REPORT ON THE INVESTIGATION INTO THE EFFECT OF DEREGULATION ON THE RED MEAT INDUSTRY

NATIONAL AGRICULTURAL MARKETING COUNCIL (NAMC)

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I EXECUTIVE SUMMARY

The deregulation process of the South African red meat industry gained momentum in the early 1990's, and was finalized with the closure of the Meat Board in December 1997. Statutory measures that were granted to the Meat Board, e.g. the registration of certain role-players in the red meat industry, the furnishing of records and returns and the collection of statutory levies by the Board, came to an end. In 1996, for example, the Board collected more than R57 million in the form of statutory levies to perform certain functions for the red meat industry.

The Committee held its first meeting on 30 May 2000. The outbreak of FMD in September 2000 superseded most of the issues the Committee contemplated to investigate at that stage. Due to the outbreak, South Africa lost its status as a FMD free zone and this subsequently closed a major portion of the international market for South African red meat. The Committee stressed that FMD was a controlled disease and as such a Government's responsibility to combat. The outbreak of FMD, at that time, developed to a closer working relationship between the Government and the red meat industry on this disease in particular and on other issues that affect the red meat industry.

The Committee also focused on the emerging red meat sector during the investigation process. From the investigation, it appeared that the deregulation process did benefit the emerging red meat producers, as the market became "open" for everybody, although the emerging producer still found it difficult to compete with the commercial producers in terms of quality and volumes. The emerging producers also do not have the "supporting systems" in place to compete with the commercial producers. The Committee made a number of recommendations that, once it is implemented, could improve the situation of the emerging red meat producers.

The Committee acknowledged the fact that the Government (and more specifically the NDA) has an import role to play to create a viable red meat industry. It was *inter alia* recommended that the Government improve some of its functions to the red meat industry, and on the other hand, that some of the functions performed by the Government, be privatized.

The Committee members were fully aware that once they had submitted the final report to the NAMC, their function had terminated. The consensus standpoint however was that the report should be considered as a living document during the period of implementation of the finally agreed upon recommendations. The Committee therefore decided that the Chairman and one or two committee members be nominated to monitor the implementation process together with members of the NAMC.

The Committee thanked the NAMC for providing a platform for Government and the red meat industry to discuss important issues that affect the South African red meat industry.

II RECOMMENDATIONS

The Committee decided to make the following RECOMMENDATIONS:

I Role of the NDA in creating an enabling environment for the red meat industry (refer to page 20)

That the role of the NDA (as the custodian) should also include the creation of facilities to optimise the utilisation of national agricultural assets, such as natural grazing, the national herd, animal health, etc. Livestock improvement is the backbone of a national herd and therefore the NDA should entirely be responsible to finance the relevant schemes.

That the NDA play a much more prominent role with regard to trade negotiations and agreements to ensure that the needs of the agricultural sector are addressed and to ensure that agricultural products receive equal treatment and status to that of industrial products.

That the NDA as a priority, ensures that the USA accepts that the South African veterinary protocol is equivalent to that of the USA to enable South Africa to export red meat to the USA.

That the NDA ensures that the South African red meat industry adheres to the animal by-product legislation practised by the EU countries.

II Possible free trade agreement: South Africa and the MERCOSUR countries (page 23)

That a special protocol be drawn up for beef when the envisaged free trade agreement between South Africa and the MERCOSUR countries of South America is negotiated.

III The SADC agreement (page 24)

That SALMF should be recognized to give inputs on behalf of the red meat industry in the SADC Subcommittee on Veld, Animal Production and Marketing and the Technical Committee on Animal Health.

That SALMF should be the recognized body to represent the red meat industry in the SADC.

IV Red meat import tariffs (page 26)

To shorten the period of tariff reviews to six months or less.

To implement the outsourcing of the import inspection system at ports of entry to a competent assignee (as allowed under the new Meat Safety Act – Act 40 of 2000).

That import tariffs be administered in a proper and competent manner.

To link the data of Customs & Excise and the South African Reserve Bank and ensure that foreign exchange remittance values and invoice values correspond.

That the BTT investigate that a fixed tariff system, calculated by means of a formula (to accommodate the fluctuations in the Rand exchange rate), or a CIF ad valorem system, replace the current FOB ad valorem tariff system.

That the BTT investigate the possibility that a fixed tariff be applied to imported live animals for slaughtering purposes equivalent to 40 per cent of the composite FOB ad valorem value on all the cuts of the animal's carcase.

That when livestock is imported for slaughtering purposes (excluding the import of live animals from SADC countries), all quarantine procedures applicable to the import of breeding stock, also apply to slaughter stock.

V The ability of emerging red meat producers to participate meaningfully in the market economy

Communal farming system (page 30)

The regulation of the communal farming system inter alia to support the management of communal grazing land and the enforcement thereof by the community (and their leaders) and the state.

The process of intervention in communal livestock farming systems should be different from that of privately owned livestock farming systems.

Commercialisation (page 31)

The commercialisation of the emerging sector be promoted in a coordinated manner by increasing the off-take rate and calving percentage, and providing sufficient animal health services.

Rural infrastructure (page 32)

That the State provides appropriate infrastructure and other relevant market facilities in the rural areas.

Communication of information (page 32)

That the Advisory Council for Agricultural Statistics should undertake an investigation to ascertain the optimum communication media and channels to the emerging red meat producer.

Rural development project of the wool industry (page 33)

That the rural development project of the wool industry be extended to the emerging livestock industry.

That measures be introduced to transfer appropriate practical experience from commercial producers to emerging producers.

Extension services (page 34)

That graduated veterinary students (like medical students) should do a one year compulsory community service.

To improve the capacity of existing extension services to perform various functions, including provision and dissemination of information, the issue of the provision of training and education to extension officers should also be addressed.

Consideration should be given to privatise the function of extension officers in consultation with labour unions.

Land Reform (page 35)

On land reform, the Committee was of the opinion that a balanced approach, which obtains speedy and visible results, be followed to prevent a similar situation to that which had occured in Zimbabwe.

That a national strategy be drawn up to approach the issue of land reform in an orderly manner.

That the State should provide facilities to enable the emerging red meat producer to obtain access to finance in order to buy land and the necessary equipment.

VI Subsidised imports (page 37)

The South Africa red meat industry must be protected against disruptive trade practises, including subsidised imports and producer support systems.

That the BTT investigate that a fixed tariff system, calculated by means of a formula, be implemented on red meat imports as a matter of urgency (refer also to page 29).

VII The efficiency of current marketing facilities

Market information (page 40)

That the red meat industry applies for statutory measures (relating to records, returns and registration) in terms of the Marketing of Agricultural Products Act.

Extension officers to be utilised to a greater extent to gather and disseminate information in the informal sector.

VIII Support services provided by governmental institutions

Research projects (page 49)

That Government should financially support research and development institutions to prevent the deterioration of existing structures and services. It was also recommended that Government in consultation with the industry should identify relevant projects.

That the genetic diversity of the live stock industry should be regarded as a national asset and should be maintained by Government (this includes financial support to the SA Stud Book and the INTERGIS).

That Government should accept responsibility to maintain the animal health status of the national herd (this includes financial support to Onderstepoort Biological Products, the only institution that can produce vaccines for the so-called "African diseases").

Value added tax (page 50)

That SARS improve the collection of VAT on red meat products by monitoring slaughter figures at abattoirs and the implementation of structures for VAT collection in the informal sector.

Export of red meat (page 51)

That the NDA ensures and proves that the South African meat inspection system is equivalent to that of the USA and other potential international markets.

That SAMIC takes the initiative in the formation of a red meat export council (Joint Action Group) to assist the red meat industry in promoting exports through the export enhancement programmes of the DTI.

The appointment of independent third parties (assignees) be implemented at export abattoirs performing meat hygiene standards as allowed under the new Meat Safety Act (Act 40 of 2000).

That animal disease control fences be erected and maintained where required to meet international standards.

Stock theft (page 52)

That the Animal Identification Bill be promulgated as soon as possible.

That measures be put in place to combat stock theft more effectively (e.g. the Act on the identification and marking of animals and the Pounds Act).

That the red meat industry be kept informed in the process of the proposed closing down of the stock theft units.

Traceability (page 53)

The development of a traceability system for export certification be implemented.

An investigation be conducted into the possibility of the integration of INTERGIS and the Animal Identification Bill into a National Traceability System.

The auditing of a National Traceability System be done by a competent independent third party.

Meat hygiene standards and classification (page 54)

That meat inspection and classification services be done independently from the abattoir owner.

That Government expedites the process of establishing a national food control agency to coordinate food safety matters on a national basis.

Animal health services (page 56)

That veterinary graduates (like medical students) should do a one year compulsory community service.

That the NDA facilitate the filling of vacant posts (regarding animal health technicians) and ensure that those personnel will have the necessary equipment and transport to do their work.

That a permanent working committee on animal health and livestock matters be established to obtain an effective method of liaison between the NDA and the industry with a view to addressing animal health and other issues of substance on a sustained basis in the future.

That harbour and border controls be complemented by outsourcing certain functions to competent third parties.

That issues such as animal health; extension services and training be executed on a national level.

Food Control Agency (page 58)

That Government expedite the process of establishing a national Food Control Agency.

That the NDA be requested to ensure that the South African red meat industry adheres to the animal by-product legislation of the EU countries.

IX Implementation of recommendations

That this report be considered as a living document during the period of implementation of the finally agreed upon recommendations. The Committee therefore decided that the Chairman and one or two committee members be nominated to monitor the implementation process together with members of the NAMC.

<u>The Committee TOOK NOTE of the following:</u>

X Regarding the price differential between the producer and the consumer (page 43)

The Committee noticed that South African real red meat prices of the primary producer had declined significantly during the past decade, probably to be more in line with the lowest international prices. The gap between producer and consumer prices however widened which partially could be contributed to value adding done after animals had been sold by the producer.

XI The impact of deregulation on job opportunities in the red meat industry (page 46)

During the period 1994/95 until 1998/99, commercial farmers involved in animal production shed the largest number of employment compared to the field crop and horticultural industries. The agricultural sector needs economic growth for job and wealth creation. A prerequisite for growth in the red meat industry is market growth in the form of –

- *Increased per capita consumption of red meat (per capita consumption of beef, sheep meat and pork in South Africa and SADC is significantly lower than in major producing countries); and*
- *Niche market development focusing on the distinctive competencies of the South African red meat industry (through the assistance of DTI's supply side measures).*

1. INTRODUCTION

One of the tasks of the NAMC is to monitor the deregulation process (especially since 1996) in agriculture and the effect it has on different industries. On 22 March 2000 the NAMC appointed a Committee, in terms of Section 7 of the Marketing of Agricultural Products Act (Act 47 of 1996) to investigate the impact of deregulation on the red meat industry and to propose action steps to be taken in order to address possible marketing problems.

Section 7 of the Marketing of Agricultural Products Act stipulates as follows:

"Committees of Council

7(1) The Council may appoint one or more committees to advise the Council or to perform such of the Council's functions as the Council may entrust to it.

(2) The Council shall exercise effective control over such committees and shall determine the procedure of appointment and terms of office of committee members.

(3) In the appointment of committee members, the Council shall, in so far as is reasonably possible, ensure that the relevant directly affected groups are represented.

(4) Notwithstanding the provisions of subsection (3), each committee shall consist of at least one Council member appointed by the Council.

(5) The Council shall not be divested of any power of function temporarily granted or entrusted to a committee in terms of subsection (1).

(6) Any committee established in terms of subsection (1) may be dissolved by a decision of the Council.".

Originally, the NAMC appointed eight persons to the Meat Section 7 Committee (the Committee) – four from the industry and four from the Council (two Council members and two staff members). The term of the relevant Council members expired by the end of December 2000. At its first meeting, the Committee decided that representatives of the NFMT, the DTI, the NDA and FAWU should also be represented on the Committee. The Committee was of the opinion that the activities of the above-mentioned institutions play a major role in the red meat industry and that they should become involved in problem solving. A representative of the RPO was also invited to be a member of the Committee and attended the meetings from the 3rd meeting (2 October 2000). The Committee eventually held seven meetings with the last meeting on 22 March 2001.

The Committee also decided that if necessary it could co-opt representatives of other directly affected groups when specific issues had to be discussed. As the activities of the BTT play a major role with regard to the adjustments of import tariffs, the Committee arranged that a representative of the BTT attended one of the meetings (2 October 2000) of the Committee.

In order for the Committee to inform role-players in the red meat industry about the investigation of the Committee, a fax was sent to each institution that is registered with the NAMC as a directly affected group for red meat, to invite them to submit inputs/comments to the Committee. The Committee sent faxes to 54 institutions. A press release (in Afrikaans and English) was also sent to the various radio stations and magazines with the request that they inform their listeners/readers about the establishment of the Committee. Eventually the Committee received 11 written responses from directly affected groups in the red meat industry.

1.1 <u>Composition of the Section 7 Committee</u>

Mr Katlego Gaoraelwe (Convener)	Ex-NAMC member
Mr Danie Claassen	Ex-NAMC member
Schalk Burger (Driver)	NAMC staff
Donald Mokoena	NAMC staff
Mr Aggry Mahanjana	NERPO
Mr Sandi Mgidlana	SANCO
Mr Gerhard Schutte	RPO
Mr Boet Venter	SAMIC
Mr Dave Ford	SAMIC
Mr Siyabonga Luthuli	NFMT
Mr Johan van der Merwe	DTI
Dr Gideon Brückner	NDA
Mr Nceba Sithole	FAWU

Note: *The term of the two NAMC members expired by the end of December 2000.*

1.2 <u>Terms of reference</u>

The <u>broad</u> terms of reference of the Committee were as follows:

To address red meat industry issues in a deregulated environment with a view to making recommendations that will increase efficiencies, market access and industry competitiveness (particularly for small-scale producers and traders) in this sector.

The Committee specifically looked into the following issues:

- The impact of the red meat import tariff level on the local red meat industry.

- The impact of deregulation on the ability of emerging red meat producers to participate meaningfully in the market economy.

- The impact of subsidised imports on the local red meat industry and red meat prices at the consumer level.

- The impact of deregulation on the efficiencies of the current marketing facilities.

- The price differential between the producer and the retailer.

- The impact of deregulation on job opportunities in the red meat industry.

2. LITERATURE REVIEW ON PREVIOUS INVESTIGATIONS THAT IMPACTED ON, OR REFERRED TO, DEREGULATION IN THE RED MEAT INDUSTRY.

2.1 An investigation into the price mechanism in the food chain, Board of Tariffs and Trade, 1992

The BTT Report noted that concentration in the food marketing chain tended to coincide with the existence of statutory controls. The BTT Report *inter alia* came to the following conclusion namely that -

- Deregulation should occur at both the national government and local authority level;
- Quantitative controls and tariffs applied to imported foodstuffs should be reviewed with a view to fostering competition from abroad; and
- The statutory powers of control boards should be terminated, and any control boards retaining such powers should be reconstituted so that the board members are appointed to look after the national interest rather than commodity-specific vested interests.

2.2 The Report of the Committee of Inquiry into the Marketing Act (the Kassier Report), 1992

The Kassier Report recommended that statutory single-channel and price support marketing schemes (the Meat Board administered a price support scheme) be abolished and that the agricultural control boards operate as private and voluntary organizations outside the 1968 Marketing Act. The Kassier Report also recommended that the former National Marketing Council (that was established in terms of the 1968 Marketing Act) should investigate the "blatantly unfair practices by foreign competitors". The former National Marketing Council never undertook such an investigation.

2.3 Agricultural marketing in a democratic South Africa, Land and Agricultural Policy Centre, 1993

The Land and Agricultural Policy Centre (LAPC) Report was broadly supportive of the Kassier Report. The LAPC recommended *inter alia* in its Report that –

- All remaining statutory controls over the movement of agricultural products (except for health and hygiene regulations) should be removed;
- Voluntary collective action should be encouraged;
- Government should promote equality of access to marketing services; and
- Smallholder productivity should be improved through improved access to resources and services rather than through generalized input and output subsidies.

2.4 A framework for a future agricultural marketing policy for the RSA and the implementation thereof, Agricultural Policy Evaluation Committee (the Basson Report), 1994

The Agricultural Policy Evaluation Committee (AMPEC) released two reports. These reports recognized that there would have to be reforms but were more broadly supportive of the then existing interventions in the market for the red meat industry. The AMPEC regarded price support measures in the red meat industry as necessary to create a degree of stability. According to the AMPEC, the floor price system as was applied by the former Meat Board, operated outside the price forming mechanism and only came into operation in the case of an over supply of red meat.

2.5 The Business Plans of the Meat Board

In terms of the Marketing of Agricultural Products Act, 1996, which replaced the 1968 Marketing Act, all the agricultural marketing schemes in terms of the 1968 Act had to be abolished by 5 January 1998. The phasing out of the functions of the former control boards have to be done according to individual business plans that have to be approved by the Minister for Agriculture and Land Affairs.

In January 1997 the Meat Board mentioned in its Business Plan to the Minister that consensus was reached within the red meat industry that the following functions of the Meat Board should be continued in the future—

a. Policy formulation
b. Industry liaison
c. Industry research and development
d. Market development and research
e. Product promotion and advertising
f. Hides and skins improvement
g. Industry information
h. Quality assurance
i. Developmental and social responsibilities regarding -
   - Training
   - Extension services
   - Environment
   - Upliftment of the disadvantaged sector

3. PRE-DEREGULATION (1990 – 1999)

3.1 Changes in agricultural policy

In the context of the international trend towards liberalisation in agricultural marketing, gradual changes took place in the agricultural marketing environment in South Africa in the period until 1996. A shift of emphasis from rigid and strict control measures in favour of a more market-orientated approach occurred, whilst internationally accepted rules and norms gained acceptance. This resulted in, amongst others, the replacement of quantitative import controls by tariffs, the abolition of most subsidies and a re-examination and questioning of the marketing regulations that were still on the South African statute books.

The 1968 Marketing Act, which had been instituted mainly in the interest of producers, and which was producer dominated, made provision for various controls with regard to the movement, price setting, quality standards, sale and supply of agricultural products. The growing gap between producer and consumer prices of agricultural products and the rapid rise in food prices prompted a number of official inquiries between 1992 and 1994 (refer to the previous section), to investigate the domestic agricultural marketing system.

The philosophy underlying the 1968 Act also clashed with the new government's policy imperatives; efficiency, growth, food security and equity. Thus, following an inclusive process, during which inputs were sought from a wide spectrum of stakeholders and the needs of the agricultural sector with regard to marketing were investigated in depth, the Marketing of Agricultural Products Act (Act No. 47 of 1996) was adopted. The 1996 Act came into effect on 1 January 1997 and introduced a new era in the marketing of agricultural products in South Africa. One of the main provisions of the 1996 Act was that all the remaining control boards had to be phased out within twelve months. It should be mentioned that some partial deregulation had taken place prior to the implementation of the 1996 Act and some Schemes had already been revoked before 1997 (e.g. bananas, dried beans, eggs, chicory, rooibos tea and tobacco).

The 1996 Act also makes provision for the establishment of a council to be known as the National Agricultural Marketing Council (NAMC). The NAMC began its operations with the first full meeting of the Council on 6 January 1997. The first year of existence of the NAMC was mainly devoted to the phasing out of the control boards that were instituted in terms of the 1968 Marketing Act. Although a number of Control Boards continue to exist after January 1998, their activities were concerned solely with some outstanding legal issues in respect of non-payment of levies and the ownership of assets acquired with statutory levy income. No functions of the former control boards continued beyond January 1998.

In terms of the 1968 Marketing Act, the Minister could introduce an intervention (a statutory measure) only if it had the proven support of a specified majority of producers. The 1996 Act, on the other hand, determines that any directly affected group can request an intervention. However, the Minister may only approve such a statutory measure where he or she is satisfied that it will advance one or more of the objectives of the 1996 Act without being detrimental to one of the other aims, namely food security, work opportunities in the economy, or fair labour practices. The process for the approval and eventual implementation is clearly stipulated and involves, *inter alia*, the recommendation of the NAMC and, in the case of levies, consideration by both portfolio committees of parliament. The Minister, however, has the final decision. Statutory measures include records & returns, registration, statutory levies, prohibition of the import or export of specified agricultural products and the conducting of pools. To date statutory measures in respect of records and returns, and registration have been introduced in the maize, winter cereals, oilseeds, cotton, wine, wool and sorghum industries, while levies were introduced in the winter cereals, cotton, wine and sorghum industries. At this stage the red meat industry has not applied for any of the statutory measures provided by the 1996 Act and therefore operating free of any marketing control measures.

3.2 Deregulation in the red meat industry

The Meat Scheme in existence at the time of the promulgation of the 1996 Marketing Act, was publicised in the Government Gazette of 7 February 1991. The Meat Scheme *inter alia* made provision that the following functions be performed by the Board, namely –

- Operating a single channel marketing system for slaughter animals, meat, offal and hides & skins
- Operating of a floor price system
- Conducting of offal pools
- Issuing of permits for the purchase and sale of slaughter animals, meat, offal and hides & skins
- Providing an information service
- Promoting the consumption of red meat

Single channel marketing system

In the early 1990’s the Meat Scheme made provision for so-called controlled and uncontrolled areas. In practice this meant that only live animals could enter the seven major consumer centers or controlled areas. After the animals were slaughtered at the large city abattoirs, a major portion of the supply of carcasses took place through the 11 public auctions at these abattoirs.

On 22 January 1993 the Minister for Agriculture approved that the Meat Scheme be amended to repeal the prohibition regulations imposed in terms of the Meat Scheme and the Marketing Act, 1968, with regard to slaughter animals, meat, offal and hides & skins. The repeal of these prohibitions led to the abolition of restrictions regarding the movement and method of sale of slaughter animals and red meat products.

With the abolition of the controlled areas, a shift occurred in livestock slaughter patterns – from the consumer centers (city abattoirs) to the areas of production (the rural areas). This resulted in the erection of a large number of small and medium abattoirs in the production areas. This growth created a major over-supply in slaughter capacity – mainly in the big consumer centers or city abattoirs. The reduction in throughput at the city abattoirs led to the closure of a few big abattoirs, most notably the City Deep abattoir in Johannesburg in May 1998.

The deregulation of control over the movement of livestock and meat in 1993, coincided with a rapid growth in the so-called informal market. This is characterized by the slaughter of livestock outside registered or approved abattoirs, followed by own consumption or direct selling to consumers. Quality control problems inevitably occur in this situation, which could have detrimental effects on consumer perceptions of red meat.

<u>Floor price system</u>

Since the 1950's the meat Board had operated a system of floor prices for cattle, sheep, goat and pig carcasses. This system was repealed in 1993.

<u>Conducting offal pools</u>

The Meat Board conducted offal pools in terms of the Meat Scheme. However, this stipulation was removed from the Scheme on 5 November 1993 and the offal pools were sold to Abakor Ltd.

<u>Classification and inspection service</u>

The Meat Board performed the meat classification and inspection service at 42 abattoirs. The meat classification and inspection of meat in order to ensure a healthy product for consumers were regarded as important functions. These functions were assigned by the NDA to the Meat Board.

<u>Meat Board as the sole importer of red meat</u>

Until 1992, the former Meat Board acted as the sole importer of red meat. In order to comply with the requirements of the General Agreement on Tariffs and Trade, import control as was executed by the Meat Board, was abolished.

4. CURRENT STRUCTURES AND GLOBAL ENVIRONMENT

4.1 Current structures in the red meat industry

Meat Board

In terms of the provision of the Marketing of Agricultural Products Act 1996, the Meat Board ceased its operational activities on 31 December 1997. Until its closure the Board was funded by way of a compulsory statutory levy on red meat and red meat products. The Meat Scheme is, however, still in place, mainly for the purpose of finalising outstanding court cases. At the time of the compilation of this Report, the Minister for Agriculture and Land Affairs had approved that the Meat Scheme be extended until 31 July 2001.

Red Meat Research & Development Trust (RMRDT)

Before the establishment of the RMRDT, the Meat Board, on behalf of the red meat industry, entered into research contracts. Subsequently an amount of R15 million was reserved for this purpose in a Research Trust, which was approved by the Minister of Agriculture late in 1993. The RMRDT was formally established on 21 January 1997.

Meat Industry Trust (MIT)

On 31 March 1998, the Minister approved the establishment of the Meat Industry Trust and that an initial amount of R1 million be transferred to it. The Deed of Trust stipulates that the Minister and the red meat industry could each appoint three Trustees. Since the establishment of the Meat Industry Trust, it was approved that a further amount of R38 million be transferred to it from the Meat Board.

The same Trustees administer both the RMRDT and the MIT.

Meat Forum

The Meat Industry Forum was formed as a result of the promulgation of the 1996 Act. The Forum claims that they have been successful in having the most representative organisation for each sector of the industry, represented on the Forum. Any national organisation or association satisfying the criteria of representativeness (which could demonstrate majority support in a particular sector) can apply for membership of the Forum.

SAMIC

In 1997 concerned role-players in the red meat industry established a Section 21 Company (in terms of the Companies Act) to act as the national representative structure of the South African red meat industry, managed through its democratically elected Board of Directors. In its implementing role, SAMIC's strategy focuses on the provision of services to meet its stated objectives and will –

- Be the custodian of the South African red meat industry;
- Unify the strategic initiatives of all industry role-players by promoting effective communication and coordination of their efforts; and
- Be efficient in the provision of specific common services required by the industry.

SAMIC's vision is to promote the long-term global success of the South African red meat industry. It is funded through grants from the Meat Industry Trust and services that are rendered on a user-pay basis.

4.2 Role of the NDA in creating an enabling environment for the red meat industry

Challenges for the NDA

The challenge for the NDA, *inter alia* is to increase the productivity and efficiency of new farmers or farmers that were marginalised in the past so that they may increase their level of economic welfare. This is of particular importance for those farmers who are resource poor and who are currently only able to produce viably to serve their own household's consumption requirements or markets that are very close to them. The NDA is therefore committed to achieving sustainable, equitable and efficient agricultural development. The objective is a reduced role for government, by facilitating rather than controlling the agricultural sector, encouraging the development of the small-farming sector, and also encouraging a more diverse support system for farmers.

Government should however not be involved in producing or marketing itself. It should be facilitating the production and marketing of agricultural commodities by private individuals and organisations. More often than not this implies that government's job is the provision of public goods, such as the following:

- Infrastructure especially where provision to date has been uneven,
- Information,
- Training, research, and
- Institutional links.

The key question is how Government, through the NDA, the NAMC, the ARC and the provincial departments of agriculture, should organise its involvement to the greatest effect. With only limited resources available, Government needs to prioritise its expenditures on market access to the best possible effect.

In terms of the Constitution, 1996 (Act 108 of 1996), agricultural support to farmers is vested in the provincial governments, which provide farmers with a range of services. The national Government retains the overall regulatory and policy functions and agricultural trade and marketing.

Market Access Steering Committee

The NAMC previously appointed a Section 7 Committee on Market Access that released its first report by the end of 1999. The Committee *inter alia* recommended that a formal Steering Committee be appointed, driven by the NAMC, in collaboration with the NDA. The different commodity groupings and the private sector should be involved and represented on this Steering Committee. The structure and mandate of such a Steering Committee should be very well determined. The Minister approved the establishment of the Steering Committee in January 2001. It was envisaged that a separate section within the NAMC should be established with someone to drive it full time. This person should be the national co-ordinator, reporting to the Steering Committee. On provincial level, the structure should be the same as on national level. The national co-ordinator should do planning, facilitating and act as a liaison officer, with the main objective of eliminating constrains in the market.

The guidelines proposed in the Market Access Report should be used as the basis for developing a policy strategy on market access for emerging farmers to be consistently applied in all provinces.

Role of the NDA with regard to trade agreements

Regarding the role of the NDA in the decision-making process within Government on agricultural issues, the Committee acknowledged the fact that in terms of current legislation, DTI had to take the final decisions regarding trade agreements including that for agricultural products. The opinion was however that the NDA should play a much more prominent role with regard to trade negotiations and agreements to ensure that the needs of the agricultural sector were addressed. This meant that the NDA had to ensure that agricultural products receive equal treatment and status to that of industrial products. Furthermore, it was proposed that the relevant agricultural industries be consulted or invited to make inputs when agreements are negotiated.

→ *Recommendation*

That the role of the NDA (as the custodian) should also include the creation of facilities to optimise the utilisation of national agricultural assets, such as natural grazing, the national herd, animal health, etc. Livestock improvement is the backbone of a national herd and therefore the NDA should entirely be responsible to finance the relevant schemes.

That the NDA play a much more prominent role with regard to trade negotiations and agreements to ensure that the needs of the agricultural sector were addressed and to ensure that agricultural products receive equal treatment and status to that of industrial products.

4.3 The global environment for red meat

United States of America

The Food and Agricultural Policy Research Institute (FAPRI) of the University of Missouri-Columbia releases a World Agricultural Outlook annually. An outlook was released in January 2000. According to FAPRI the growth in USA beef exports outpaced import growth in recent years. They expect that the USA will become a net exporter of beef by 2004 and will also become the world's largest beef exporter in 2002. Falling cattle prices over the next few years would enable USA exporters to remain competitive on international markets well into the next decade.

On the other hand the USA is by far the most untapped export market from a South African red meat perspective. The USA currently imports more than 1,6 million tons of red meat annually. With South Africa being eligible to export tariff free to the USA under the AGOA, vast opportunities for local red meat producers exist to be explored. The declining Rand / Dollar exchange rate makes South African red meat very competitive in the USA. However, one of the biggest stumbling blocks at this stage is equivalency with regard to meat inspection. To become eligible to export red meat to the USA, South Africa's red meat inspection system must undergo a rigorous and lengthy review process to determine whether it is equivalent to the USA system of inspection. It is envisaged that this process will take another two years to complete as a result of capacity constraints in the NDA.

→ *Recommendation*

That the NDA as a priority, ensures that the USA accepts that the South African veterinary protocol is equivalent to that of the USA to enable South Africa to export red meat to the USA.

European Union

The adoption of the Berlin Accord reforms is expected to have a significant impact on the EU beef sector. Weak beef prices, a steady decline in cattle numbers and BSE market support measures caused EU beef production to fall in 1998 and 1999. Somewhat stronger consumption, coupled with substantial food aid to Russia, allowed the EU to virtually eliminate beef intervention stocks. Consequently a 20 per cent reduction in the beef intervention price is planned over the next two years. New BSE issues that were emerging at the time of the compilation of this report, however, may alter this prognosis significantly.

Legislation was also promulgated in the EU that no country in the EU would be allowed to import meat products from other countries that used animal byproducts in any of their production processes.

→ *Recommendation*

That the NDA ensures that the South African red meat industry adheres to the animal by-product legislation practised by the EU countries.

Possible free trade agreement between South Africa and the MERCOSUR countries of South America

The establishment of a free trade agreement between South Africa and South America is envisaged. The Committee is of the opinion that the implementation of such an agreement could be to the detriment of the local red meat industry. As large and generally low-cost meat producers, South American countries (Brazil, Argentina and Uruguay) could pose a major threat if tariff free trade would be instituted. A comparison of the cattle industries of South America countries and that of South Africa is set out below:

Country	Cattle numbers Million	Beef Production `000t in 1999	Beef Exports `000t in 1999	Per capita Consumption kg of beef
Brazil	144.0	6 050	535	34.6
Argentina	49.0	2 670	325	65.0
Uruguay	10.7	400	228	60.0
South Africa	13.6	527	4	12.4

As consumption in the South American countries is already on a relatively high level, and they generally have FMD free status, it is projected that they will gradually make inroads into other foreign markets. It is foreseen that their beef exports could grow by approximately 3.8 per cent per year on average in the next decade. In 1999, South Africa imported approximately 1 238 tons of beef from

Brazil, Argentina and Uruguay. It was expected that this amount could increase considerably if the proposed agreement is to be implemented.

In the light of the above-mentioned, the Committee was of the opinion that, consideration be given that a special protocol be drawn up for beef in the proposed agreement.

Recommendation

That a special protocol be drawn up for beef when the envisaged free trade agreement between South Africa and the MERCOSUR countries of South America is negotiated.

An Africa perspective

Despite many problems in Africa (eg political instability and animal diseases), the African continent has great potential for increased production and trade within Africa and with other continents. Land is available and cheap in Africa while labour is also available at low cost. Countries with large cattle populations like Ethiopia (27 million) and Tanzania (14 million) could reorganise their livestock industries and export meat. Kenya with adequate disease control also has the potential to export meat. A change from communal system of livestock production to more productive systems in countries like Botswana, Swaziland, Zambia, Angola and other can greatly increase production without necessarily using more land.

Most countries in Africa however need better access to major world markets of Europe, Asia and North America. Tariff barriers are a major impediment to trade between Africa and these regions, while animal health and hygiene regulations in some of these countries are a major barrier to trade. Veterinary requirements in Korea, Japan and USA make trade between them and Africa impossible. The European countries' tariffs and quotas plus the ban on the use of hormones also limit trade between Africa and Europe. In general its seems that Africa, under the present WTO rules which allow some countries to continue imposing trade barriers, has very little opportunities to increase trade and participate fully in the world meat market.

The SADC agreement

The SADC agreement entails that tariffs on red meat will be reduced by South Africa to zero over five years, i.e. five equal cuts with the first cut on 1 September 2000. Tariffs on certain tariff lines, i.e. those with a tariff lower or equal than 25 per cent but higher or equal than 17 per cent, will be eliminated in three steps, while those tariff lines with a tariff lower than 17 per cent will enjoy zero tariffs as of 1 September 2000. Certain pork and mutton cuts will fall in this category. Where specific tariffs apply, these will be eliminated in five steps over five years.

Sanitary requirements will still be applied. The non-SACU SADC countries in turn have up to 12 years to reduce tariffs to zero, not necessarily in equal cuts.

The different red meat industries in most of the SADC countries established a representative body for the region, namely the Southern African Livestock and Meat Forum (SALMF). The mission of the SALMF is to establish a sustainable livestock and meat industry in the SADC region. The following strategic objectives were identified, namely –

- To unite the industry and to create an industry-wide regional representative body that will act as a united mouthpiece for the industry.
- To lobby/influence government policies (the policy environment).
- To create a viable and profitable business environment.

The SADC livestock structures consist of two sub-committees, namely the Sub-committee for Veld, Animal Production and Marketing and a Technical Committee on Animal Health. SALMF strives to work very closely together with these Committees. In order to do that, SALMF obtained observer status on these Committees.

Recommendation

That SALMF should be recognized to give inputs on behalf of the red meat industry in the SADC Subcommittee on Veld, Animal Production and Marketing and the Technical Committee on Animal Health.

That SALMF should be the recognized body to represent the red meat industry in the SADC.

Outlook for red meat in South Africa

The opinion was that the South African red meat industry could expect an improvement in market prospects. Moderate international feed prices and tightening restrictions on subsidized exports should continue to strengthen world prices. Local red meat prices should benefit due to less distortive export subsidies by the EU and USA. South Africa, however, will increasingly be exposed to foreign suppliers. This will require increased efficiency on the part of the local producers to be able to compete against low cost imports (e g from Australia, New Zealand, Brazil, Argentina, etc).

5. POST DEREGULATION PERIOD (2000 and onwards)

The following issues were identified as areas to be investigated by the Meat Section 7 Committee:

5.1 The impact of the red meat import tariff level on the local red meat industry

Background

South African agricultural markets were extensively deregulated over the past decade, and farmers currently face competition in both the domestic and foreign markets.

The primary purpose of tariffication on imported red meat is to protect the local industry against distorting trade practises. The Committee realised that the Government has a responsibility to reduce inflation, create favourable conditions for employment and to provide food at the lowest possible price to consumers. Unfortunately, red meat is imported from countries, mostly developed countries, where subsidies are paid to their producers. Exporters in developed countries also received export refunds that further create an un-level playing field. In South Africa, red meat producers do not receive any subsidies.

Although the playing fields are therefore not level, the Committee agreed that tariffs should not have as their aim the isolation of any industry from international competition.

The application of tariffs is a WTO sanctioned measure, not unique to South Africa and applied virtually wherever red meat is traded. The DTI and more specifically the BTT determine the actual tariffs in accordance with internationally agreed WTO tariff lines and in consultation with the NDA, NAMC and industry stakeholders. Local tariffs are administered by the directorate Customs and Excise.

Process of tariff reviews

The current import tariffs for red meat were introduced in 1995. A FOB *ad valorem* tariff of 40 per cent for beef and mutton/lamb, and 15 per cent for pork (excluding rib) were implemented.

In October 1998, after AMIE applied for a revision of the import tariff, the DTI commenced with a full investigation into the tariff dispensation for red meat, edible offal and preparations of red meat. Some role-players in the meat industry provided industry information to assist the DTI with their investigation. Unfortunately the term of office of the members of the BTT, the institution that evaluated DTI recommendations, had terminated in the mean time. The new BTT was only appointed on 1 September 2000 to recommence with the process.

The Committee was informed that some-role players in the red meat industry regarded that BTT as non-consultative, non-transparent and inefficient. It was therefore decided that a representative of the BTT should be invited to attend one of the meetings of the Committee in order to provide comments on the long delay of the BTT in reviewing the tariffs on red meat. On 2 October 2000 the Deputy Chairperson of the new BTT mentioned to the Committee that it was unfortunate that it had taken so long to amend the red meat tariffs, but according to him, it was a matter of priorities – other issues were regarded as more important and therefore received preference. He promised that the investigation of the revision of the red meat tariff would be finalised before the end of October 2000. Thereafter the matter would be in the hands of the Ministers concerned. He also touched on the restructuring within the BTT. The new BTT aimed at improved service delivery to the society and to shorten the time on tariff reviews. He stressed that the BTT had an open door policy and invited the industry to submit new ideas and to talk to the BTT if they experienced any problems.

The proposed new tariff dispensation for red meat had not been implemented by the time of the compilation of this report (end of March 2001), apparently as a result of the NDA and the DTI not being able to agree on the BTT recommendations. The Committee was strongly of the opinion that measures should be implemented to expedite the process of tariff reviews. Currently, five different governmental institutions, namely the NDA, DTI, BTT, NAMC and the Department of Finance have to give their inputs/blessing before an amended tariff structure can be published in the Government Gazette. It also came to the attention of the Committee that the new BTT will appoint its own Secretariat to do investigations and would no longer rely on staff of the DTI to do the tariff review investigations. The Committee is of the opinion that such an arrangement should expedite the process of tariff reviews.

<u>Tariffs on imported live animals</u>

Rumors also came to the attention of the Committee of the possible importation of live animals from Australia for slaughtering purposes. The Meat Industry Forum, the policy making body in the red meat industry, recommended that a fixed tariff be applied to imported live animals for slaughtering purposes on the basis of the composite FOB *ad valorem* value of 40 per cent on all the cuts of an animal's carcase. The Forum however requested that the tariff not be made applicable on the importation of live animals for slaughtering purposes from SADC countries or animals imported for breeding purposes.

It was pointed out that Australian mutton might be regarded as a by-product of their wool industry. Old sheep have little market value in Australia, because there is no local demand for it. There is also no "first world country" demand for this type of animal. The opinion is that importation of these animals would have a detrimental effect on the South African sheep industry in general and on emerging farmers in particular. The Committee also became aware of a number of letters that were compiled by SADC countries, where they also complained against the importation of sheep for slaughtering purposes.

Recommendation

That the BTT investigate the possibility that a fixed tariff be applied to imported live animals for slaughtering purposes equivalent to 40 per cent of the composite FOB ad valorem value on all the cuts of the animal's carcase.

That when livestock is imported for slaughtering purposes (excluding the import of live animals from SADC countries), all quarantine procedures applicable to the import of breeding stock, also apply to slaughter stock.

Unscrupulous importers

With the FOB *ad valorem* tariff system, unscrupulous importers abuse the system by way of under invoicing in order to pay a lower import tariff. This benefit is in many cases not passed on to consumers. Imported meat is normally priced in such a manner that it fetches a price marginally lower than local red meat (for the maximum benefit of the importer). In such a scenario both the importer and the consumer benefit but to the detriment of the producers.

According to information obtained from the BTT, beef was imported in 1999 at a average FOB price of R3.59/kg, sheep meat at an average price of R2.57/kg and pork at R6.12/kg. Compared to an average local retail price in 1999 of R19.66/kg for beef, R 25.68/kg for sheep meat and R15.24/kg for pork, it is clear that importers of red meat are making huge profits on imported red meat.

A concerted effort by all role players to stop tariff fraud will be to the benefit of both the Government and the primary red meat industry. The estimated loss in tariff income on the importation of red meat amounts to more than R50 million per year. Some members of the Committee were of the opinion that the data of Customs & Excise and the South African Reserve Bank should be linked in order to avoid under invoicing (in some circles it was indicated that a data linkage had already been established between Customs and Excise and the South African Reserve Bank). The additional income received by the Government through such an arrangement could, for example, be used to appoint / train extension officers in the red meat industry.

To address the above-mentioned problems with regard to the importation of red meat, the meat industry had proposed a fixed tariff system, calculated by means of a formula (to take the variation of the Rand exchange rate into consideration), to replace the current FOB *ad valorem* tariff system. The main reason for the request of a fixed tariff is to implement a simpler tariff structure to be applied in a more effective manner by customs officials. A fixed tariff of, for example, R3.00 per kg might not be a perfect solution (it might be too high for low grades of red meat but too low for more expensive cuts) but it is a way to circumvent the shortcomings in the application of the *ad valorem* tariff system.

To further circumvent the problem of unscrupulous importers, the Committee also discussed the possibility that the calculation of tariffs should rather be done on the basis of a percentage of CIF *ad valorem* value of imported red meat. This will mean that the tariff will be calculated as a percentage of the composite value of the freight and the price of the meat.

The meat industry did not have a problem with the current level of tariffs on red meat, but found the application thereof unacceptable (eg. under invoicing of imports, law enforcement etc.). To combat irregularities with regard to the import of red meat, the meat industry proposed a fixed tariff system, calculated by means of a formula, to replace the current FOB *ad valorem* tariff system.

Recommendations

To shorten the period of tariff reviews to six months or less.

To implement the outsourcing of the import inspection system at ports of entry to a competent assignee (as allowed under the new Meat Safety Act – Act 40 of 2000).

That import tariffs be administered in a proper and competent manner.

To link the data of Customs & Excise and the South African Reserve Bank and ensure that foreign exchange remittance values and invoice values correspond.

That the BTT investigate that a fixed tariff system, calculated by means of a formula (to accommodate the fluctuations in the Rand exchange rate), or a CIF ad valorem system, replace the current FOB ad valorem tariff system.

5.2 The impact of deregulation on the ability of emerging red meat producers to participate meaningfully in the market economy

Background

The South African agricultural sector has undergone much transformation since 1994 in the sense that greater emphasis has been placed on developing and catering for the needs of small scale developing agriculture.

South Africa has a national cattle herd of approximately 13,6 million of which approximately 4,8 million cattle (35,3 per cent of the national herd) is owned by the emerging sector.

The Committee discussed the effect of deregulation on the emerging red meat producer since 1994. The opinion was that the deregulation process did not have a major effect on the communal producers, because in both periods (before and after deregulation) the communal producers were not actually part of the formal marketing system of red meat in South Africa. The deregulation process did benefit the other emerging red meat producers, as the market is now “open” for everybody, although the emerging producer still found it difficult to compete with the commercial producers when it comes to quality and volumes. The emerging producers also do not have the “supporting systems” in place to compete with the commercial producers. The Committee was therefore of the opinion that more emphasis should be placed on the training and empowerment of emerging red meat producers, *inter alia,* through the provision of adequate extension services and the establishment of an appropriate infrastructure to assist a more commercially orientated approach towards livestock farming.

Communal farming system

The Committee was informed that the communal farming system (one of the two legs of the emerging sector) is currently experiencing various problems which include, insufficient fencing, insufficient resting of grazing lands, uncontrolled movement of animals from one area to another, lack of law & order in communal communities and an unavailability of infrastructure. These problems also differ from one province to another. The Committee regarded political intervention as the best option to alleviate the position of the communal producers. It was recommended that the different affected role-players should consider the regulation of the communal farming system. It should be done in consultation with the representatives of the traditional leaders of the communal areas.

During a workshop that was held by the end of November 2000, NERPO’s viewpoint was that the sustainability of the current communal subsistence sector was counter-productive and resulted in the wasting of limited human and financial resources.

→ *Recommendation*

The regulation of the communal farming system inter alia to support the management of communal grazing land and the enforcement thereof by the community (and their leaders) and the state.

The process of intervention in communal livestock farming systems should be different from that of privately owned livestock farming systems.

Challenges to uplift the emerging sector

1. Commercialization

The commercialisation of the emerging sector is one of the biggest challenges facing the red meat industry. A campaign should be launched to educate and train livestock owners in the emerging sector to transform from animal-keepers to commercial farmers. The following should enhance such a process.

- The emerging sector often keeps cattle as a status symbol but do not use it for income generation purposes. The average annual off-take rate of cattle in South Africa is approximately 17,6 per cent. In the commercial sector the off-take is estimated at 25 per cent, while it is only approximately 5 per cent in the communal sector. Developed countries off-take rates are close to 30 per cent. A fully commercialized off-take rate would yield in excess of R2 billion to the emerging producers. The emergent sector therefore has huge potential, bearing in mind that the cattle already exist in the hands of communal producers. The commercialization potential of the emerging producers in the red meat industry is therefore much greater than in other sectors of agriculture. If attempts succeeded to increase the off take rate of the emerging sector, South Africa could easily change its position from a net importer to a net exporter of red meat.

- The cattle-calving percentage in the emerging sector is approximately 35 per cent compared to the 70 per cent in the commercial sector. In closing the gap, an additional 1,7 million head of cattle can be added to the supply chain.

- Animal health is of critical importance in order to prevent the outbreak of diseases and in the reduction of the mortality rate. These services are either not available to the emerging sector or too expensive to utilise. Bringing these services within their reach could increase the value of their product, as well as to give quality assurance to the end user.

- South Africa until recently was a FMD free zone. It is important that red line fences be erected and maintained to meet international standards. Losing South Africa's FMD status could close all international markets for the local red meat industry. The recent outbreaks of FMD in Kwazulu-Natal and Mpumalanga already have negatively affected South Africa's status in this regard. Since the outbreak of FMD approximately 40 countries placed a ban on the import of red meat from South Africa.

<u>*Recommendation*</u>

The commercialisation of the emerging sector be promoted in a coordinated manner by increasing the off-take rate and calving percentage, and providing sufficient animal health services.

2. Rural infrastructure

Provision of road infrastructure is essential for agricultural and rural development. In the case of rural areas the provision of road infrastructure can only be considered to be a Government function. The most pressing needs have to be identified and this needs to be taken up at high level among the Government Departments concerned. Rural and agricultural development should in the long term, in the form of increased economic activity and therefore increased income from taxes, yield the benefits to justify this expense. The majority of emerging livestock producers live in rural areas and do not have the equipment to transport their animals to auction venues. Providing market facilities in rural areas could limit the need for and cost of transport of livestock.

The provision of rural infrastructure such as boundary fences, water resources for animal use, dipping tanks, auction sale pens, loading/off-loading ramps, etc. will provide an enabling environment for producers, especially for the communal producers.

<u>*Recommendation*</u>

That the State provides appropriate infrastructure and other relevant market facilities in the rural areas.

3. Communication of information

Communicating with the emerging sector in especially the rural areas is difficult owing to the absence of effective communication media, relatively low degree of literacy, and various languages. A study should be undertaken to ascertain optimum communication with these target audiences (farmers, traders, businessmen, consumers) and to establish their prime communication needs and the correct media to reach them. At this stage of small scale farming development, information should be adapted to the communication facilities available to small-scale farmers. The Committee was of the opinion that the newly appointed Advisory Council for Agricultural Statistics, which was established within the NDA, could undertake such an investigation.

→ *Recommendation*

That the Advisory Council for Agricultural Statistics should undertake an investigation to ascertain the optimum communication media and channels to the emerging red meat producer.

4. The rural development programme for the wool industry

The "Iwumelelo Innovation Award project" was recently officially opened in the Eastern Cape. The NWGA played a major role as producer organization to support the project. Among other things, the NWGA contributed to having shearing sheds built and unemployed people trained as wool classers. Communities experienced increased income of up to 300 per cent for wool that was marketed through shearing sheds and after it was properly classified.

Existing shearing sheds could also benefit the meat component of livestock production. Shearing sheds could be extended to be a collection point from hides and skins and where unemployed people can be trained to produce value-added hides and skins products. The shearing sheds could eventually be expanded to act as training centers for livestock owners and even co-ops for livestock products.

The Committee was informed about a request from the NWGA for financial assistance from Government for two projects, namely for infrastructure development (to build shearing sheds and dipping tanks) and for a breeding project. The projects are ongoing, but to ensure that the breeding project has the desired impact, the NWGA recommended that this project should last at least seven years. The NAMC made a recommendation to the Minister in this regard of which the outcome is unknown at this stage.

The Committee acknowledged the fact that in some cases the existing extension officers is not properly trained or do not have the relevant experience to deliver an effective service to producers. The opinion was that commercial producers could be in this regard of much help for the emerging producers. Producer organisations' like the NWGA and the RPO could therefore make a highly appreciated contribution regarding the upliftment of the emerging livestock producer.

Recommendation

That the rural development project of the wool industry be extended to the emerging livestock industry.

That measures be introduced to transfer appropriate practical experience from commercial producers to emerging producers.

5. Extension services

The proper utilisation of existing extension officers should definitely be to the benefit of the emerging red meat producer. Currently approximately 3 500 extension officers are employed by the various provinces, but they are not being utilised to their full potential in the sense that they are doing administrative duties in offices instead of delivering a valuable service to the rural communities. The Committee was of the opinion that although there are enough extension officers, they are in many cases not properly trained to render an effective service to the emerging producers. To alleviate the problem the red meat industry consulted with the ARC who is willing to help re-train extension officers (20 to 30 persons a week). The industry was in favour that extension officers be trained to the appropriate level for the maximum benefit of the emerging producers.

It was also felt that as long as the Government provided extension services, it might not have the required impact. Such services could be privatised. Labour unions should however be consulted in the process of the privatisation of these services.

The provision of relevant information could alleviate many of the problems experienced by the emerging sector. Information such as the market demand, how to farm, how many cattle per hectare, how to market their products, where to market, etc. is required. In this regard, the Committee expressed its disappointment in the closure of the Boskop Training Center, an institution which had provided practical training.

Both small scale farmers and extension officers need training on several marketing related aspects, such as the interpretation and use of market information, budgeting for marketing costs, small scale processing opportunities and techniques for value adding. To communicate this information to the emerging sector, well-trained extension officers needed to be appointed. Trained extension officers could address most of the above-mentioned problems.

To alleviate the problems of a shortage of government veterinarians, as well as inexperienced extension officers, the Committee proposed that graduated veterinary student should do a one year compulsory community service (similar to medical students). About 90 veterinary students graduate annually from the Onderstepoort Veterinary College. The Committee was of the opinion that such an arrangement should be the most appropriate measure to provide animal health and extension services to the rural areas. By implementing this arrangement the Committee felt that there would be a vast improvement in extension services, as well as the maintaining livestock numbers in the much needed areas within a short period. Such an approach would also address the problem of inappropriately trained extension officers.

Recommendation

That graduated veterinary students (like medical students) should do a one year compulsory community service.

To improve the capacity of existing extension services to perform various functions, including provision and dissemination of information, the issue of the provision of training and education to extension officers should also be addressed.

Consideration should be given to privatise the function of extension officers in consultation with labour unions.

The Committee was of the opinion that a more regulated environment is needed to address some of the problems experienced by the emerging producers in the red meat industry. In other words, Government has to provide some "injections" to help the emerging producers. The Committee felt that cultural differences, a lack of law enforcement and "internal political agenda's" could be major obstacles to address some of the problems. The Committee furthermore agreed that consultation with traditional leaders was of paramount importance when it came to addressing the problems of emerging producers in the communal areas.

Land reform

There is currently much emphasis on land reform, especially after what happened in Zimbabwe. Land is a limited natural resource (South Africa covers an area of approximately 122 341 000 ha of which 85 per cent could be used for agricultural purposes) and is the only basis for agricultural production.

The Deputy Minister for Agriculture recently said at a congress in Pot Elizabeth that the essential challenge is to address land issue pressure in a way that does not cause further deterioration in land resources or impair essential functions. All the role-players involved must ensure that the rate of production increases in a sustainable way. The Deputy Minister sparked a debate at the Congress by stating that commitment to land reform was lacking in the commercial farming sector. Agriculture is vital to the economic development of the country but it is also, according to the Deputy Minister, the least transformed sector in the country.

By the end of 2000 the Minister for Agriculture and Land Affairs stated in a press release that less than 1 per cent of farmland in South Africa has been redistributed since the start of Government's land reform programme six years ago. This slow pace of land reform was due to factors such as time needed to get the new programme off the ground, legislation that had to be written, limited access to finance before the Land Bank was restructured and Government's new grant system for black farmers that kicked in earlier in 2000. Government's objective is to increase access to farmland by black South Africans and transfer ownership of 30 per cent of the country's farmland over the next 15 to 20 years.

Recommendation

On land reform, the Committee was of the opinion that a balanced approach, which obtains speedy and visible results, be followed to prevent a similar situation to that which had occured in Zimbabwe.

That a national strategy be drawn up to approach the issue of land reform in an orderly manner.

That the State should provide facilities to enable the emerging red meat producer to obtain access to finance in order to buy land and the necessary equipment.

5.3 The impact of subsidised imports on the local red meat industry and red meat prices at the consumer level

Subsidised imports

Agriculture remains the most highly subsidised sector in the world economy. With the introduction of the General Agreement on Tariffs and Trade in 1992, the domestic red meat industry was for the first time directly exposed to the EU's agricultural support measures (subsidies). During 1999 EU beef imports to South Africa constituted 77 per cent of the approximately 16 000 tons total beef imports from outside SACU. The EU and Hungary also supplied 94 per cent of the 1999 pork imports of approximately 10 000 tons, which constitutes mainly pork ribs imported at zero tariff.

South Africa is classified by the EU in Export Zone 9 (in other word the EU regard South Africa as a country with an insignificant beef industry), which carries the highest beef export refunds. Previous attempts to have South Africa reclassified by the EU to zones with significant beef industries and therefore smaller refunds have been unsuccessful.

One of the major aims of the Uruguay Round was to bring about further liberalisation and expansion of world trade to the benefit of all (but especially developing) countries through the reduction of tariffs and non-tariff barriers. Therefore the Uruguay Round committed WTO Members to fundamentally reform trade policies and eliminate distortions in world agricultural trade. However, the OECD (the OECD is a 29-member strong group that includes the G-7 and the next tier of relatively wealthy nations) recently confirmed that support to farmers in the industrialised countries, calculated at more that US$ 360 billion in 1999, has returned to the high levels existing before the end of the Uruguay Round. Meat producers in the OECD therefore continue to benefit from relatively high levels of support. Producers of beef and sheep meat are more supported than those for pork. The OECD express all forms of support through a comprehensive indictor of support, called the producer support estimate (PSE). The average PSE's for meat in the EU ranged from 10 to 20 per cent for pork, approximately 60 per cent for beef and approximately 54 per cent for sheep meat.

The Uruguay Round disciplines governing domestic support distinguished between trade and production-distorting forms of support ("blue box" measures) and those which have no, or at most minimal, trade and production-distorting effect ("green box" measures). Current disciplines and reductions are clearly inadequate and have not resulted in a shift away from trade and production-distorting form of domestic support.

In 1998 South Africa joined the Cairns Group which seeks major reductions in domestic support leading to the elimination of all forms of trade and production-distorting support. The Cairns Group agreed on a strongly worded "Vision Statement" conveying the Group's ambition and broad objectives for the agriculture negotiations. The Vision Statement outlined the Cairns Group's reform goals in three key areas within the Uruguay Round framework. These include deep cuts to all tariffs (including tariff peaks); the redressing of tariff escalation; the elimination of all trade-distorting domestic subsidies; the elimination of export subsidies and clear rules to prevent circumvention of export subsidy commitments.

According to an investigation commissioned by the National Department of Agriculture in 1998, EU agricultural policies at that time had a significant impact on world beef markets and prices. It was claimed that should the EU liberalize its beef marketing policy (specifically export restitution), beef prices in South African markets would have been higher by 7 to 17 per cent.

<u>Unsubsidised imports</u>

In the past beef imports came mainly from the EU, where subsidies are paid to their producers. In such cases import tariffs could easily be justified. Indications, however, are that an increased quantity of unsubsidised beef is imported from countries outside the EU. In the case of mutton, it is mainly imported from Australia and New Zeeland. It is common knowledge that these countries do not subsidise agricultural products. This resulted that questions could be raised on the competitive position of the local red meat industry. Especially when tariffs are needed to protect the local industry against unsubsidised imports. The importation of pork is also in the process of moving away from the EU to countries which do not pay export subsidies.

<u>South Africa not self-sufficient</u>

It must be understood that South Africa is currently not self-sufficient in the production of red meat, especially mutton. The annual slaughtering of lamb and sheep decreased from approximately 8,2 million in 1990 to approximately 4,8 million in 1999 – a decrease of 41 per cent. The slaughtering of both cattle and pigs over the same period decreased by approximately 14 per cent. These figures are significant especially due to technological improvements where there is a surplus in the world of almost every agricultural commodity.

In 1999 approximately 3 per cent (10 per cent in 1995) of SACU’s consumption of beef was imported from countries outside the SACU region, according to information obtained from the BTT. Over the same period, approximately 33 per cent (9 per cent in 1995) of SACU’s requirements of sheep and 9 per cent (10 per cent in 1995) of pork were imported from countries outside the SACU region.

Recommendation

The South Africa red meat industry must be protected against disruptive trade practises, including subsidised imports and producer support systems.

That the BTT investigate that a fixed tariff system, calculated by means of a formula, be implemented on red meat imports as a matter of urgency (refer also to page 28).

5.4 The impact of deregulation on the efficiencies of the current marketing facilities

This report had as its objective to deal with the effect of deregulation in the South African red meat industry since 1990. In various other sections of this report, the Committee discussed the effect of deregulation (e.g. section 5.7) and proposed recommendations to rectify the situation. This section therefore only deals with market information and genetic promotion.

Market information

Deregulation and the new focus on the emerging class of farming enterprises and agri-businesses have greatly increased the need for quality agricultural information. Currently, the demand far exceeds the supply and accessibility of reliable and timely agricultural statistics needed for production, marketing and trade, and effective policy making. Market information can be particularly valuable where countries, like South Africa, changed from a state-controlled marketing system to a system of private enterprise, in that farmers and traders can be made aware of market opportunities.

The rapid growth in the number of registered abattoirs and accompanied vertical integration of animal sourcing to direct selling of the value added product to retailers or customers changed the red meat trade from a predominantly auction market to a private selling / buying on the spot and forward market. This eroded the red meat industry's price information base which impact negatively on especially extensive producers as it has become difficult at the time of selling to assess representative indicator prices on a quality differentiated basis.

A National Agricultural Information Workshop was held in March 2000. This was organised jointly by the NDA, Chair of International Agricultural Marketing and Development (CIAMD) and the NAMC and it's major goal was to develop a system to meet the needs of all users of information in the agricultural sector, especially the needs of the emerging farmer sector. Some of the recommendations made by the Workshop are summarised as follows:

- Establish a formal body to co-ordinate development of an information system that is mutually beneficial to all role-players in South Africa's agricultural sector (this recommendation led to the establishment of the Advisory Council for Agricultural Statistics within the NDA – SAMIC has also been invited to serve on the newly established Advisory Council for Agricultural Statistics);
- Review and recommend statutory measures required to support the information system;
- Recommend ways to ensure appropriate training of extension officers and others involved in data collection, processing and dissemination; and

- o Investigate infrastructure needs for improved generation and dissemination of agricultural information.

The red meat industry, *inter alia* needs ready access to up to date strategic management information including auction prices, contract and average retail cut prices, import volumes, slaughter figures, herd sizes, abattoir volumes, etc. Price formation in the red meat industry is currently in particular a major concern.

In the past, the Meat Board used to supply most of this data, much of it extrapolated from abattoir slaughter figures supplied to calculate levies that were collected by the Board. The collection of statutory levies in the red meat industry stopped with the closure of the Meat Board in December 1997. The reason to supply such data has thus fallen away and other means have to be devised. At present almost all the Provincial Departments of Agriculture are involved in supplying market information, but it is generally felt that the systems in place, as well as the budgetary allowances are by no means adequate to meet the need. The RPO, the commercial red meat producers' organisation, already indicated that they will support the principle of implementing statutory measures (regarding records, returns and registration) in terms of the Marketing of Agricultural Products Act in order to gather more accurate information for the red meat industry.

The Committee also pointed out that the request for sensitive information might lead to participants providing wrong information.

<u>Information in the emerging sector</u>

The problem of information regarding the emerging sector is twofold:

(a) availability of relevant and dependable data; and
(b) actual dissemination or communication of information.

Slaughter numbers are not fully representative and this proliferates errors down the line. Attention must therefore be given to obtaining correct statistics.

Currently information is collected and disseminated by the National Department of Agriculture in collaboration with the Provincial Departments of Agriculture. The Committee was of the opinion that the information function should be assigned to an industry organisation (eg SAMIC) and that such organisation should then apply for statutory measures (records, returns and registration) in order to acquire accurate and current red meat statistics.

→ *<u>Recommendation</u>*

That the red meat industry applies for statutory measures (relating to records, returns and registration) in terms of the Marketing of Agricultural Products Act.

Extension officers to be utilised to a greater extent to gather and disseminate information in the informal sector.

Genetic promotion

Until December 1997, the former Meat collected statutory levies to finance certain functions, including genetic promotion. With the closure of the Meat Board, genetic promotion was also stopped.

The Committee was of the opinion that the absence of genetic promotion was one of the major deficiencies in the current red meat marketing chain. Especially after the outbreak of FMD, sustained genetic promotion could do much to improve the demand for red meat. As in the past, the red meat industry should bear the financial burden of genetic promotion. The industry, however, currently did not have sufficient funds to do genetic promotion and the indications were that role-players in the industry are not willing to pay a statutory levy at this point in time.

5.5 The price differential between the producer and the consumer

The following tables illustrate the widening of the gap between producer and consumer prices the past decade.

BEEF

Annual producer and consumer prices (c/kg) Basis year = 1990

	Nominal Producer price (c/kg)	Real Producer prices (c/kg)	Slaughterings	Nominal Consumer prices (c/kg)	Real Consumer prices (c/kg)	Producer share in consumer prices (%)	CPI
1991	502.5	435.8	2,343,761	1012.1	877.8	49.65	115.3
1992	504.3	384.1	2,438,389	1191.0	907.1	42.34	131.3
1993	521.9	362.2	2,393,263	1255.6	871.3	41.57	144.1
1994	728.3	463.9	1,918,045	1556.0	991.1	46.81	157.0
1995	746.8	437.7	1,771,569	1742.0	1021.1	42.87	170.6
1996	785.5	428.8	1,763,671	1784.0	973.8	44.03	183.2
1997	820.8	412.7	1,567,635	1899.0	954.8	43.22	198.9
1998	792.5	372.8	1,750,000	1895.0	891.3	41.82	212.6
1999	812.0	368.4	1,907,785	1966.1	880.6	41.30	225.3
2000							

Source: SAMIC

The constant decline in real producer prices for beef (from 435,8 c/kg in 1991to 368,4 c/kg in 1999) is evident from the above table. It is quit clear that the cattle producer is in a much weaker position than 10 years ago.

SHEEP MEAT

Annual producer and consumer prices (c/kg) Basis year = 1990

	Nominal Producer price (c/kg)	Real Producer prices (c/kg)	Slaughterings	Nominal Consumer prices (c/kg)	Real Consumer prices (c/kg)	Producer share in consuper prices (%)	CPI
1991	639.4	554.6	8,785,614	1217.0	1055.5	52.54	115.3
1992	687.8	523.8	8,026,820	1452.0	1105.9	47.37	131.3
1993	774.2	537.3	7,147,386	1596.0	1107.6	48.51	144.1
1994	1,048.0	667.5	5,014,825	2041.0	1300.0	51.35	157.0
1995	1,047.3	613.9	4,550,208	2259.0	1324.2	46.36	170.6
1996	1,112.5	607.3	4,834,360	2320.0	1266.4	47.95	183.2
1997	1,253.4	630.2	4,064,573	2519.0	1266.5	49.76	198.9
1998	1,216.4	572.2	4,475,000	2503.0	1177.3	48.60	212.6
1999	1,236.4	550.4	4,872,077	2568.0	1132.1	48.15	225.3
2000							

Source: SAMIC

Real producer prices for sheep meat remain on more or less the same level as 10 years ago. Real consumer prices however increased with approximately 7,3 per cent. The result is that the producer share of the consumer prices decreased from 52,5 per cent to 48,1 per cent. It is also interesting to note that slaughtering of sheep decreased with more than 44 per cent since 1991 until 1999.

PORK

Annual producer and consumer prices (c/kg) Basis year = 1990

	Nominal Producer price (c/kg)	Real Producer prices (c/kg)	Slaughterings	Nominal Consumer prices (c/kg)	Real Consumer prices (c/kg)	Producer share in consuper prices (%)	Commercial sow herd
1991	415.8	360.6	2,031,306	791.6	686.6	52.53	123,109
1992	467.0	355.7	2,049,401	979.0	745.6	47.70	124,206
1993	455.4	316.0	2,020,027	1044.3	724.7	43.61	122,426
1994	617.7	393.4	1,815,452	1238.0	788.5	49.89	110,027
1995	531.0	311.3	1,922,583	1333.0	781.4	39.83	116,520
1996	621.5	339.2	2,034,575	1345.0	734.2	46.21	119,681
1997	789.6	397.0	1,846,517	1559.0	783.8	50.65	108,619
1998	724.9	341.0	1,870,000	1598.0	751.6	45.36	110,000
1999	705.8	288.5	1,851,993	1524.0	710.2	46.31	100,000
2000							

Source: SAMIC

Since 1991 until 1999, the real producer price for pork decreased from R3,60/kg to R2,89/kg while the producers' share in consumer prices of pork schrinked from 52,5% to 46,3%. The real consumer prices however increased over the same period from R6,87/kg to R7,10/kg.

<u>An overview</u>

Agriculture became exposed to international trade in the early 1990's. In theory, tariff free imports stabilise the market for consumers of agricultural products, who benefit from goods bought at the lowest prices available on international markets. This situation is aggravated by the greater support that South Africa's competitors get from their governments. In 1998 farmers in the EU and USA received 45% and 22% respectively of their income from various forms of government support.

The real decline in producer prices is believed to be the main contributing factor to low returns on capital invested in farming. This would also explain in part the 25 per cent loss in job opportunities in agriculture since 1988. Declining real producer prices will also impact negatively on the success of establishing new farmers in South Africa.

<u>Findings</u>

The Committee noticed that South African real red meat prices of the primary producer had declined significantly during the past decade, probably to be more in line with the lowest international prices. The gap between producer and consumer prices however widened which partially could be contributed to value adding done after animals had been sold by the producer.

5.6 The impact of deregulation on job opportunities in the red meat industry

Agriculture directly contributes less than 4 per cent to the country's GDP, while the sector employs approximately 13 per cent of the economically active population.

In 1999 the National Department of Agriculture (NDA) undertook a case study based on a mail survey to some commercial farmers to obtain up-to-date information regarding the employment situation in agriculture. The questions asked in the mail survey were also designed to identify trends in various categories of employment within agriculture from 1994/95 through to 1998/99.

The results of the case study showed that the number of farm workers among both regular workers and employment of family workers on commercial farms experienced a downward trend in 1998/99 compared to 1994/95.

The total number of regular workers in employment had fallen by 7,6% over the period from 1994/95 until 1998/99. With the exception for horticulture (up by 1,2%), employment of regular workers fell in every other major type of farming operation covered by the case study. For example, among commercial farmers whose main source of income was field crops, employment of regular workers declined by 6,1%. Among those whose main source of income was either mixed farming or animal production, the decline was even steeper – 11,9% and 14,4% respectively.

The employment of family workers on commercial farms declined with 5,3% between 1994/95 and 1998/99. The greatest decline over the period was among those commercial farmers whose main source of income was animal production (down 27,6%). Among commercial farmers whose main source of income was field crops, the number of family members employed fell by 5,3%. The decline in employment of family members by farmers whose principal source of income was mixed farming was minimal (down 1,1%). Notably, horticultural farmers increased the number of family members they employed by 9,5% over the period 1994/95 to 1998/99.

Employment of seasonal workers rose over the period 1994/95 to 1998/99 by 3,4%. Over the period, the percentage decline in employment of seasonal workers (down 9,3%) was highest among farmers whose main source of gross income from farming operations was animal production. By contrast, while over the same time period seasonal workers in mixed farming operations was also down 4,2%, horticultural farmers increased the employment of seasonal workers by 17,3%. Farmers who derived the most income from the sale of field crops also increased their employment of seasonal workers (up 6,3%) over an equivalent period.

In terms of contract workers, commercial farmers included in the NDA case study reported that, they accounted for an increasing proportion of the agricultural labour force, rising from 18,8% in 1994/95 to 24,2% in 1998/99.

The NDA's case study showed an upward trend in employment of skilled workers by commercial farmers. In 1994/95, 60% of workers employed by commercial farmers were skilled, rising to 65% by 1998/99. This upward trend is reflected in the commensurate decline in the proportion of unskilled workers over the same period, from 40% in 1994/95 to 35% in 1998/99.

In summary, the impact of deregulation on job opportunities in the agricultural sector in general and in the animal sector in particular, is as follows (1998/99 compared with 1994/95):

	Total	Animal	Field Crops	Horticulture
	%			
Regular workers	-7.6	-14.4	-6.1	+1.2
Family workers	-5.3	-27.6	-5.3	+9.5
Seasonal workers	+3.4	-9.3	+6.3	+17.3
Contract workers	+28.7			

From the above-mentioned it is evident that commercial farmers involved in animal production shed the largest number of employment. There could be a number of reasons for this, which could include the following:

- Labour legislation against the background of a free market economy and a globalised world in which the producer must compete.
- Low prices for red meat products (real producer prices for cattle and pigs are respectively 15,5 and 20,1 per cent lower than ten years ago while that of sheep remains more or less the same).
- The number of slaughterings of cattle, sheep and pigs are the lowest in 100 years.
- Output prices increase at a slower rate than input costs. The so-called "cost-price squeeze" phenomenon.

The Committee took note of the Skills Development Act that was implemented in 2000. According to this Act, employers were obliged to contribute 0,5 per cent of their remuneration cost to a Skills Development Fund. In 2001 the contribution will be 1 per cent of their remuneration cost. The Committee acknowledge the fact that better trained employees would eventually result in less job opportunities (because the more people are trained, the more they can do). The Committee was furthermore of the opinion that the lowering or elimination of import tariffs on red meat would result in lower local prices for red meat and eventually also in less job opportunities. The Committee is not against the training of employees or the lowering of import tariffs, but could not over-emphasise the importance of an enabling environment for economic growth to counter the effects of better skilled employees and lower import duties.

South Africa's real GDP growth over the past decade has averaged 1 per cent per annum where our main competitors are growing at rates of between 3 and 8 per cent. Agriculture's contribution to the GDP decreased from 4,3 to 3,2 per cent over the same period (in 1960 agriculture contributed 11,1 per cent to the GDP). The Committee was of the opinion that an increase in employment in the agricultural sector would only be obtained if the position of the agricultural producer improved.

→ Findings

During the period 1994/95 until 1998/99, commercial farmers involved in animal production shed the largest number of employment compared to the field crop and horticultural industries. The agricultural sector needs economic growth for job and wealth creation. A prerequisite for growth in the red meat industry is market growth in the form of –

- *Increased per capita consumption of red meat (per capita consumption of beef, sheep meat and pork in South Africa and SADC is significantly lower than in major producing countries); and*
- *Niche market development focusing on the distinctive competencies of the South African red meat industry (through the assistance of DTI's supply side measures).*

5.7 Support services provided by governmental institutions

The Committee found it difficult to highlight the impact of deregulation brought about through legislation (the past decade) without taking into account the deterioration of support services provided by the NDA and PDA's over the same period. A deterioration in support services affect all role-players in the industry, whether commercial or emerging. By neglecting their responsibilities, governmental institutions weaken the position of producers especially in a time that producers are exposed to international competition. On the other hand governmental institutions also strive to improve the conditions of especially the emerging producers. The two issues have a cancellation effect on each other.

In October 1999 the NDA held an Agricultural Indaba with the aim of establishing an annual forum for dialogue between government, farmers and labour, to deliberate on those issues that are critical for the sustainable development of agriculture. There was general agreement at the Indaba that in order to achieve economic growth and development, various challenges such as improving the competitiveness of industries in this sector, implement farmer settlement, enhance trade promotion and ensuring the creation of jobs in the agricultural sector, need to be addressed.

Research projects

The allocation of State funds in general is diminishing at such a rate that research institutions are under financial pressure.

The ARC also experience budgetary constraints, which are due to cuts in the parliamentary grant. The ARC therefore is forced to seek external revenue. In the 1999/00 financial year, approximately 32 per cent of its total income was generated from external sources, compared to approximately 22 per cent for the 1996/97 financial year. The parliamentary grant decreased from R337 million in 1997/98 to R274 million in 1999/00 – a decrease of approximately 19 per cent in two years.

In contrast, the New Zealand Government's investment in research, science and technology continues to increase each year for the past decade. Since 1994, their Budget has set a pattern of looking three years ahead. The increases announced for the three-year period from 1997/98 to 1999/2000 represent an increase of nearly 20 per cent for research, science and technology. New Zealand is known as the country with traditionally the lowest agricultural subsidies in the world. Their PSE (producer subsidy equivalent) is 0,9%, that of South Africa 4,2%, Australia 6,8%, USA 21,6% and EU 45,3%.

The Committee was of the opinion that the State had the responsibility to provide the necessary infrastructure for research. This includes financial assistance to support research and development institutions to prevent the deterioration of existing structures and services.

<u>*Recommendation*</u>

That Government should financially support research and development institutions to prevent the deterioration of existing structures and services. It was also recommended that Government in consultation with the industry should identify relevant projects.

That the genetic diversity of the live stock industry should be regarded as a national asset and should be maintained by Government (this includes financial support to the SA Stud Book and the INTERGIS).

That Government should accept responsibility to maintain the animal health status of the national herd (this includes financial support to Onderstepoort Biological Products, the only institution that can produce vaccines for the so-called "African diseases").

<u>Value added tax</u>

The red meat industry regards Value Added Tax (VAT) on red meat as unfair. Meat should be regarded as a staple food and thus exempt from VAT. By doing this, red meat would be made cheaper for the consumer. The result would be that the *per capita* consumption of red meat could increase and eventually the industry could grow to create the necessary job opportunities.

The gross retail value of the red meat industry in South Africa is estimated at approximately R15 billion per annum. Complete recovery of VAT at 14% therefore should yield R2,1 billion per annum. It is estimated that only approximately 70 per cent of this amount is recovered currently.

The very basis of VAT evasion is the industry's low margins and high volume. The red meat industry (and all its facets from primary producer via livestock dealers, auctioneers, agents, abattoirs, wholesalers, processors and retailers up to the final consumer) is big business. A 14% advantage over one's competitor is therefore a significant addition to normal profit — especially if it is not declared for tax.

Slaughtering in the informal sector of the red meat industry could amount to an additional 20 to 30 per cent of the official recorded slaughter figures. Total slaughtering of cattle, sheep and pigs for 1999 was estimated at 2,4 million, 6,2 million and 2,4 million head respectively. Gross tax evasion in the informal sector undermines the ability of the formal meat trade to compete with the informal sector.

The wholesale industry is fortunate when they achieve a 6 per cent mark-up, but because VAT is not effectively collected, they now have to compete with the 20 per cent mark-up enjoyed by the unscrupulous players in the industry.

Recommendation

That SARS improve the collection of VAT on red meat products by monitoring slaughter figures at abattoirs and the implementation of structures for VAT collection in the informal sector.

Export of red meat

The Government's policy for agriculture is that growth must increasingly be based on the ability to export and compete on the world market.

Currently there is an over-production of meat in the developed world. South Africa is traditionally a nett importer of red meat. It may seem a contradiction in terms for South Africa, being a nett importer of red meat, to consider exports. Due to a well-developed feedlot industry, South Africa however has a surplus of high quality cuts and a shortage of lower quality cuts for manufacturing purposes. The Committee was of the opinion that South Africa could easily turn into a net exporter of red meat, in particular beef, especially if the emerging sector could be commercialised.

South Africa's export market development effort targeted niche markets through the joint efforts of a few industry role-players and SAMIC concentrating on the superior and consistent quality of South African red meat. It is proposed that products are sold under a genetic brand name that complies with agreed specifications to distinguish it from those of competitors as an exceptionally high quality product. Training of distributors to promote and sell South African red meat forms an integral part in developing the export market.

South Africa has a shortage of export abattoirs that meet the requirements of developed countries. The procedures to qualify as an export abattoir are time consuming and a lengthy process. For example, to become eligible to export red meat to the USA, South Africa's meat inspection system must be equivalent to the USA system of inspection. The determination of equivalence by the Food Safety Inspection Service (FSIS) of the US requires that the NDA responds to the FSIS questionnaires for evaluation. Ultimately the FSIS will carry out a technical review and on-site audit in South Africa.

The NDA therefore has the responsibility to conclude an equivalency protocol with the USA. It was indicated to the Committee that the NDA had achieved satisfactory progress and was confident that the process would be expedited to a conclusion. The opinion of the Committee is that the USA would provide an attractive market for SA red meat. If South Africa could obtain approval to export red meat to the US, it would also be easier to enter other developed countries. The Committee acknowledged the fact that adequate animal health, sanitary and phyto-sanitary (SPS) measures should be maintained to ensure SPS compliance and access to foreign markets.

The recent outbreak of FMD in Kwazulu-Natal, the first confirmed infection since 1956, came as a shock to the red meat industry in particular and for the agricultural sector in general. South African trade of agricultural products is dependent on the containment of the disease. Before the current outbreak South Africa was a declared FMD free zone. This status already has been revoked by the OIE, the international agency that monitors animal diseases, and led to a number of international markets implementing a selective ban on South African red meat. It is therefore also important that red line fences be maintained to international standards. The NDA recently took over this responsibility.

Recommendation

That the NDA ensures and proves that the South African meat inspection system is equivalent to that of the USA and other potential international markets.

That SAMIC takes the initiative in the formation of a red meat export council (Joint Action Group) to assist the red meat industry in promoting exports through the export enhancement programmes of the DTI.

The appointment of independent third parties (assignees) be implemented at export abattoirs performing meat hygiene standards as allowed under the new Meat Safety Act (Act 40 of 2000).

That animal disease control fences be erected and maintained where required to meet international standards.

Stock theft

Stock theft is one of the biggest problems of the livestock producer in South Africa. According to figures released by the Stock Theft Unit of the SAPS, 72 695 cattle was stolen in 1999, compared to 24 986 in 1990, an increase of approximately 191 per cent over the relevant period. Regarding sheep, an increase of approximately 72 per cent (139 288 in 1999 compared to 80 802 in 1990) was experienced over the same period. The Stock Theft Unit also found that the number of cases reported decreased on an annual basis but the number of stock stolen per incident, increased (due to the involvement of syndicates).

In some African countries, like Tanzania, stock theft is regarded as "economic sabotage" and persons found guilty of stock theft receive a stiff penalty. It seems that sentences for stock theft in South Africa is not standardised and that the culprits are not deterred by the existing law enforcement and criminal justice system.

In order to further combat theft, the Minister of Transport was requested to persuade the PDA's to give additional support to the fight against stock theft. The opinion is that the Department of Transport and the provincial department's could play an important role in combating stock theft as stolen stock are usually transported by road. Studies indicated that approximately 70 per cent of stolen animals found its way to urban areas *via* butcheries and "street hawkers".

The Committee was informed about the SAPS's intention to (over time) close down specialised units, including all stock theft units. The SAPS felt that general policing would be improved by such a step. The Committee was of the opinion that the closing down of the stock theft units would be to the detriment of the entire industry in the fight against stock theft. This will also negatively impact on the competitiveness of the South African red meat industry.

The Animal Identification Bill is in the process of finalisation and would probably be promulgated during 2001. This Bill will eventually introduce the concept of a national identification mark and makes provision for the tattooing of cattle under the age of 18 months. This will enable weaner producers and the feedlot industry to market unblemished hides, and to retain the advantages of positive animal identification and traceability.

Recommendation

That the Animal Identification Bill be promulgated as soon as possible.

That measures be put in place to combat stock theft more effectively (e.g. the Act on the identification and marking of animals and the Pounds Act).

That the red meat industry be kept informed in the process of the proposed closing down of the stock theft units.

Traceability

The rules of origin and traceability are becoming critical factors in international trade negotiations. A typical trace on an animal could reveal where and when an animal was born, who owned it at any time, what the animal was fed, etc. The new Integrated Registration and Generic Information System (INTERGIS) envisaged for South Africa could be used to control animal movement and could also be used as an efficient tool to combat stock theft.

There is also a growing concern among consumers about the origin, the safety and wholesomeness of meat. Product traceability gives retailers/consumers added confidence and guarantees about the above-mentioned.

Recommendation

The development of a traceability system for export certification be implemented.

An investigation be conducted into the possibility of the integration of INTERGIS and the Animal Identification Bill into a National Traceability System.

The auditing of a National Traceability System be done by a competent independent third party.

Meat hygiene standards and classification

One of the negative effects of deregulation was the deterioration of meat hygiene standards. As previously mentioned, the abolition of the controlled areas in 1990, led to a shift in livestock slaughter patterns – from the consumer centers to the areas of production (the rural areas). This resulted in a huge increase in the erection of small and medium abattoirs in the production areas. Some of the "informal" abattoirs compete on an unequal footing with registered abattoirs where stringent health and hygiene requirements have to be met. Currently there is little or no monitoring of the smaller abattoirs that are allowed to operate within the market but according to their own rules (the problem is thus the enforcement of the regulations due to either a lack of funds or suitably trained personnel). This set the scene for destructive competition to prevail. A lack of funds to monitor the application of meat hygiene standards resulted in the partial disintegration of health standards.

The Cape Metropolitan Council recently launched a project to clean up informal butcher trade in order to prevent the increase of health risks. An increase in tapeworm infestation prompted the Council to step in and improve the conditions under which animals are slaughtered by informal butchers selling meat in townships around the city. On many street corners, informal butchers sell meat on blood-spattered tables without realising the dangers this pose to their customers. Much of the meat comes from slaughtered animals that were never inspected. A study conducted by the Medical Research Council show that the incidence of tapeworms has increased enormously amongst adults and children in certain townships. In a suburb of Cape Town, a researcher found amazingly high rates of tapeworm infestation at four schools. At two of the four schools, every pupil was infested, while 94 and 91 per cent respectively were infested at the other two schools. Tapeworms, which can grow up to two meters long, can cause inflammation of the intestines, a potentially fatal condition.

In 1999 the Directorate of Veterinary Services assigned a task team to monitor and audit the meat inspection procedures at 25 abattoirs countrywide as were randomly selected by them. The main objective was to evaluate the procedures followed to detect the presence of measles in beef carcasses. There was a marked difference between the occurrence of measles found at abattoirs with mechanical slaughter lines (the bigger abattoirs) where the incidence was relatively higher compared to those abattoirs with manual lines (the smaller abattoirs). There was also a dramatic increase in the incidence of measles at a few abattoirs when the task team member got involved in physical meat inspection. This was a clear indication that the detection of measles is not always on standard. The majority of smaller abattoirs with manual slaughter lines only employ one meat inspector. Most of these abattoirs slaughter more than that their approved daily throughput. This and the fact that the meat inspector often has other, unrelated tasks, to fulfil such as carcass classification and slaughter floor supervision, contribute to less time to do meat inspection.

Agencies such as SAMIC and the RMAA provide a package of services to abattoirs. This can comprise meat inspection, meat classification and slaughter & abattoir management. It was found that in most such cases meat inspection played a secondary role and the inspector concentrated on aspects that are more economical and advantageous for the abattoir owner. The possible reason is that the owner may cancel the contract with the agency and provide his own services or those of another agency if he does not receive maximum financial benefit of the agent.

The Directorate of Veterinary Services, *inter alia* proposed that meat inspectors should only be employed by a party not related to an abattoir, such as SAMIC or RMAA to prevent direct or subtle intimidation if employed by the abattoir owner.

The National Federation of Meat Traders mentioned in their submission to the Committee that it would appear that neither the NDA nor the PDA's, have the ability to implement effective control over the health aspects of the red meat industry. Their biggest concern is that the health and quality standards applied in the industry are questionable. The Federation felt that if the relevant authorities were not capable of the enforcement of legislation and regulations, then consideration should be given to the delegation of these responsibilities to an accredited third party.

The Meat Safety Act (promulgated on the 1st of November 2000) supports the above viewpoint. The new Act stipulates *inter alia* that meat inspectors must be independent, that all meat slaughtered for human or animal consumption, have to be inspected and only those abattoirs that meet the minimum health standards, will be allowed to classify their meat. In order to prevent that the enforcement of meat safety standards becomes too expensive, while ensuring that standards are maintained, it was legislated that a minimum standard will apply.

According to the National Federation of Meat Traders the Government already acknowledged that it does not have the finance, or manpower to effectively police the implementation of the Meat Safety Act.

The Directorate Plant Health and Quality is responsible for the classification and marking of carcasses as well as marking (labeling) of red meat in the retail trade. A product derived from red meat does not fall in the scope of this Directorate's responsibility. In 1992 the grading system (as was monitored by the Meat Board) was changed to a system in terms of which carcasses were classified according to age and fatness. Classification is voluntary in the sense that abattoirs may decide if they wish to classify carcasses or not. However, if an abattoir decides to classify it has to apply for an identification code and all carcasses leaving the abattoir have to be classified and rollermarked.

Originally, the Meat Board was appointed by the Department of Agriculture as assignee responsible for the verification/auditing of the correctness of classification at abattoirs. With the demise of the Meat Board, SAMIC was appointed as assignee with the same function and responsibilities. Currently, approximately 95 per cent of all commercial slaughter is classified.

→ *Recommendation*

That meat inspection and classification services be done independently from the abattoir owner.

That Government expedites the process of establishing a national food control agency to coordinate food safety matters on a national basis.

Animal health services

The Committee was informed that the Directorate of Veterinary Services for a number of years has attempted to fill vacant state veterinarian posts at uncompetitive salaries. The result is that the vacant posts were not filled and that the stock inspector, who plays a vital extension role, also is virtually non-existent.

In 1999 approximately 60 per cent of all state veterinary posts were vacant. Veterinarians were also not allowed to render services in regions that experienced vacancies. Apart from the large number of vacancies for veterinarians in the Eastern Cape and Northern Cape Provinces, there was a shortage of funds for medicine, vehicles, fuel and even licenses. Scalp is a major problem in the Eastern Cape, but it seems that there is just not enough state veterinarians and other resources to curb the problem.

The solution would be that the Directorate of Veterinary Services appoints sufficient efficient state veterinarians and stock inspectors to attend to animal health. An alternative would be to utilize private veterinarians on a contract basis (or accredited by the NDA) to deliver services on behalf of state veterinarian services but on a commercial basis.

The Committee was strongly of the opinion that aspects regarding animal health that could affect the national herd (which is a national asset) and veterinary extension services should be approached on a national level and not on a provincial level. The Committee was of the opinion that there was a lot of confusion in this regard with the consequence that national and provincial structures were not co-ordinated.

The outbreak of FMD in Kwazulu-Natal again stressed the important role that government plays in disease control. The Committee stressed that FMD was a controlled disease and as such the Government's responsibility to combat. As a result of this outbreak it is necessary that certain policy aspects should be ironed out, e.g. –

- Harbour and border controls
- Compensation for producers if livestock has to be destroyed; and
- Erection and maintenance of border and veterinary fences.

A national FMD working group, representative of the NDA and industry had been established by the Minister in order to have a co-ordinated approach to combat FMD. The Committee was of the opinion that a permanent working committee on animal health and livestock matters should be established to obtain an effective method of liaison between the NDA and the industry with a view to addressing animal health and other issues of substance on a sustained basis in the future.

Recommendation

That veterinary graduates (like medical students) should do a one year compulsory community service (discussed on page 35).

That the NDA facilitate the filling of vacant posts (regarding animal health technicians) and ensure that those personnel will have the necessary equipment and transport to do their work.

That a permanent working committee on animal health and livestock matters be established to obtain an effective method of liaison between the NDA and the industry with a view to addressing animal health and other issues of substance on a sustained basis in the future.

That harbour and border controls be complemented by outsourcing certain functions to competent third parties.

That issues such as animal health; extension services and training be executed on a national level.

Food Control Agency

The NDA had held a workshop on the potential of establishing a Food Control Agency about four years ago. Nothing official had since transpired. The Committee acknowledged that food safety had become a most important issue and the main driving force of consumer demand.

The Committee was also informed that legislation had been promulgated in the EU (to be effective from the first of May 2001), that no country in the EU would be allowed to import meat products from countries that used animal by-products in any of their production processes.

Recommendation

That Government expedite the process of establishing a national Food Control Agency.

That the NDA be requested to ensure that the South African red meat industry adheres to the animal by-product legislation of the EU countries.

6. FINDINGS AND DISCUSSION

The Committee was of the opinion that a deregulated red meat industry mainly faces two challenges. On the one hand is the upliftment and commercialization of the emerging red meat sector and on the other hand is the need for the National Department of Agriculture and the Provincial Departments of Agriculture to improve support services to the red meat industry.

The Committee furthermore agreed that a balanced approach should be found between cheap food for the consumer, maintenance and creation of job opportunities and the development and empowerment of the emerging red meat producers. To ensure sustained agricultural production and compete against subsidised meat in a global environment is an uphill battle for the emerging red meat producer.

It was made clear to the Committee that the meat industry had no objection to the importation of red meat as long as the local industry could compete on an equal footing with its competitors. Imports from Europe, for example, are heavily subsidised, and therefore it is necessary that the 40 per cent tariff be correctly applied to imports from those countries. The red meat industry accepted that any revised tariff imposed, should be compatible with WTO regulations. The meat industry also did not have a problem with the current level of tariffs on red meat, but found the application thereof unacceptable (eg. under invoicing of imports, law enforcement etc.). To combat irregularities with regard to the import of red meat, the meat industry proposed a fixed tariff system, calculated by means of a formula, to replace the current FOB *ad valorem* tariff system.

The deregulation measures implemented in the red meat industry opened the playing field for the emerging red meat sector, but the playing field is not yet level. There might therefore be strong arguments for targeted resource transfers from Government to resource poor farmers, designed to make them more productive and competitive. Such transfers would most appropriately take the form of research and development, information flows, training, and infrastructure, so that it may become possible for farmers to be integrated into the deregulated market and be empowered to respond appropriately to market incentives. These interventions by Government might be required to "kick start" the rebirth of the emerging red meat producer.

The Committee expressed its hope that all the efforts put into this report will be worthwhile in the sense that a better enabling environment could be created for the whole value chain of the red meat industry. This means that the recommendations of this report should be activated into viable action plans.

ABBREVIATIONS:

African Growth and Opportunity Act	AGOA
Agricultural Research Council	ARC
Association of Meat Importers and Exporters	AMIE
Board on Tariffs and Trade	BTT
Bovine Spongiform Encephalopathy	BSE
Department of Agriculture: Directorate: Plant Health and Quality	DPHQ
Department of Trade and Industry	DTI
European Union	EU
Food and Allied Workers Union	FAWU
Food and Mouth Disease	FMD
Integrated Registration and Generic Information System	INTERGIS
National Agricultural Marketing Council	NAMC
National Department of Agriculture	NDA
National Emerging Red Meat Producers' Organisation	NERPO
National Federation of Meat Traders	NFMT
National Wool Growers' Association	NWGA
Onderstepoort Veterinary Faculty	OVF
Organisation for Economic Co-operation and Development	OECD
Organisation International des Epizooties	OIE
Perishable Products Export Control Board	PPECB
Provincial Department of Agriculture	PDA
South African Meat Industry Company	SAMIC
South African National Civic Organisation	SANCO
South African Police Service	SAPS
South African Revenue Services	SARS
Southern African Development Community	SADC
Southern African Livestock and Meat Forum	SALMF
Red Meat Abattoir Association	RMAA
Red Meat Producers' Organisation	RPO
World Trade Organisation	WTO

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