

## REPORT BY THE NAMC WORKING GROUP

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# REQUEST FOR STATUTORY MEASURES (LEVIES, REGISTRATION AND RECORDS & RETURNS) ON PORK IN TERMS OF THE MARKETING OF AGRICULTURAL PRODUCTS ACT, 1996

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## 1. INTRODUCTION

1.1 The Marketing of Agricultural Products Act, 1996, (MAP Act) makes provision for five statutory measures, namely levies (section 15 of the MAP Act), export control (section 16), conducting of pools (section 17), records & returns (section 18) and registration (section 19). Section 10 of the MAP Act stipulates that a directly affected group may request the Minister in writing to establish one or more of the above-mentioned statutory measures.

1.2 The MAP Act further stipulates (section 11) that the Minister shall only consider a request for the establishment of a statutory measure if the request is consistent with the objectives of the MAP Act. The objects of the MAP Act, (as set out in section 2) are the following:

- “(a) to increase market access for all market participants;
- (b) the promotion of the efficiency of the marketing of agricultural products;
- (c) the optimisation of export earnings from agricultural products;
- (d) the enhancement of the viability of the agricultural sector.”.

Section 2 also stipulates that no statutory measure or prohibition in terms of section 22 of the MAP Act (prohibition of import and export of agricultural products) which is likely to be substantially detrimental to food security, the number of employment opportunities within the economy or to fair labour practices, may be instituted in terms of the MAP Act.

1.3 On 13 February 2007 the South African Pork Producers' Organisation (SAPPO) submitted a request to the Minister of Agriculture for the establishment of three statutory measures (levies, registration and records & returns) on all pigs slaughtered at abattoirs as well as live pigs exported from South Africa. The SAPPO is a voluntary organisation and is the representative organisation for pork producers in South Africa.

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## **2. BACKGROUND**

- 2.1 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).
- 2.2 On 8 November 2006 the SAPPO's Executive Council decided to lodge its own application to the Minister for the continuation of statutory measures in the pork industry. The Red Meat Industry Forum (RMIF), the administrator of statutory measures in the red meat industry, was informed about the SAPPO's decision to submit its own application. The SAPPO's decision was supported by the RMIF. One of the reasons for the SAPPO to submit its own application was the unnecessary delays by the RMIF to authorize payments to service providers in the pork industry.
- 2.3 On 13 February 2007 the SAPPO applied to the Minister for the continuation of statutory measures in the pork industry for a new period of three years – from 1 November 2007 until 31 October 2010. The current statutory levy (introduced on 5 November 2005) is R5.20 per slaughter pig, while the proposed new statutory levy will be R6.00 per slaughter pig (both amounts VAT excluded).
- 2.4 On 28 March 2007 the Minister referred the application for statutory measures in the pork industry to the NAMC for investigation and to report back to her within 60 days. In terms of section 11 (2) of the MAP Act, the NAMC has "60 days or such longer period as may be approved by the Minister", to investigate an application and to make a recommendation to the Minister. It means that the NAMC has to report back to the Minister by 28 May 2007.
- 2.5 On 13 April 2007 a notice was published in the *Government Gazette* to invite directly affected groups in the pork industry to submit any comments regarding the proposed statutory measures to the NAMC within 14 days – in other words on or before 27 April 2007. More details regarding the consultation with directly affected groups are included in paragraph 4 of this Report.

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### **3. DETAILS OF APPLICATION**

#### **3.1 AGRICULTURAL PRODUCT TO WHICH THE STATUTORY MEASURES RELATE:**

The statutory measures requested relate to all pigs slaughtered at abattoirs and to live pigs to be exported from South Africa. According to Notice No R 1189 published in the Government Gazette of 4 September 1997, "Game and livestock" and "meat" were, amongst other agricultural products, declared as agricultural products for the purposes of the MAP Act. "Pigs" and "pork" are covered under the definition of "livestock" and "meat" respectively.

#### **3.2 CATEGORIES OF DIRECTLY AFFECTED GROUPS THAT WILL BE AFFECTED:**

Pork producers, exporters of live pigs and abattoirs are the directly affected group that will be affected by the proposed statutory measures.

The statutory levy will apply to all pigs slaughtered at registered abattoirs. Abattoirs slaughtering for own non-commercial use (eg schools, hospitals, prisons, etc) will, upon application to the SAPPO (the administrator), be entitled for exemption from the payment of the levy. The draft Notices to be promulgated stipulate that any abattoir may apply for exemption on the grounds that it is a welfare organisation as defined in terms of section 1 of the Value Added Tax Act, 1998 (Act no 89 of 1998).

#### **3.3 GEOGRAPHICAL AREAS IN WHICH STATUTORY MEASURES APPLY:**

The proposed statutory measures will apply in the geographical area of the Republic of South Africa.

#### **3.4 MANNER IN WHICH THE OBJECTIVES OF THE ACT WILL BE PROMOTED:**

The establishment of the statutory measures requested, must further the objectives of the MAP Act as stipulated in section 2(2). Such establishment must also not contravene section 2(3) of the MAP Act. The objectives referred to in section 2(2) of the MAP Act are to increase market access for all market participants, the promotion of the efficiency of the marketing of agricultural products, the optimisation of export earnings from agricultural products and the enhancement of the viability of the agricultural sector.

The SAPPO indicated in its application that the five functions as identified by the pork industry fully support the objectives of the MAP Act. These functions and

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how they could promote the objectives of the MAP Act will be discussed in detail in paragraph 3.5 of the Report.

### 3.5 BUSINESS PLAN TO BE IMPLEMENTED:

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	
<b>INCOME</b>	11,400,000	11,400,000	11,400,000	34,200,000	
1 900 000 pigs @ R6 / pig					
<b>EXPENDITURE</b>	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
Communication 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
<b>SURPLUS / SHORTAGE (-)</b>	570,025	0	-570,025	0	

The SAPPO is of the opinion that the following activities to be funded by the statutory levy will further the objectives of the MAP Act:

- Empowerment and development of black emerging pork producers.**  
 The pork industry realises the importance of new entrant development projects. Twenty percent of the net levy income will be used to train and assist emerging producers. Funds will be allocated on a project basis and will be used for training and skills transferral. A Transformation Manager was appointed by SAPPO to manage these projects. Data on all emerging pork producers is collected and compiled and such data will 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

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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. Market research conducted in 2006 confirmed that pork offers an opportunity to grow consumption. To drive the consumption of pork, marketing efforts will focus on increasing the visibility of pork. 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. Certain misconceptions will be addressed, such as the allegation that pork is not healthy, is too fat and varies in quality. The industry intends to empower consumers to distinguish on an informed basis between the value for money that pork offers as opposed to other products.

The current *per capita* consumption of pork in South Africa is 3.7kg. Denmark is the country with the highest *per capita* consumption of pork in the world with 73.7kg, while the consumption in countries like Spain (64.0kg), United States (31.7kg) and Australia (19.1kg) are significantly higher than in South Africa. Taking into consideration that pork is a relatively cheap source of protein, compared to beef and mutton, then one could assume that there is scope that the *per capita* consumption of pork could increase in future.

- **Consumer assurance.** The experience in the world during past years is that there is an increased movement of people and foodstuff between countries. Unfortunately the ease of movement and the casual attitude of travellers have led to added challenges for those tasked with protecting their country's livestock against imported diseases. The vulnerability of the South African pig population to new infectious diseases is indisputable. Equally important is the constant verification, year by year, that the South African pig herd has not been exposed to viruses exotic to this country. Serological testing, although expensive, is the best method to date for demonstrating the exposure to the selected viruses. 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.

Over the past years SAPPO and the Pig Veterinary Society have organised and conducted annual surveys on pork carcasses, testing for antibiotic residues. These tests were carried out at Onderstepoort Veterinary Institute. The rationale behind these tests was to determine

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what level of antibiotic residues was present in South African pork and to take steps through education and persuasion to bring these levels down. This campaign has been very successful.

South African pork producers must, to an increasing extent, compete with imported products, some processed and others frozen. This is a cause for concern, not only for economic reasons, but also because the residue status of this meat is unknown. SAPPO therefore decided in 2006 to embark on a pilot survey to determine residues in imported pork. The National Department of Agriculture collects samples from imported pork and these samples are tested at Onderstepoort. The results will be made known to the Department and, should the tests reveal a significant level of residues, SAPPO and the Pig Veterinary Society will assist with the modification of import protocols so as to protect the South African consumer. All the harbours and international airports in South Africa are inspected every year to ensure that the regulations regarding the handling of international galley waste and cabin waste are enforced.

- **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. The existing capacity of the research infrastructure and human resource potential in South Africa has to be maintained and strengthened to ensure that research and development will keep the pork industry on the cutting edge of product diversification and profitability. Investment by the industry in dedicated pig industry researchers and technicians stationed at appropriate institutions is regarded as critical.
- **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. The viability of the pork industry can only improve if reliable, inclusive and comprehensive industry data is available in order to assess progress of the sector over time. Relevant information should be obtained and disseminated in order to enhance efficiency of production, quality of products and marketing. Statistics that have to be obtained and continuously updated include those on production aspects, the national herd, inputs, price trends, consumption, and import and export volumes. These have to be analysed to determine benchmarks. Other vital

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information that has to be disseminated includes information on trade agreements affecting the industry. The information regarding the pork industry and the analysis thereof will make market signals visible for all role-players in the industry.

The Working Group is of the opinion that all the above-mentioned functions will promote the objectives of the MAP Act and will not be detrimental to food security, the number of employment opportunities or to fair labour practices.

**3.6 DURATION OF THE STATUTORY MEASURES:**

The SAPPO requested that the proposed statutory measures be implemented for a period of three years – from 1 November 2007 until 31 October 2010. The reason why the SAPPO requested the statutory measures for a period of three years, and not four years as were the case with most of the other commodities, is that they don't want to increase the current statutory levy of R5.20 per slaughter pig too much. The proposed levy is R6.00 per slaughter pig and will be valid for the three year period. Over a five year period, the proposed statutory levy increased with approximately 3.8% per annum.

**3.7 SUITABLE VEHICLE FOR IMPLEMENTATION:**

The SAPPO, the applicant for the statutory measures, will also administer the measures.

SAPPO has its own constitution and is a body corporate with full autonomy regarding aspects affecting pork producers and operates according to policies determined by its annual general meeting or Executive Council. SAPPO is a broad-based service provider, representing and supporting all South Africa's pig farmers in their quest for profitability and sustainability. Current membership represents owners of more than 80% of the commercial sows in South Africa.

SAPPO will appoint Red Meat Levy Admin (Pty) Ltd to assist with the collection of the levy and the administration of the statutory measures pertaining to records and returns. Red Meat Levy Admin was appointed by the Red Meat Industry Forum to administer the current statutory measures applicable in the red meat industry (cattle, sheep and pigs). Given that the Red Meat Levy Admin in the first levy year (2005/06) managed to collect levies on 97% of pigs slaughtered at abattoirs, SAPPO is confident that this company is the appropriate institution to assist SAPPO with the collection of the levies and administration of the statutory measures.

Confidential information of any person or company subject to this statutory measure, as obtained by SAPPO and/or the Red Meat Levy Admin through the

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implementation, administration and enforcement of the statutory measures, shall be dealt with in accordance with section 23(2) of the MAP Act.

SAPPO will have its financial statements audited by an internationally recognised firm of chartered accountants. All levies collected will be held in a separate bank account and SAPPO's Audit Committee will ensure that the internal control, accounting practices and audit processes are adequate, effective and in accordance with acceptable corporate governance principles. Levy funds shall be accounted for separately from other funds or assets under SAPPO's control in a manner and to an extent acceptable to the Auditor-General.

Any surplus funds accruing from levies shall be accounted for separately and shall not form part of the assets of the SAPPO. Such surplus funds shall be utilised at the discretion of the Minister after the three-year period of validity has lapsed.

### 3.8 INSPECTION AND ENFORCEMENT:

As with the existing statutory measures in the red meat industry, the Minister will be requested, once the statutory measures have been promulgated, to appoint inspectors to enforce the measures in the pork industry. For the existing statutory measures in the red meat industry, the Minister appointed 11 inspectors to increase the efficiency in administration of statutory measures in the red meat industry.

### 3.9 FINANCIAL IMPLICATIONS FOR THE FISCUS:

The costs for investigating the measures will be for the NAMC's account, and cost related to the promulgating of the statutory levy will be borne by SAPPO.

## 4. CONSIDERATION OF THE REQUEST

4.1 On 28 March 2007, the Minister formally referred the application for statutory measures in the pork industry to the Council to investigate the possible implementation and to report back to the Minister within 60 days (by 28 May 2007).

4.2 To ensure that the known directly affected groups in the pork industry (as registered with the Council in terms of section 20 of the MAP Act) are informed about the proposed statutory measures, the Working Group sent faxes / e-mails with details of the application, to each directly affected group. A notice which contains details of the application was also published in the Government Gazette No 29775 of 13 April 2007. This notice invited directly affected groups in the pork



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industry to submit comments regarding the proposed statutory measures to the Council within 14 days. Media such as the Landbouweekblad and PORCUS (official magazine for the pork industry) were used to bring the application to the attention of directly affected groups. Notwithstanding the method that was used to bring the application to the attention of directly affected groups in the pork industry, no person / directly affected group was excluded to make comments to the Council.

- 4.3 The Working Group received five comments from directly affected groups in the pork industry. The reason for this low number of comments could be indicative of the support for the proposed statutory measures. In its application the SAPPO claimed unanimous support in provincial and national structures of the South African pork industry. The comments could be summarized as follows:

### **Supporters**

#### SAMIC

SAMIC is the national representative structure of the South African red meat industry and regards itself as the custodian of the South African red meat industry. SAMIC supported the application.

#### Belhuit Investments (Mr Hugo Meyer)

Belhuit Investments supported the application.

#### Pig Abattoir Forum

The members of the Pig Abattoir Forum are responsible for more than 50% of pig slaughterings in South Africa. The Forum meets on a monthly basis and during one of their recent meetings they unanimously supported the proposed statutory measures for the pork industry.

### **Objectors**

#### EIMeyer Boerdery (Mr F G Meyer)

EIMeyer Boerdery objected to the proposed pork levy for the following reasons –

- The current levy of R5.20 imposed on every pig slaughtered is already very high compared to beef and sheep.
- The proposed increase to R6.00 is unacceptable under the present economic circumstances where feed prices have increased dramatically and margins very much under pressure.

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- Under these present conditions which will prevail at least for the next 16-18 months, the proposed increase in the present levy is not affordable.

Mr GJ Steyn (producer from Upington)

Mr Steyn recently started his piggery and objected to the proposed increase of the levy to R6.00 due to the present economic circumstances where maize prices have increased dramatically during the past few months.

#### 4.4 EVALUATION OF COMMENTS

The Working Group noted that the two objections to the proposed increase in statutory levy are from individual producers – the one producer only started recently with a piggery. They argued that the proposed increase in the pork levy is unaffordable due to low margins caused by the increase in feed prices, mainly caused by the higher maize price. Without ignoring their objections, the Working Group wishes to mention that the proposed levy was, according to SAPPO, debated at all provincial structures of the South African pork industry and during these meetings, an unanimous support for the increase was recorded.

### 5. DELIBERATION

#### 5.1 THE SOUTH AFRICAN PORK INDUSTRY

South Africa has approximately 100 000 commercial sows (owned by approximately 400 commercial producers) and a further approximately 25 000 “small scale” sows (owned by approximately 400 000 small scale producers). The production from the commercial sows is approximately 20 slaughter pigs per sow on an annual basis – in total approximately 2 000 000 slaughter pigs per year. The production from the “small scale” sows is approximately 10 slaughter pigs per annum. This lower production is mainly due to a high mortality rate and insufficient feeding. The assumption is also made that the production from the “small scale” sows is mainly consumed by the informal sector and accordingly not slaughtered at registered abattoirs. South Africa has in total 46 registered pig abattoirs.

Total production of pork in South Africa is approximately 140 000 tons of which approximately 6 000 tons being exported to African countries. On the other hand, between 20 000 tons and 25 000 tons of pork (mainly ribs) are being imported on an annual basis. In other words, South Africa is a net importer of pork because approximately 10% of consumption is being imported. It must be noted that the proposed statutory levy will not be applicable on imported pork.

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## 5.2 NAMC GUIDELINES

The NAMC has a policy guideline that approximately 20% of statutory levies be used for transformation purposes. According to the proposed three year business plan, SAPPO budgeted to spend R6.84 million (20% of total levy income of R34.20 million over the three year period) towards transformation purposes. This initiative could have a major impact in transforming the pig industry. The SAPPO also indicated to the NAMC that 10 producers from the total number of approximately 400 commercial producers in South Africa are from previously disadvantaged communities.

## 5.3 GUIDELINE PRICE AND LEVEL OF THE LEVY

Section 15 (4) (a) of the MAP Act stipulates that a statutory levy must not exceed 5% of the price realized by a specific agricultural product at the first point of sale. The maximum of 5% must be based on a guideline price, calculated as the average price at the first point of sale over a period not exceeding three years.

The average net producer prices for pork (Baconers) over the past three years were as follows:

	<b>R/kg</b>	<b>R Carcass value (70kg)</b>
2004	10,41	728,70
2005	10,31	721,70
2006	<u>10,95</u>	<u>766,50</u>
<b>Average</b>	<b>10,56</b>	<b>738,97</b>

The proposed levy of R6,00 per slaughter pig is 0,81% of the guideline price and is slightly higher than the average of approximately 0.7% of the production value at the first point of sale for all the commodities that are collecting a statutory levy in terms of the MAP Act.

## 5.4 SUPPORT FOR THE STATUTORY MEASURES

As part of their application, the SAPPO indicated that they held various meetings across the country with directly affected groups in the pork industry in order to determine the level of support for the continuation of statutory measures. At all these meetings producers expressed their unanimous support for the application.

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**6. CONCLUSION**

The Working Group is of the opinion that the SAPPO has the capacity, infrastructure and support from the South African pork industry to apply for the statutory measures requested by them. The Working Group is also convinced that the functions to be funded by the proposed statutory levy will promote the objectives of the MAP Act.

**7. RECOMMENDATION OF THE WORKING GROUP**

- 7.1 The Working Group recommends to the Council to propose to the Minister to approve the proposed statutory measures in the pork industry for a period of three years.

**WORKING GROUP RESPONSIBLE FOR THE EVALUATION OF THE PROPOSED  
STATUTORY MEASURES IN THE PORK INDUSTRY  
Date: 7 May 2007**