and information of the total pork industry at any given time is an essential instrument to facilitate decision-making during production, processing, marketing and promotion of South African pork and pork products. Reliable national statistics and objective general information are fundamental to the need to enhance market access for all participants.

4.6 The NAMC is of the opinion that there is sufficient support amongst directly affected groups in the South African pork industry for the proposed statutory measures. According to SAPPO, unanimous support was recorded during provincial congresses held in 2006 and also during the Nation Congress held in September 2006. Unfortunately, the NAMC did not attend the National Congress but there is no reason to question this statement made by the SAPPO. The extend of the comments the NAMC received during our investigation is however a further indication of the industry's support for the proposed statutory measures.

4.7 The NAMC believes that the proposed statutory measures will promote the

objectives of the MAP Act (refer to section 2 of the MAP Act) and therefore support it for approval by the Minister.

5. PERSONNEL IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

None

7. LEGAL IMPLICATIONS

None

8. COMMUNICATION IMPLICATIONS

If the Minister approves the proposed statutory measures for the pork industry, Notices containing details of the relevant statutory measures will be published in the Government *Gazette*.

9. RECOMMENDATION

9.1 The NAMC recommends that the Minister approve the application for the introduction of the proposed statutory measures (levies, records & returns and registration) in the South African pork industry.

9.2 That the levy income be spent as follows:

- 70% of levy income is spent on the core activities (consumer education, consumer assurance, research and information);
- not more than 10% on administration; and
- approximately 20% on transformation (development of emerging farmers in line with the AgriBEE balanced score card).

9.3 Furthermore, that the Minister approves that the statutory measures be valid for a period of three years (1 November 2007 until 30 October 2010) subject to the following conditions:

- that the SAPPO submit its annual audited financial statements to the NAMC and the Auditor-General, with the percentage allocated towards transformation clearly indicated and accompanied by a report stating how the objectives of the levy have been met;

- that surplus funds should not form part of the assets of the SAPPO and would be utilised with the discretion of the Minister after the lapsing of the levy (after three years);
- that levies must be accounted for, in a manner and to the extent acceptable to the Auditor-General, separately from any other funds or assets under the control of the levy administrator; and
- that SAPPO develops and maintains a database of black role-players and their market share in order to monitor the progress of transformation in the pork industry.

Mr TR Ramabulana

CHIEF EXECUTIVE OFFICER:

NATIONAL AGRICULTURAL MARKETING COUNCIL

Cc.: Director-General: Agriculture

Chairpersons: Parliamentary Committees

RECOMMENDATION:

That the Minister approve the application for the introduction of the proposed statutory measures (levies, records & returns and registration) in the South African pork industry and that the levy income be spent as follows:

- 70% of levy income is spent on the core activities (consumer education, consumer assurance, research and information);
- not more than 10% on administration; and
- approximately 20% on transformation (development of emerging farmers in line with the AgriBEE balanced score card).

Furthermore, that the Minister approves that the statutory measures be valid for a period of three years (1 November 2007 until 30 October 2010) subject to the following conditions:

- that the SAPPO submit its annual audited financial statements to the NAMC and the Auditor-General, with the percentage allocated towards transformation clearly indicated and accompanied by a report stating how the objectives of the levy have been met;
- that surplus funds should not form part of the assets of the SAPPO and would be utilised with the discretion of the Minister after the lapsing of the levy (after three years);
- that levies must be accounted for, in a manner and to the extent acceptable to the Auditor-General, separately from any other funds or assets under the control of the levy administrator; and
- that SAPPO develops and maintains a database of black role-players and their market share in order to monitor the progress of transformation in the pork industry.

Recommendation supported / not supported.

Comments:

DEPUTY MINISTER FOR AGRICULTURE AND LAND AFFAIRS
DATE:

Recommendation approved / not approved.

Comments:

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