
**REPORT ON THE INVESTIGATION INTO THE EFFECT OF
DEREGULATION ON THE SOUTH AFRICAN
OSTRICH INDUSTRY**

**A REPORT OF THE OSTRICH SECTION 7 COMMITTEE
AS WAS APPOINTED BY THE
NATIONAL AGRICULTURAL MARKETING COUNCIL**

15 APRIL 2003

**Investigation by the Ostrich Section 7 Committee (a Committee of the NAMC) into the effect of
deregulation on the South African ostrich industry**

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I EXECUTIVE SUMMARY

The South African ostrich industry is one of a few agricultural industries where South Africa is the undisputed world leader in terms of farming as well as the first level of value adding. The latter refers to slaughtering, meat processing and the tanning of skins. During the past ten years, however, South Africa market share in the world of these exclusive products declined from approximately 85% in 1993 to approximately 60% in 2002. Furthermore, in the recent past a number of critical issues appeared threatening to diminish not only South Africans global leadership, but also the mere existence of a large number of ostrich producers, processing units (abattoirs and tanneries) as well as the related industries.

The main purpose of this investigation is to inform the NAMC and the Minister for Agriculture and Land Affairs about the current status of the South African ostrich industry (after deregulation in 1993), about the current status of the international ostrich industry and to make recommendations in order to enhance the viability and transformation of the South African ostrich industry.

An ostrich produces feathers, leather and meat. Originally ostriches were known for their feathers, but since 1970 ostrich skins became the major source of income. Since the mid nineties, ostrich meat started to make a bigger contribution towards the gross income per bird. Currently the income from these three products is leather 50% – 70%, ostrich meat 30% - 45%, and feathers 5% - 15%.

The local ostrich industry is structured as follows: Producers belong to ostrich producer organisations according to provinces. These provincial organisations are members of the South African Ostrich Producers Organisation (SAOPO). The processors (ostrich abattoirs and ostrich leather tanneries) are represented in the National Ostrich Processors Organisation of South Africa (NOPSA). The South African Ostrich Business Chamber (SAOBC), representing both NOPSA and SAOPO, was established in 1998. The SAOBC is regarded as the umbrella body for the South African ostrich industry.

World production of slaughter birds was estimated at 560 000 for 2002, with a South African contribution of 340 000 birds. South African slaughter volumes exceeded 300 000 for the first time in 1997, resulted in a world over supply of ostrich leather, followed by a tumbling of leather prices and inevitable liquidation of a number of farmers. During the years of 1999 and 2000 slaughter volumes dropped to approximately 240 000 per annum, but increased during the past two years again to above 300 000 birds per annum. Although the difference in volumes may seem irrelevant, the world supply and demand volumes are delicately balanced and 50 000 skins difference from the previous year has a significant impact on the processor and ultimately on the producer. The relative

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low success rate of other ostrich producers in the world in countries such as Australia, Israel, China and the EU, is a disguised blessing for the South African ostrich industry. The ostrich industries in these countries are mainly production driven and rely on South Africa to do market development on their behalf. Along this vein the South African ostrich industry's contribution to the NEPAD initiative has to be evaluated very carefully, because the transfer of production skills gained over years of experience may cause a total over supply of ostriches in the world and consequent job losses for thousands of South African producers, processors and their employees.

The price of ostrich meat in the export market increased slowly from 1993 to 2000. After the outbreak of BSE and FMD in Europe at the end of 2000, the European demand for ostrich meat exceeded supply by far, resulting in an increase of nearly 40% in ostrich meat prices between December 2000 and September 2001. The high demand continue through 2001 and with the extremely weak Rand from December 2001 up to October 2002, ostrich meat contributed better than ever to the total realization of a slaughter bird.

However, during this same period ostrich leather prices tumbled by 38% in Dollar terms from an average of USD16 per square foot in January 2001 to USD10 per square foot by July 2001. Leather prices have never recovered since then and were still around USD10 per square foot at the beginning of 2003. The sharp recovery of the Rand against the USD and Euro since October 2002, put tremendous pressure on the total realization per ostrich today because ostrich meat prices decreased by 30% (in Euro terms) since the BSE high demand / high price period. Input costs of ostrich farmers increased tremendously since the weakening of the Rand in 2001 (maize prices more than doubled). High input costs together with the strengthening of the Rand compared to other foreign currencies since October 2002, put enormous pressure on profits in the ostrich industry (in other words the strengthening of the Rand is very much to the detriment of the South African ostrich industry). The total nett realization per ostrich for processor and producer is therefore much lower than in the past and a number of ostrich farmers and processors have left the industry because of liquidation or related reasons – the Indonesian owned company ORYX which was situated in South Africa, once one of the big five role players, is an example of an insolvent producer/processor.

Approximately 90% of ostrich meat is exported, mainly to the EU. The EU has very specific regulations towards the import of ostrich meat from third world countries such as South Africa. Regulations pertaining to Animal Health and Veterinary Public Health are prescribed with detailed specifications. This requires specific government veterinary infrastructure with dedicated procedures and systems to control, audit and certify export processing and export consignments. For exports to continue, it is essential to expand the capacity of the NDA's National Department of Veterinary Services.

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The South African ostrich industry is aware of its social responsibilities to bring Previously Disadvantaged Individuals (PDI's) into the mainstream of ostrich production. The industry accepted the challenge to make quicker progress with PDI incorporation into farming and processing activities. The issues identified in this report also restrict the industry to accelerate above necessities. The industry is however committed to play its role in the Strategic Agricultural Sector Plan as approved by the President of South Africa (in November 2001).

II RECOMMENDATIONS

The Committee unanimously presents the following recommendations, each one with its motivation.

1. AGRICULTURAL STRATEGIC PLAN

The industry accepts its role and participation in the Strategic Plan for South African Agriculture and should therefore be consulted.

The Strategic Plan for Agriculture will have an influence on the future of agriculture in South Africa. It is regarded as the key to success for agriculture in this country. It refers to visionary elements. The South African Ostrich Business Chamber is in full support of the Strategic Plan as a matter of principle, but there are certain practical problems that must first be attended to.
(pp 23-25)

2. BLACK ECONOMIC EMPOWERMENT

The industry's efforts on a strategic plan on empowerment; also *via* a national workshop, as organised by the industry and its facilitators, to take place in 2003, must be supported.

The ostrich industry is in the process of establishing a well-defined strategy for the introduction and support of previously disadvantaged citizens. Various programmes are already coming into place and will be supported through management and mentorship programmes on all the levels of the industry, from production through manufacturing to marketing and tourism.
(pp 45-49)

3. CENTRAL COMPETENT AUTHORITY (NDA)

Government as central competent authority, internationally recognised as such, must provide the following in order to maintain a viable South African export ostrich industry:

3.1 Central Veterinary Office

- Capacity and expertise at national veterinary level must be in place.
- A solid base to liaise and co-ordinate with importing countries, as well as with international regulatory organisations, such as the Organisation International des Epizooties (OIE), is needed.

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- Sufficient capacity in terms of manpower at all levels must be created.
- There must be active engagement in establishing export protocols for new markets.

3.2 Veterinary Public Health

- Veterinary export certification is an absolute necessity for continued trade in ostrich meat with the European Union.
- Full-time veterinarians and meat inspectors must be at each export plant.
- Obtain clarity on the delegation of this service to the provincial veterinary service department.
- Meat quality assurance mechanisms must be put in place (e.g. traceability and the HACCP programme must be maintained according to international standards).

3.3 Veterinary Animal Health and Disease Control

- An effective disease surveillance programme must be kept in place.
- Government should enforce the implementation of compulsory vaccination against New Castle disease as a measure to provide protection.
- Export of meat requires strict veterinary disease control measures, systems and procedures, which are to be properly managed by qualified veterinarians operating according to acts and regulations which are internationally accepted.
- That the NDA and provincial veterinary services, representing the veterinary services of South Africa, adhere to the requirements of importing countries regarding the appointment of state veterinarians at export abattoirs in order to ensure the continuation of South Africa's export status.
- That the NDA and Provincial Departments of Agriculture execute the responsible roles in terms of functional and auditing responsibilities as outlined in the Meat Safety and Animal Health Acts and the Constitution of South Africa.

3.4 National Residue Monitoring Programme (NRMP)

- Allocate the tender (service contract) for the residue monitoring programme to the Onderstepoort Veterinary Institute to ensure continuity and integrity of the system.
- Finance infrastructure and equipment for the residue monitoring programme as critical element.

All these extended considerations under Recommendation 3, refer to South Africa's ability to remain an exporter of ostrich meat. Only Government, as central competent authority, is able and has the duty to put certain measures in

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place. A Central Veterinary Office must have capacity and the technical ability to liaise, negotiate and secure international requirements. Some uncertainties between national and provincial responsibilities must be sorted out.
(pp 50-52 and 57-60)

4. PRODUCT DEVELOPMENT

A co-ordinated approach to all investigations (including financial support) on job creation, value-adding and product development, with reference to the full value chain, must be followed.

An industry, which is heavily geared to the export of its products, may possibly possess the opportunities to contribute meaningfully to further job creation on the domestic scene. More linkages, further manufacturing and product development may add value and expand the economic base of the ostrich industry.
(pp 27-39)

5. MARKETING

International market realities are to be investigated by the industry; followed by the implementation of a marketing campaign.

Ostrich products were previously marketed through a one channel marketing system onto sophisticated markets worldwide. Since deregulation, the marketing of ostrich products moved to a free marketing system. The current status of export markets for ostrich products is the result of development and hard work done by South Africans. South Africa was and still is the leader in production and supply to the world market that was developed by South Africans. Since deregulation in 1993, the major competitors around the world introduced their products to the existing market without developing new markets or developing new products. This resulted in a relatively small and unstable market.
(pp 40-44)

6. MARKET ACCESS

Government in its negotiations on foreign trade, must keep the specific nature and requirements of the industry and its products in mind.

The industry is dependant on regular negotiations on market access, trade agreements and export protocols. Government, through its supporting structures can assure that these negotiations are done with positive results for the industry. Prior consultation with the industry is therefore a necessity.
(pp 42-44)

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The reinstatement of the agricultural attaché in Brussels is also recommended.

The above-mentioned is necessary for continued market access to EU member states, to address marketing problems timeously and to guide that the EU does not issues new directives the South African ostrich industry could not comply with.

The appointment of a representative at the OIE and WTO offices in Europe is also proposed.

A representative at the OIE and WTO offices in Europe could assist in negotiation regarding animal disease issues, trade agreements, etc.

7. EXPORT AND IMPORT CONTROL

The imposition of possible control measures on the export and import of live ostriches and ostrich products must be investigated.

Genetic material and live ostriches were freely exported after the deregulation of the industry. The introduction of control measures on both the import and export of ostrich products such as generic material should therefore be investigated.
(pp 42-44)

8. RESEARCH

Capacity in research and the necessary expertise supporting it, must be rebuilt.

Research on ostrich production, animal health and processing is of utmost importance for the ostrich industry to stay competitive in a world market. Government should seriously reconsider investing in intellectual capital to do research and provide the competitive advantage. Research and development will ensure that South Africa stays in the lead.
(pp 57-60)

9. STATISTICS

Statutory measures on the collection of statistics on various aspects of the industry must be put in place. The SAOBC must be given the authority to administer the process for the collection of statistics.

Information drives agricultural development. Statistics about the ostrich industry is supplied on a voluntary basis. It will be to the benefit of all role players in the industry if more comprehensive information on the industry is being collected and disseminated in a well structured manner.
(pp 53-54)

10. NEPAD

Role players must consult on practical implementation measures for the industry's NEPAD involvement.

The world supply and demand volumes of slaughter birds are delicately balanced. Due to this, the South African ostrich industry's contribution to the NEPAD initiatives has to be evaluated carefully. The transfer of production skills, gained over years of experience, may cause a total over-supply of ostriches / ostrich products in the world and consequent job losses for thousands of South African producers, processors and their employees while the supposed beneficiaries will also not benefit.

(pp 23-24)

11. ACTION PLAN

On acceptance of this report, and its recommendations, a plan of action must be compiled amongst the National Department of Agriculture, the NAMC and the ostrich industry with reference to the responsibilities of role players.

It is specifically avoided in the recommendations, to spell out the allocation of responsibilities. It is therefore recommended that the main role players, through appropriate coordination, compile an action plan by which structured progress may be obtained.

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1. INTRODUCTION

1.1 Background

The National Agricultural Marketing Council (NAMC) is a statutory body and primarily an advisory body for the Minister for Agriculture and Land Affairs. On 26 June 2001 the Council decided to establish a Committee (in terms of section 7 of the Marketing of Agricultural Products Act, 1996) to conduct an investigation into the effect of deregulation in the ostrich industry. The Committee held its first meeting on 4 December 2001.

1.2 Composition of the Ostrich Section 7 Committee

In September 2001 the NAMC invited role-players in the ostrich value chain to nominate representatives on the Committee. The members of the Committee were appointed from the list of nominations that were received by the NAMC.

The Ostrich Section 7 Committee comprised of the following members:

National Agricultural Marketing Council

Mr Inus Bezuidenhout (Chairperson)	Member: NAMC
Mr Schalk Burger (Driver)	NAMC Secretariat

Producers

Mr Rothman Nqumashe	Chairperson: Eyethy Small Farmer Association
Mr Stefan Maree	Chairperson: SA Ostrich Producers' Organisation
	Chairperson: SA Ostrich Business Chamber
Mr Gavin Holmes	Chairperson: Eastern Cape Ostrich Producers' Org
Ms Fiona Benson	Blue Mountain Farm, Hopefield

Processors

Mr Zorb Caryer	Managing Director: Camdeboo Meat Processors
Mr Kobus Goosen	Executive Director: Klein Karoo Co-operative
(Secundus: Dr Willem Burger - Manager: Research and Development: Klein Karoo Co-operative)	
Dr Francois de Wet	Managing Director: Mosstrich Abattoir

Labour

Mr Jacobus du Plessis	SACTWU
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Marketing

Mr Pieter Strijdom	President: International Ostrich Association
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South African Ostrich Business Chamber

Dr Francois Hanekom Chief Executive Officer

Provincial Departments of Agriculture

Dr Luba Mrwebi Director: Veterinary Services: Eastern Cape

Mr Jan Theron Assistant-Director: Western Cape

1.3 Terms of reference

It was decided that the Committee would specifically look into the following issues (and it was accepted to be the framework for the final report):

- The South African ostrich industry and its status in terms of the world's ostrich industry (in other words, to define the local ostrich industry, the world ostrich industry and the relation between them).
- The previous, current and possible future marketing systems for ostrich products.
- The ability of emerging ostrich producers to participate meaningfully in the production of ostrich products and to propose measures to increase their participation.
- The impact of current hygiene standards and inspection services in the ostrich industry.
- The collection and dissemination of data and industry information.
- The evaluation of current export enhancement programs to promote the export of ostrich products.
- The importance of research and development

1.4 Request for inputs / comments

All the role players in the ostrich industry were requested to submit (in writing) to the Committee any proposals, concerns, inputs, etc regarding the marketing of ostrich products. Communication mediums that were used include a press release in the Government *Gazette*, a fax to all the directly affected groups that are registered with the NAMC (in terms of section 20 of the Act), articles in national and provincial newspapers / magazines and announcements / talks on the radio. Only a limited number of inputs were received. The indications were that role-

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players in the ostrich industry rather want to respond in a unified manner, through the SAOBC, to the Ostrich Section 7 Committee.

2. HISTORICAL OVERVIEW

Historical overview of the South African ostrich industry

The ostrich belongs to the order of birds known as ratitae – flightless birds. This is a small group – including the Emu, Rhea, Cassowary and the Kiwi.

As long as 20 (or even more) million years ago, ostriches were found around the Mediterranean Sea. Detailed pictures of ostriches have been discovered in ancient Egyptian tombs. Roman generals and their wives wore decorative feather trimmings. In Southern Africa the San hunted ostriches, as a source of food, and ostriches also formed a very popular theme for many of their rock paintings. The partiality that Elizabeth I and Marie Antoinette showed for the ostrich feather as an exotic article of fashion, established it so firmly that its popularity lasted through the 19th century.

Why, in an overview of the South African ostrich industry, are references made to ancient times? A perceptual analyst has pointed out that one of the great confusions in the interpretation of modern ostrichology is the assumption that ostriches have been part and parcel of mankind's history and development for centuries. Only the feather component (for decoration and artistry) was mentioned above. But the influence of the Elizabeths and the Marie Antoinettes were so strong that it lasted through centuries. The following paragraphs support the notion that ostrich, as a modern product, is scarcely 50 years in existence.

It was in 1838 that South Africa started to export feathers to Europe. When the numbers of wild ostriches decreased dramatically because of this whim of fashion, efforts were made to tame and breed ostriches from around 1850. However, ostrich feather farming, as an organised undertaking, only came on line from about 1863 after wire fencing and lucerne farming were introduced.

From 1870 ostrich farming became an extremely profitable industry, aided in no small way by the ingenious invention of an incubator for ostrich eggs in 1869. Between 1900 and 1914 the industry reached a zenith in what is known as the second ostrich feather boom. It was a time of unparalleled wealth for both farmer and merchant.

Towards 1910 the American, and especially the Californian ostrich breeders were offering competition to the South African breeders, who realised they might lose their place in the world market unless they could produce a feather of superior quality, probably through cross-breeding. With this in mind a special expedition was sent to North Africa to re-capture a very specific type of bird that had been used in earlier cross breeding attempts. Eventually, after many hardships, a

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number of these “Barbary” ostriches were found north of Timbuktu and covertly shipped to South Africa. By means of closely monitored cross-breeding, the highly successful “Evans” type of plume evolved which became famous world-wide for its density, gloss, strength and curl.

In 1913 ostrich plumes (feathers) ranked fourth on the list of South African exports after gold, diamonds and wool. Export earnings were close to 3 000 000 pounds through the sale of plumes. At that stage a pound (454g) of feathers regularly fetched more than 12 pounds. In considering this price one must bear in mind that in comparison a teacher at that time seldomly earned more than 100 pounds a year!

In 1914, with close to a million ostriches in South Africa, the industry collapsed, virtually overnight, and bankruptcies became the order of the day. The cause for this feather market slump were: the world-wide social-economic effect of World War I; the fact that ships could not transport feathers to overseas markets, the advent of the motor-car and its far reaching effects on women’s fashions, especially hats and the over-production of plumes and disorganized marketing. This slump continued until after World War II (1948). A positive result was, however, that ostrich farming was responsible for the large scale cultivation of lucerne. With this feed readily available, it was feasible to fence off camps in which to keep stock, offering a two-fold advantage quickly seen by, especially, the South African sheep-farmers: their stock was safe and overgrazing could be prevented. The extensive lucerne fields called for a considerable modernization of irrigation methods. Truly it can be said that without the ostrich the South African farming community would have been the poorer.

The following historical highlights in the modern phase of the industry are noted:

- The one channel co-operative marketing system was established in 1959.
- The first abattoir was built in 1964.
- A tannery became operational in 1970.
- The one channel marketing system was abolished in 1993.

Since deregulation in 1993, ostrich activities spread from the Klein Karoo region (which maintains its prominent role) into the Southern and Western Cape, to the provinces of the Eastern Cape, Free State, Gauteng, Limpopo, Mpumalanga, North-West and the Northern Cape.

Only a few countries, apart from South Africa, had slaughtered ostriches on a commercial basis before 1993, but after deregulation many countries are trying to catch up South African standards in the farming of an animal, which is known to have the best feed-to-weight-gain ratio.

Today ostrich leather is one of the most beautiful, supple and durable of all exotic leathers. It has an aesthetic value for fashion and other connoisseurs. The same

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unique qualities apply to feathers – unmatched for size and beauty, also with some new industrial usages being developed. Today ostrich meat is the best alternative red meat available in the world. It is healthy, contains very little fat and has a low cholesterol content. In 2001, with the BSE crisis in Europe, as well as the latest FMD problems, healthy ostrich meat was in great demand. The demand for ostrich meat decreased since then but is still at relative high levels.

3. PRE-DEREGULATION PERIOD

Former agricultural control boards

The 1937 Marketing Act established a system whereby control boards had all the powers necessary (subject to the approval of the Minister of Agriculture) to control the marketing of the relevant agricultural products. Agricultural control boards were established to regulate the marketing of agricultural products (e.g. the Wool Board regulated the marketing of wool). The number of control boards grew during the 1950s and by 1961-62 over 90% of agricultural production in South Africa was subject to marketing controls. With the exception of the control measures introduced during World War II, the principles and mechanisms of the 1937 Act (re-promulgated in 1968) provided the legal framework for statutory interventions in agricultural marketing until 1996.

Under the 1968 Marketing Act, the South African agricultural marketing system proved to be financially, economically, and ultimately politically unsustainable. Reform began slowly in the 1980s, and gathered speed in the 1990s. The Marketing of Agricultural Products Act (Act 47 of 1996) stipulated that all remaining control boards (at that stage 14 of them) should close by the end of 1997. As a result, agricultural price determination in South Africa was transformed, with the main influences for any commodity now being domestic supply and demand conditions, import and export parity prices and the free-market system.

Deregulation of the South African ostrich industry

Ostrich producers did not enjoy the protection (provided by the 1937 or 1968 Marketing Acts) which most agricultural products had under the agricultural control board system. The South African ostrich industry however utilized the powers granted by the Minister of Agriculture under Article 241 of the Co-operatives Act. This Article provided that producers, as members of a co-operative, could request the Minister of Agriculture, after an unanimous vote in favour, to announce by Government Notice, the compulsory delivery of a product through a nominated co-operative - in other words to operate a single channel marketing system.

In 1959 the members of Klein Karoo Co-operative (KKC) called on the Minister to announce a one channel delivery system for ostrich feathers, followed by the other products at later dates. In 1981 the Minister acted on a request from KKC to announce the compulsory sale of ostrich products through the said Co-operative. In 1988 KKC persuaded the Minister for Agriculture to extend its single channel monopoly. The motivation used for the granting of sole marketing rights to the KKC was that farmers around Oudtshoorn needed to be protected

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because there was no other manner in which they could earn a satisfactory income. In addition to legislation promulgated in terms of the Co-operatives Act, ostrich farmers in South Africa also have to operate under the restrictive provisions of Section 17 of the Livestock Improvement Act that prohibits the export of ostrich breeding material.

The success of ostrich business and the prevalent problems in, for example, the red meat, mohair and wool industries, urged farmers elsewhere in South Africa to turn to ostrich farming. This led to a potential clash with the system of compulsory delivery to the KKC and gradually producers in other areas started to put pressure on the Minister of Agriculture to abolish the one channel marketing system in the ostrich industry.

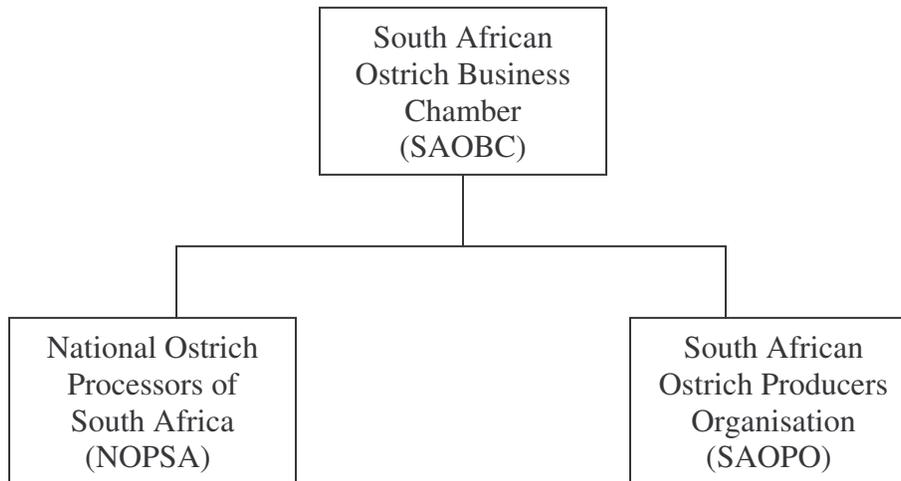
The Kassier Commission (December 1992) investigated the activities of control boards and, although it was not called for, the Commission also investigated and addressed the ostrich industry in their report. The South African Government was influenced by the recommendations of the Kassier Report and adopted a policy to encourage a more free marketing system for all agricultural industries.

On 5 November 1993, the Minister of Agriculture withdrew by Government Notice, under Section 241 (3) of the Co-operatives Act (Number 91 of 1981), Government Notice R981 of 17 May 1988. This terminated the statutory “one channel” marketing system in the South African ostrich industry and introduced a free market system. It was the beginning of a new era in the ostrich industry. This withdrawal followed on the decision on 22 October 1993 by members of KKC to concede to Government’s deregulation policy. In a press release, the Minister stated that the ostrich industry of South Africa was a world leader. He called on new role-players to act with sensitivity and to co-operate in a responsible manner to build the industry to the benefit of all rural areas and job creation specifically, and the country’s economy in general. This was done as since deregulation a further nine ostrich export abattoirs were built (only one KKC abattoir was in operation before 1993), and new tanneries and feather factories were opened which created a lot of new job opportunities.

4. CURRENT STRUCTURES IN THE OSTRICH INDUSTRY

The current structures in the South African ostrich industry

The current structures in the South African ostrich industry could be summarized as follows:



The South African Ostrich Business Chamber (SAOBC)

The founding meeting of the South African Ostrich Business Chamber was on 26 November 1998. The Chamber has four directors representing producers and four directors representing the processors in the South African ostrich industry. The first staff member started work on 1 July 2000, and the first full-time manager on 1 March 2001. The mission of the SAOBC is to promote a sustainable, economically viable ostrich industry through co-operation between stakeholders. The first National Ostrich Conference (organized by the SAOBC) was held in Port Elizabeth in October 2001.

The objectives of the SAOBC include the following –

- to promote, co-ordinate, supervise and secure the interests of all duly registered businesses involved in the production and processing of ostriches and ostrich products
- to foster proficiency of production
- to foster and promote relations between the role-players in the industry
- to encourage a code of conduct
- to contribute towards the creation of an international environment suitable for export

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- to communicate with government and government agencies and other directly affected groups
- to identify and promote initiatives aimed at improving the status of the ostrich industry
- to secure solidarity of the organisations in the ostrich industry
- to provide a discussion forum
- to support or oppose any proposed legislation
- to administer fees for the purpose of carrying out the objectives of the SAOBC
- to gather statistics and publish tendencies
- to provide a communication channel
- to initiate strategic research.

Role of the SAOBC

The SAOBC has been active with attempts to create an enabling marketing environment for ostrich products. It conducted a one-day workshop on 30 July 2001 amongst NOPSA members. The meeting agreed that fragmented and uncoordinated marketing is the most serious problem and decided to take the process forward *via* a follow-up workshop.

The second workshop was characterised by some intense discussions regarding the SAOBCs -

- strategic priorities
- vision
- financing plan
- marketing and promotions plan
- research and development plan
- quality control/grading plan.

The second workshop concluded when delegates voted unanimously “in favour of some kind of a body that can create industry control in terms of items like marketing, pricing, financing, grading, code of conduct, etc.”. Eventually it was agreed that the process would proceed within three working groups in order to add the most practical momentum to its desired outcomes. The three groups would focus on structures, funding and generic marketing.

As an example of its ongoing commitment, it is useful to refer to the actions of the working group on generic marketing. The group proposed a project on the “Generic Promotion of South African Ostrich Leather”. The aim is to create a higher awareness of South African ostrich leather internationally, with the ultimate aim of creating more demand. At a NOPSA meeting on 29 November 2001, the main concern was about the cost of the envisaged project – R750 000. The plan of action has 5 steps; the payment of R750 000 is for the first two steps

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only. On completion of the first two steps, there would be more in-depth knowledge of the market and how it works, and decisions would be required on the further steps. The critical factor in this project is the funding thereof and the industry is seriously considering how to arrange for this. One line of thinking is a levy for every bird that is slaughtered and on every skin that is exported. The R750 000 is the tip of the expenditure iceberg and it would need continuous funding.

The SAOBC's defined strategies for the South African ostrich industry include the following:

- Livestock industry alliance (with other livestock sectors)
- Research, development and transfer
- Support services (communication, statistics, etc)
- Prices (market trends)
- Efficient marketing
- Enhance marketing conditions
- Black economic empowerment
- International participation

National Ostrich Processors of South African

The National Ostrich Processors of South African (NOPSA) unites the interests and efforts of processors. It has 21 members and exists since 1995.

The objectives of the NOPSA include *inter alia* the following:

- To promote the interests of the ostrich processing industry in South Africa;
- To approach Government (in co-operation with the SAOBC), to coordinate any matter directly or indirectly affecting the affairs of the ostrich processing industry;
- To collect and circulate market information and statistics;
- To serve as a forum for constant dialogue amongst its members; and
- To promote public interest in ostrich products by way of advertising and marketing assistance.

South African Ostrich Producers Organisation

The South African Ostrich Producers Organisation (SAOPO) has seven provincial members and work along provincial lines. Ostrich producers throughout South Africa register as members of their respective provincial ostrich producer organisations. The individual provincial producer organizations are members of

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SAOPO. The provincial distribution of registered export farms is roughly as follows: Western Cape 77%, Eastern Cape 17% and the other provinces 6%.

The mission of the SAOPO is to create a policy- and business environment for its members in order to enhance their long-term profitability. The objectives of the SAOPO include *inter alia* the following:

- To be a mouthpiece for the ostrich producers of South Africa,
- To encourage cooperation amongst ostrich producers,
- To promote the profitable production of ostriches and ostrich products,
- To promote the orderly marketing of ostriches and ostrich products,
- To encourage cooperation between ostrich producers and other role players in the ostrich value chain,
- To investigate certain aspects in the ostrich industry,
- To liaise with counterparts in other ostrich producing countries, and
- To liaise with governmental institutions.

South African Ostrich Breeders Association

An Ostrich Breeders Association was established in 1995 and registered in the same year with the South African Stud Book and Livestock Improvement Association.

The South African Ostrich Breeders Association developed a set of definitions on Norms of Excellence in Ostrich Breeding. The Committee was however of the opinion that the Association is not as active as it possibly could be.

5. THE SOUTH AFRICAN AGRICULTURAL ENVIRONMENT

Deregulation and policy changes in the South African agricultural sector

South Africa's agriculture is ongoing in the midst of long term fundamental changes. Beginning in the 1980s, major policy reforms were launched leading towards sharply reduced levels of protection for the farming sector. Most subsidies were removed.

Full accession to the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) had set in motion a longer term movement towards full, relatively unprotected integration into world commodity markets. The depreciation of the South African monetary unit, namely the Rand, halving its value in the last decade, had affected South Africa's comparative advantage.

Labour legislation was extended to agriculture. Land reforms are in progress with continued uncertainty in commercial agriculture and accelerated its restructuring. Democratic elections in 1994 vastly broadened and diversified the number of enfranchised stakeholders in agriculture's constituency.

The South African Constitution of 1996 made agriculture a shared responsibility, thus increasing substantially the responsibilities and prerogatives of the provinces in administering this sector while, at the same time, passing these responsibilities to new and often inexperienced officials, both central and provincial.

These changes, when taken together, comprise a fundamentally new environment for agriculture, an environment offering both challenges and opportunities for agricultural policy analysts. Challenges lie in the clear need for more and better analysis to support, direct and ease the major adjustments underway in the sector. In this changing environment, it is essential that policy makers, producers, processors, consumers and the market be better informed of the issues before them and of the consequences of alternative policy decisions. This is nowhere more important than in the ostrich industry.

Role of the South African Government to create an enabling environment for the agricultural sector

The South African Government recently became involved in two initiatives that could benefit the South African agricultural sector in general and the ostrich industry in particular. The two initiatives are the New Economic Plan for African Development (NEPAD) and the Strategic Plan for Agriculture.

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NEPAD has earmarked agriculture in Africa as one of the five major initiatives for the development of the continent. Except for South Africa, two of the major ostrich countries in the world, are African countries, namely Namibia and Zimbabwe. This plan aims to achieve and sustain an average gross domestic product (GDP) growth of above 7% per annum for Africa for the next 15 years. In order to achieve this vision, the following five major initiatives were identified to point the way forward, namely–

- Infrastructure improvement (i.e. energy, transport, water sanitation, science and technology, etc);
- Information and communications technology;
- Agriculture;
- Human development, with the focus on health, education and skills development; and
- Promoting diversification of production and exports, with a focus on market access for African exports to industrial countries.

As can be seen from the above, the agricultural sector was regarded as one of the key elements for the survival of Africa.

Under NEPAD it could be expected from the South African ostrich industry to assist other African countries to develop their own ostrich industries. Due to the fact that ostrich products could be regarded as niche products, it could be argued that these countries could compete against South Africa on the international market in the long term if ostrich industries are established successfully in some of the other African countries. The South African ostrich industry has therefore to clarify what information should be freely available and what information should be regarded as internal industry specific information (and therefore not for sharing with the rest of the world). It is therefore important that the South African ostrich industry pro-actively approach South African Government representatives before the latter implement measures relating to NEPAD initiatives.

At the request of President Mbeki, the NDA, in collaboration with Agriculture South Africa (Agri SA), NAFU and the Agricultural Business Chamber (ABC), had tabled an extremely important document (the Strategic Plan for Agriculture) that will have an influence on the future success of agriculture in South Africa. This plan is regarded as the key to success for agriculture in this country. A summary of the vision of the Strategic Plan is as follows:

- Redefining the mandate of agricultural marketing and international trade in the light of greater global competition and demands for market access, infrastructure and information;
- Building credible agricultural, statistical and economic analysis systems that will be accessible to all farmers and enterprises;
- Establishing an agricultural cooperation program for Africa to spearhead the New Africa Initiative in agriculture;

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- A Business Intelligence System for primary agriculture and the agribusiness sector that will provide information for business decisions and market development;
- Government will promote an export orientation and facilitate processes within the relevant export sectors to enhance competitiveness on export markets through the export councils and joint action groups; and
- A program to promote trade opportunities for poor rural communities (an export led poverty reduction program).

The South African Ostrich Business Chamber is in full support of the Strategic Plan for South African Agriculture. As “a first step to move the strategic plan closer to implementation”, the “following priority programmes and actions” are close to the heart and reasoning of the SAOBC:

- Transforming agricultural research;
- Access to the agricultural sector;
- Sustainable development in rural areas;
- Involvement of PDIs
- Redefining the mandate of agriculture marketing and international trade in the post-control board era against greater global competition and demands for market access, infrastructure and information;
- Building credible agricultural statistical and economic analysis systems; and
- Lowering the overall cost of production, including a further reduction in the taxes and duties on diesel and other inputs.

The Marketing of Agricultural Products Act, 1996

The Agricultural Marketing Act, 1968, was repealed and replaced by the Marketing of Agricultural Products Act 1996. The objectives of the 1996 Act is -

- (a) Improved market access for all market participants;
- (b) The enhancement of the efficiency of the marketing of agricultural products;
- (c) The optimisation of export earnings for agricultural products; and
- (d) The strengthening of the viability of the agricultural sector,

The 1996 Act offers the agricultural sector various statutory measures the relevant industries could apply for in order to increase the viability of the relevant industries. The statutory measures are the following –

- Statutory levies
- Records and returns
- Compulsory registration
- Control of exports (single channel)
- Conducting of pools

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The collection of statutory levies is not an unknown phenomenon in South Africa and neither an unknown phenomenon in other countries with whom South Africa is competing in the international market. In 1993 a number of 23 industries (control boards) used levies as their main source of income. The Marketing of Agricultural Products Act, 1996, however demanded for the closure of the former agricultural control boards as well as for the abolishment of all levies that were previously collected by the former control boards. The 1996 Act also makes provision for the introduction of new statutory levies provided that a more consultative process be followed (compared to levies that were introduced in terms of the 1968 Act). On 31 March 2002 seven agricultural industries (citrus, cotton, deciduous fruit, dried fruit, sorghum, wine and winter cereal) collected statutory levies that were approved by the Minister for Agriculture. In the majority of cases statutory levies were imposed to finance research, promotion and the collection and dissemination of information.

The South African ostrich industry needs funds to contribute *inter alia* to the following:

- Research
- Promotion
- Information
- Emerging sector / Transformation

A statutory levy in terms of the Marketing of Agricultural Products Act is also available for the ostrich industry, but it is for the industry to decide to apply for this measure. One of the benefits of a statutory levy is that all the identified role-players will pay the levy with the result that the levy could be set at a much lower level because it is collected on a much broader basis, compared to voluntary contributions where some beneficiaries are not contributing. The ostrich industry, with its relatively short value chain, could easily implement a statutory levy. It however came to the attention of the Committee that a system for voluntary contributions was successfully implemented in the ostrich industry with a high success rate in collecting funds.

The Committee was informed that currently the ostrich industry is collecting a voluntary contribution at the different export abattoirs – approximately 95% of all the ostriches are marketed through export abattoirs. Since January 2002 a total of R3.00 per bird is collected – the tannery pays 50 cent, 50 cent by the deboning plant, 50 cents by the abattoir and the producer pays R1.50 per bird. If it is estimated that 300 000 birds are slaughtered by export abattoirs, that an amount of R900 000 is available to finance important functions in the South African ostrich industry. This amount is very much insufficient if one measures it against the need and potential of the South African ostrich industry. It is envisaged that the amount of R3.00 per bird could be increased substantially in the near future.

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6. POST-DEREGULATION PERIOD

6.1 THE SOUTH AFRICAN OSTRICH INDUSTRY AND ITS STATUS IN TERMS OF THE WORLD'S OSTRICH INDUSTRY (IN OTHER WORDS, TO DEFINE THE LOCAL OSTRICH INDUSTRY, THE WORLD'S OSTRICH INDUSTRY AND THE RELATION BETWEEN THEM)

The South African ostrich industry

South Africa has about 588 registered export farms (of which 453 farms are in the Western Cape, 102 in the Eastern Cape and 33 farms in the rest of the country) and produced approximately 340 000 slaughter birds in 2002.

Table 1: South African ostrich industry from 1993 until 2002

YEAR	SLAUGHTERED*	GROSS PRODUCER VALUE	GROSS PRODUCER VALUE PER BIRD
		RAND	RAND
1993	152 000	145 873 558	960
1994	162 000	237 589 700	1 467
1995	175 000	300 075 300	1 715
1996	273 000	462 035 500	1 692
1997	286 000	302 229 587	1 057
1998	250 000	234 651 119	939
1999	233 000	288 611 750	1 239
2000	244 000	344 480 050	1 412
2001	320 000	511 892 051	1 600
2002	340 000	560 533 189	1 649

* NOPSA figures (excluding birds slaughtered at non-NOPSA abattoirs)

Official South African statistics on agricultural production place ostriches in the 25th position, as based on gross Rand value. The 25th position is not negligible when one recognizes the size of the first 40 sectors. The first 14 within the ranking are real giants – maize (in value of production) being 30 times larger than ostrich; even number 14 (viticulture) is 6 times the size of ostrich production in value. Total employment in the production and processing sectors of the ostrich industry is about 20 000 workers.

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South Africa has ten EU approved export abattoirs (ostrich meat is mainly exported to EU countries and in a lesser extend to Asia), and 15 tanneries (skins are mainly exported to Japan, USA, China and Korea). Feathers are mainly exported to South America and the EU.

The ostrich industry is the leading South African meat exporter (of all meat, including beef and poultry) in volume and value. South Africa has ten EU approved export abattoirs for ostrich meat compared to five export abattoirs for red meat.

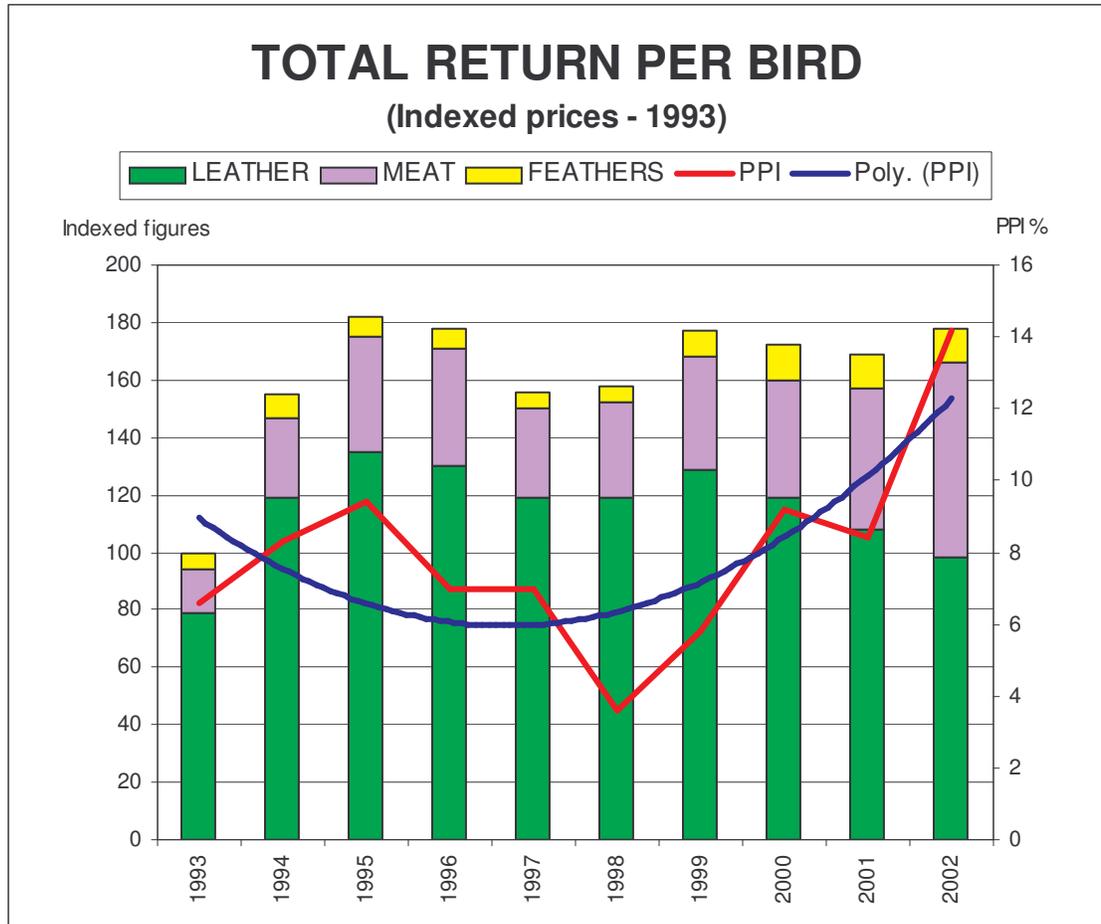
The total investment in ostrich activities (production and processing, excluding value adding manufacturing and businesses, and tourism) exceeds R2,1 billion. Linkages with a whole set of related input and supporting industries have become stimulating and productive. Export income is responsible for R1,2 billion annually with 90% of leather, prime cuts of ostrich meat and feather products being exported. South Africa is the world's biggest producer of ostrich products and is producing approximately 60% of world's production (compared to approximately 85% ten years ago).

Ostrich products

Ostrich products (leather, meat, feathers and curios) are marketed locally and exported through a free market system. The main market for ostrich meat is restaurants, wholesalers, supermarkets and foodservices suppliers, the market for ostrich leather includes the clothing, fashion and upholstery industries and for feathers the household, fashion and carnival markets. Before deregulation in 1993, the overwhelming majority of ostrich products in the world were produced in South Africa and exported to other countries in the world. It could therefore be argued that South Africa was initially responsible for the development of the world markets for ostrich products.

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Graph 1: The indexed prices of leather, meat and feathers compared to the producer price index, is as follows:



Ostrich meat

For many years meat was a by-product of ostrich processing in South Africa. In 1993 ostrich meat accounted for only 15% of the income from a slaughter bird. Today this percentage is between 30% and 45% and ostrich meat therefore plays an integral role in the survival/sustainability of the South African ostrich industry. The current average carcass weight of a South African produced ostrich is 43 kg (live weight approximately 95 kg) at 12 – 14 months (the same weight is achievable at an earlier age, but with negative effects on the skin quality). An average carcass yields 24 kg of meat (16 kg of prime steak and fillet cuts and 8 kg of trimmings).

Ostrich steak and fillet are exported in bulk packaging as well as portioned packs for super markets and restaurants. The main export markets are Europe (90% of

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product) and the Far East, including Hong Kong, Malaysia, Singapore (10%). Domestic consumption of ostrich meat increased significantly since the beginning of 2002, although this market consumes only approximately 10% of the prime cuts produced in South Africa. The nett income difference between exported and locally sold meat is still significant and therefore the huge difference in target markets.

The significantly higher income derived from European exports however are not achieved easily. The stringent EU regulations pertaining animal health and veterinary public health put enormous pressure on producers, processors and more so on the veterinary infrastructure of the South African Department of Agriculture (see Section 6.4).

Ostrich export meat prices increased slowly since 1993 to 2000. After the outbreak of BSE and foot and mouth disease in Europe at the end of 2000, the European demand for ostrich meat exceeded supply by far, resulting in an increase of nearly 40% in ostrich meat prices between December 2000 and September 2001. The high demand continued through 2001 and with the extremely weak Rand from December 2001 up to October 2002, ostrich meat contributed better than ever to the total realization of a slaughter bird. Refer graph above.

However, as beef and lamb consumers in Europe turned back to their traditional cuisine, the high demand for ostrich meat melt down and European ostrich meat prices dropped by 30% between January 2002 and January 2003. The extremely weak Rand of January 2002 also recovered steadily during 2002 against the Euro and USD and strengthened dramatically since October 2002. Both these factors have a negative impact on nett meat realization.

The Committee agreed that

- The ostrich industry cannot survive without ostrich meat being exported to Europe and other markets
- The high volume of meat exported to Europe leaves the industry vulnerable seen against the stringent EU regulations
- Other export markets than Europe as well as the local market should be developed

Leather

Ostrich leather is regarded as one of the exotic leathers amongst others like crocodile, lizard and snake. The items produced from the leather are articles such as handbags, belts, wallets, cowboy boots, dress shoes and numerous other niche applications. Ostrich leather articles have the same prestige value than diamonds and other luxury items.

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Before deregulation of the industry, the image as well as value of ostrich leather was easily controlled – similar to the diamond industry. After deregulation the production and slaughter of ostriches increased dramatically from levels of below 160 000 ostriches per annum to more than 286 000 in 1997. The huge increase in ostrich skins offered in the world disrupted the structured distribution channels of the pre-deregulated era to the extent that leather prices dropped from USD40 / square foot in 1993 to below USD 22 /square foot during the mid nineties and an all time low of USD 10 /square foot in 2002. The Rand depreciated against the USD over this period, but not to the same extent than the drop in Dollar prices, resulting in a nett reduction in Rand earnings irrespective of higher input costs.

During 1997 the industry was in its first crisis after deregulation, mainly as a result of the overproduction of ostrich leather, tumbling leather prices and consequently low raw skin prices and low slaughter bird realization. Raw skin prices dropped from R1 240 in 1995 to R560 /skin in 1998 and recovered since to around R960 per raw skin. This overproduction, consequent lower prices and farmer liquidations in 1998, resulted in lower slaughter volumes for 1999 (233 000) and 2000 (244 000). These lower volumes did stabilize the markets and therefore the price recovery. However, the 302 000 slaughter birds of 2001 were followed by 340 000 in 2002, putting a lot of pressure on the markets again.

Ostrich leather prices dropped by 38% in Dollar terms from an average of USD16 per square foot in January 2001 to USD10 per square foot by July 2001. This drop was caused mainly because of South African exporters discounting the weak Rand of 2001/first half 2002 against the Dollar prices (nett Rand income the same for that short period). During the second half of 2002 the Rand started to strengthen against the US Dollar and strengthened dramatically since November 2002. Leather prices have never recovered since then and were still around USD10 per square foot at the beginning of 2003, leaving the nett Rand income far behind previous levels.

Income of producers varies significantly due to dramatic price differences between different raw skin grades (4th grade less than half the price of a 1st grade skin). In 2002 a producer earned approximately R1 200 for a 1st grade raw skin and approximately R800 for a 3rd grade raw skin.

For many years handbags and cowboy boots were the only real market for ostrich leather. In 1995 Japanese handbag manufacturers needed 100 000 to 120 000 skins per year. In the early nineties ostrich leather was a status symbol in Japan for wealth. A Gucci handbag was selling for Y1 000 000 in 1995 and Japanese women became the worlds major market for ostrich handbags. One of the main problems for the South African ostrich industry is that the main market for ostrich leather products, namely Japan, has been in recession since 1993. This resulted in a negative growth for ostrich leather products while the world ostrich slaughter bird production grew from 180 000 in 1993 to an estimated 560 000 in 2002.

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Due to the weakening of the Japan economy several handbag manufacturers closed their doors with the result that Japan imported only approximately 80 000 tanned skins. In recent years the demand for ostrich leather shifted from Japan to Korea and China. The latter two countries are known for the manufacturing of cheaper bags (made from cheaper leather). The luxury status of ostrich handbags has therefore been lost and the world ostrich industry (with South Africa as the leader) now has to take the initiative to restore the status of ostrich handbags or to find alternative usage for ostrich leather. A focus on South African quality of ostrich leather, development of new applications/products for ostrich leather, increasing of existing market size/public awareness and cooperation between South African processors/exporters are some of the key issues to be addressed in future.

The leather income from ostriches cannot be interpreted isolated from the other products (mainly meat and to a small extent feathers). At an exchange rate of R7.30 / USD and R8.20 /Euro in April 2003, the nett realization of ostrich farmers and processors turned into losses which will result in job losses as well.

Feathers

In the early days of ostrich production feathers was the main source of income for ostrich producers (before 1964). Today feathers contributed less than 6% of gross production value per bird. Feathers, as a by-product from abattoirs, are however a good job creator for PDIs and upcoming businesses.

Table 2: Average South African producer prices of leather, meat (R/kg per carcass on the hook – approximately 42 kg per bird) and feathers for the past ten years

YEAR	LEATHER R/Raw skin	MEAT R/kg	FEATHERS R/bird
1993	729	3.23	20
1994	1 106	5.95	25
1995	1 241	8.80	30
1996	1 200	9.02	35
1997	775	8.50	35
1998	560	8.00	40
1999	725	10.50	40
2000	968	11.50	45
2001	999	13.00	47
2002	960	19.00	96

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Production

The various activities of ostrich production refer to breeding, rearing chicks, raising birds, producing for slaughter, and there are quite a few variations within the production reality. Chick mortality is a serious destroyer with devastating and varied financial implications. For the last two decades, in all surveys and opinions polls, the vagaries of chick mortality have been listed as enemy number one. Due to this, chick rearing has become a specialised branch within production.

There are also certain shortcomings in the regulations and specifications (that were promulgated in terms of the Stock Remedies Act, 1947) for feed needed for ostrich production. The latest research results pointed out that these regulations and specifications should be reviewed and updated to enable the ostrich industry to be more cost effective as approximately 70% of ostrich production cost could be attributed to feed costs.

Input costs for the ostrich producer the past two to three years made it difficult for most of the ostrich producers to be profitable. In the beginning of 2001 an average production cost of R155.00 (feed, labour and diverse costs) was recognised for bringing a chick to the age of three months. A few months later this had gone up to above R180.00. The price of maize for example increased within 12 months from R690/ton to R2 000/ton.

With producer realities in mind, also alluding to the squeeze on the processor side with reference to international market realities, the Chairman of the South African Ostrich Business Chamber, referred, at the First National Ostrich Conference in Port Elizabeth in October 2001, to –

- Producers survived in the past through various crises situations – New Castle, Congo fever, price crashes
- Unstable and low income for ostrich products, just covering costs for producer and processor, yields almost no return on capital investment, and
- The ostrich industry cannot be sustained with present prices and the income/cost situation.
- Feed comprises the largest proportion of production costs. Consequently, it is critical to regularly update feed specifications and feeding standards for the Stock Remedies Act, 1947.

Abattoirs

Within a few years after deregulation in 1993, a number of ostrich abattoirs/processing units were established and approved for export. Ten export abattoirs are presently in operation. Approximately 95% of all the birds are marketed through the export abattoirs.

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The technological levels in ostrich abattoirs are the same or even higher than that for high quality beef and mutton. South Africa was one of the first countries that were granted approval to export ostrich meat to Europe. A very dramatic difference, between apparatus, design and procedures of EU-approved abattoirs and those for local consumption, does exist.

Recently some ostrich abattoirs introduced a payment system based on carcass weight that rewards the better producer and encourages production of quality birds. This is one of the methods to overcome the “cost price squeeze” that is currently crippling industry development in South Africa. Whilst it makes good commercial sense to maximise the revenue from the whole bird, one member of the Committee was of the opinion that birds could be raised cost effectively for meat only.

It is important to note that hundreds of individual producers (in the form of cooperatives or producer groups) owned all the large abattoirs in South Africa. Due to fierce competition between role players some groups built abattoirs for strategic reasons rather than for economic reasons. The result is that South African abattoirs already have a surplus of slaughtering capacity. It is also important to note that during the months from November until March most of the abattoirs slaughter at full capacity, but outside these months they experiencing surplus capacity, as less birds are available in these months.

Tanneries

The first tannery for ostrich leather was established in 1970 and today there is a variety of sizes. Fifteen tanneries are operative.

The technological levels of South African ostrich tanneries compare well to that of other tanneries. In processing, towards specific manufacturing standards certain methods rise up which may call for a deeper knowledge. The level at which that specific combination between science and an artistic ability lies, is a little higher in ostrich leather tanning.

Establishment costs for an ostrich tannery are exceptionally high, mainly due to expensive equipment being imported. The gains on invested capital from a tannery is relatively low – with a return on investments of less than 10% due to fierce competition in the industry. Today a number of developing ostrich producing countries are sending their unprocessed ostrich skins to South Africa to be tanned. The reason for this is firstly because their numbers of skins are too little to justify own tanneries, secondly because it is too expensive to build an own tannery and thirdly because the lack of technology and know-how in order to tan ostrich skins.

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The Committee accepted the fact that the South African ostrich industry was built on leather and that leather still remains the cornerstone of the industry. Therefore South Africa should jealously protect its tannery techniques, which enable South Africa to produce and market superior leather. The manufacturers of ostrich leather goods prefer South Africa leather above that of other countries.

Manufacturing (value adding)

In many respects, modern economic theory indicates manufacturing to be the real agent for the adding of value and for job creation, in addition to the service industries. The manufacturing sector is however a real missing link in the ostrich value chain in South Africa. Manufacturing, based on leather, has indeed been declining – from 1990 to 2001 job opportunities came down from 652 to 500– a loss of 23% in job opportunities.

In contrast to this, London (in February 2002) experienced an exciting fair. Traditional African handicraft, based on ostrich eggs, changed to fit in with Northern Hemisphere tastes, were adapted by six British designers. The planners for this fair, called LOSA (London - South Africa), accommodated by Sotheby's, sold its total display, worth R900 000, before the end of the opening night. Sir Terance Conran, ghuru of the so-called London style, placed a first order for traditional goods, manufactured by rural African women, to the value of R1.6 million. These will be sold in shops around the globe, creating jobs for 700 South Africans. A video, showing how the hand manufacturing is done, will be shown at all outlets. The whole idea originated in South Africa, driven by an organisation called KumbulaZulu. It started off three years ago, taking more than a year to involve overseas interests. Dr Ben Ngubane, Minister of Arts, Culture, Science and Technology, in opening the fair, said that LOSA is a model for sustainable development and strategic partnerships into which the South African Government has entrusted important support funding.

South Africa is well equipped with abattoirs and tanneries, but true value adding goes beyond these points. The manufacturing of final products could not only create job opportunities but could also earn much needed foreign currency for the South African ostrich industry.

The manufacturing of value added ostrich leather products such as garments, handbags, shoes, etc. is much more difficult due to –

- Lack of design know-how and talent,
- Fashion changing trends, and
- Lack of know-how and techniques in manufacturing.

Competition from factories in Italy/ France on the upper-end of the value adding chain and from China / Korea on the lower end of the chain is fierce. Know-how

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and techniques could be imported at high costs. Assistance from Government in this regard should be welcomed as many jobs could be created and extra foreign exchange could be earned. Recently two handbag factories in South Africa closed their doors due to difficulties in competing in design and quality with Italy, and low prices from Korean factories.

Overview and an outlook for the South African ostrich industry

In 1993 South Africa slaughtered 152 000 birds and it increased to approximately 340 000 in 2002. The reasons for the increase in slaughter figures could *inter alia* include the following:

- Deregulation (the change from a single channel marketing system to a free market system).
- The production area spread from the Oudtshoorn district to all over the country.
- The perception that the profit margin in ostrich farming is much higher than in most other agricultural commodities.
- Higher demand for ostrich products.

If one could speculate on the future of the South African ostrich industry, some elements came to mind:

For positive growth: A growth in demand (locally and internationally)
 A weaker exchange rate
 Better cooperation between South African role-players

For negative growth: A depressed market for ostrich products
 Lack of promotion
 Strengthening of exchange rate
 Closure of international markets due to non-compliance of import regulations (imposed by importing countries)
 Increased production costs
 Overproduction

The world's ostrich industry

Since the deregulation of the South African ostrich industry in 1993 ostrich production extended to a large number of other countries in the world. The Committee defined an ostrich producing country as a country that carries out all stages of the production chain - from breeders through to slaughter plants and tanneries. With this in mind only South Africa, Namibia, Zimbabwe and Israel fitted currently into this category. The remainder are still developing and for the most part trading breeding stock. Whilst it is acknowledged that most countries are experiencing difficulties to establish their ostrich industries, the Committee was reminded that there is a small group developing countries producing ostrich

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along professional lines and they could in time grow to have good levels of production.

Since 1993, world ostrich slaughtering increased substantially from approximately 180 000 in 1993 to approximately 560 000 in 2002 (produced by 29 countries). As world production is increasing, ostriches are losing their novelty and are currently being reclassified from feathered game to that of poultry. Exporters of ostrich products and especially meat products will therefore have to comply with higher standards, which could lead to higher costs. In spite of an initial decline in market share just after the deregulation of the industry, South Africa is by far the world leader in terms of commercial production.

Table 3: An assumption of the relation between the South African and world ostrich industries in 2002 compared to 1993.

COUNTRY	1993		2002	
	SLAUGHTERED	%	SLAUGHTERED	%
South Africa	152 000	84.5	340 000	60.7
Asia	Nil	0.0	5 000	0.9
USA	Nil	0.0	5 000	0.9
Canada	Nil	0.0	5 000	0.9
China	Nil	0.0	20 000	3.6
Cyprus	Nil	0.0	8 000	1.4
Namibia	Nil	0.0	28 000	5.0
Zimbabwe	Nil	0.0	18 000	3.2
Israel	8 000	4.4	10 000	1.8
Australia	Nil	0.0	25 000	4.5
New Zealand	Nil	0.0	8 000	1.4
Boputhwaswana	15 000	8.3	Nil	0.0
South America	Nil	0.0	14 000	2.5
Europe	Nil	0.0	64 000	11.4
Other	5 000	2.8	10 000	1.8
Total	180 000	100.0	560 000	100.0

After deregulation, genetic material was freely exported from South Africa. This resulted in the luxury trading of eggs, chicks and breeder birds. Live ostriches were sold to buyers in Australia, Belgium, France and the USA. Soon ostrich farms mushroomed everywhere, but no ostrich industry as yet has developed in the farming / slaughtering / deboning / tanning / marketing, etc sense of a production chain.

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Some sources mentioned that in 1996, the USA had 250 000 chicks on the ground, with no slaughter and tannery facilities. Live birds, approximately 9 months old, were sold to Australia, Brazil, Canada, Mexico, Scandinavia and Spain. Today the ostrich industry in the USA is nearly non-existent (slaughter only 5 000 birds per annum), with only one abattoir approved to export meat to Belgium. Only a few die-hard ostrich farmers remain slaughtering on their farms. They sell ostrich meat with difficulty in the USA.

What has happened in the USA is again happening in Greece, Poland, Turkey, etc. The so-called ostrich industry in Belgium, France, Spain and the UK all went through the same steps as the USA, only some time later.

Since 1994, European ostrich farmers could sell ostrich skins to South Africa, or tan them at two tanneries – one in the Netherlands and one in France. Building tanneries in Europe is under strict environmental control. Existing tanneries do not see their way open to tan even a few hundred skins.

Even Australia and China, relatively larger players, do not have their own dedicated ostrich tanneries, and rely on skins being sold to South African speculators and tanneries. It was reported that China had only 35 000 slaughter birds but their Government had decided to withdraw its support to their ostrich industry because the envisaged production have not been achieved. Recently an ostrich farming enterprise in Cyprus opened an export abattoir, but once again the skins will be tanned and sold in South Africa.

European farmers, waiting for ostrich meat prices to increase to such a level that their farming could be economically sustainable, bought eggs and chicks by the thousands in 2001. At the stage (in 2002) when those birds were slaughter-ready, they could not make ends meet, due to the low demand and low prices. The result could be that many countries would eventually not be sustainable in the production of ostrich products. These countries do also not have the infrastructure to support their industries, referring to abattoirs and tanneries. Currently a number of countries are exporting their ostrich skins to South Africa to be tanned.

Overview and an outlook for the world's ostrich industry

As South Africa is by far the biggest ostrich producer in the world, its situation will obviously affect what happened in the world. In 1993 approximately 180 000 birds were slaughtered in the world and it increased to approximately 560 000 in 2002.

The following factors could affect the production of ostrich products in the years to come:

For positive growth: Government subsidies
Higher prices for ostrich products

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For negative growth: No infrastructure to support ostrich industries (abattoirs and tanneries) and it is expensive to build these facilities.
Lack of technology and know-how
Production costs

Summary

South Africa remains the main role-player and leader in the world ostrich industry.

In the past ten years the world saw the “rise and fall” of ostrich industries in a number of countries around the world. The reason for this could include low profit margins, unsuitable climate conditions, lack of supporting infrastructure, etc.

The South African ostrich industry is of the opinion that the current status of export markets for ostrich products are the result of development and hard work done by South African ostrich producers, processors and manufacturers over a long period. South Africa was and still is the leader in production and supply to the world markets that was developed by South Africans. Since deregulation in 1993, competitors around the world introduced their products to the existing market without developing new markets or developing new products. This resulted in a very unstable market for South African ostrich products with a lower income and high risk for producers and manufacturers.

6.2 THE CURRENT AND POSSIBLE FUTURE MARKETING ARRANGEMENTS FOR OSTRICH PRODUCTS

Current marketing arrangements

Growing competition, limited opportunities for diversification, and the cost-price squeeze are *inter alia* three negative factors affecting the South African ostrich industry currently. The “cost-price squeeze” is a familiar phenomenon in South African agriculture. This concept refers to the fact that the prices of farm inputs have, for most of the latter half of the 20th century, increased faster than the prices of farm products. This phenomenon places a squeeze on farm profits. In the past, government responded with a range of subsidies, for example, a subsidy on fertiliser prices, interest rate subsidies, preferential tax treatment, transport subsidies, a fuel rebate, etc. Most of these subsidies were phased out in the nineties. Currently South Africa has one of the most unsubsidized agricultural sectors in the world. 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%.

South Africa has a large number of independent role-players in its ostrich industry. Fierce competition prevails amongst them in order to market their products. Due to the fact that ostrich products are regarded as niche products, the industry as a whole and the different role-players individually has an approach to protect the industry in different ways. This *inter alia* led to an “each for himself”-approach. Unfortunately it also resulted that there is no coordinated approach to work together or to provide important functions for the benefit of the whole industry, e.g. functions relating to product development, generic marketing, research, etc. On the international market each processor sells its ostrich products independently of other processors. This led to the undercutting of prices in order to sell larger volumes. It has also a negative effect on monitoring of quality standards, which led that optimum income levels could not be realized for ostrich products.

Due to the history of the South African ostrich industry, producers were responsible to build their own slaughter facilities. In other words, producers themselves provided funds to build these facilities. *Pro rata* to the funds they paid, producers received shares to slaughter their ostriches in the relevant abattoirs. The shares (or quota) system was started by KKC in 1997. Soon after that other abattoirs followed. Currently new entrants must also buy slaughter space (or market access / quotas) in order to slaughter their ostriches in most of the export approved abattoirs (the funds are *inter alia* being used to maintain slaughter facilities). For example, 100 shares give the owner of the shares the right to slaughter 100 ostriches per year with a specific abattoir. The prices of shares vary from R200 to R400 per bird, but it is determined by supply and

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demand factors. This was the only way to fund new abattoirs and to ensure a commercially viable through put for the new abattoir owners (mostly ostrich farmers). The cost of shares is a once off expense. Producers who are not shareholders could also slaughter their birds as long as the specific abattoir is not operating at full capacity. Once full capacity is reached, the non-shareholders should make alternative arrangements. In other words non-shareholders are not assured of slaughter facilities at times of full capacity slaughtering (November to March).

Over and above the buying of shares (or market access / quotas), producers also pay a slaughter fee (approximately R140 per bird). Processors are responsible for the deboning and packing of meat (approximately R120 per bird) and another approximately R250 for the tanning of a skin. In 2001, according to a study that was done by an economist employed by the Department of Agriculture in the Western Province, the production cost of a slaughter bird (at 12 months) was calculated at R715 per bird. The same study indicated that the fixed cost per slaughter bird could be approximately R515 per bird. In 2001 the gross value per bird was calculated as R1 600. The realization per slaughter bird in 2001 (the only available information) could be summarized as follows:

	R
Producer gross value per bird	1 600
Less: Slaughter costs	(140)
Less: Production costs	(715)
Less: Fixed costs	(515)
Profit / (Loss) per bird	230
Processor costs are:	
Deboning and packaging	R120/bird
Tanning costs	R250/bird

Obviously the above figures could differ *in lieu* of the weight per bird (a heavier bird would realize more income from its meat) and the grade of the skin.

Finance remains a big problem within the ostrich industry. Role-players in the ostrich industry finance functions such as information, research, export promotion through voluntary “levies”. Each abattoir has its own independent financial structure. A typical abattoir would collect a slaughtering fee to finance operating costs, capital repayment, capital expenditure and a return on investments for the owners.

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Future marketing arrangements

Due to its historical advantages, excellent natural conditions, the South African ostrich industry should be able to maintain its position as world leader, provided that certain conditions are met in a future marketing environment. In this regard fruitful interaction with government, both national and provincial, is a prerequisite. Many negative perceptions about the industry must also be addressed, e.g. non-transparent, lack of transformation, etc.

Due to the fact that approximately 90 per cent of ostrich products are exported, the Committee felt that representatives of the ostrich industry should be consulted when trade agreements are to be negotiated. Correct representation of delegations during discussions on bi-lateral agreements was highlighted as an area of importance to monitor. General communication with Government was also regarded as an aspect that could be improved upon. The importance of having a consistency of message to Government was emphasized. The ostrich industry is very much dependent on regular negotiations around international market access, trade agreements and export protocols, which might influence South Africa's export status in the world market. Government, through its supporting structures in the NDA and DTI, can assure that these negotiations are done effectively and with positive results for the industry.

In its inputs to the Committee, SACTWU was of the opinion that all stakeholders should jointly develop strategies that are to the benefit of the South African ostrich industry.

Agricultural research in the fields of ostrich production, processing and animal health is of utmost importance for the ostrich industry to stay competitive in a world market. It will be necessary to support the researcher with the best equipment that is needed to do the required research.

For all of the three products (meat, leather and feathers), much could still be done regarding value adding. A lack of funds and proper coordination are issues to be discussed in order to achieve success in this regard. The industry agreed on the principle to maximize revenue from all these products, in other words products should be promoted in an equal manner. Expansion of the ostrich leather market, introduction of new products and differentiation of South African ostrich leather should be the industry's main goal to uphold the (once) exclusive value of ostrich leather. South Africa is still ahead of the most of the world in terms of ostrich leather tanning and this position should not be forfeited.

Generic promotion of ostrich products nationally and internationally is almost non-existent. A recent surveys in the US have revealed that the *Pork: The Other White Meat* campaign has changed the way consumers think about pork. One survey shows that 93% of consumers perceive pork products featuring the slogan

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as “high quality”, according to a news release from the National Pork Board. The impact continues to resonate with consumers, influencing their quality perceptions of pork products in supermarkets across the country. The same results could be achieved with ostrich products if funds could be raised for generic promotion campaigns.

The Committee also discussed different strategies regarding importing skins for tanning in South Africa as to whether this should be encouraged or penalised with tariffs. There were pros and cons on both sides. An opinion was that South Africa should allow the import of skins (with no import tariff) but that the importer only pays for the normal handling fee. This arrangement could increase the throughput of local tanneries for them to be more profitable. Another benefit is that South Africa would then have much more control over these skins when it is marketed on the world market. The Committee was therefore of the opinion that the South African tanneries should continue to import ostrich skins (wet salted) from all over the world, tan them and market the skins as “tanned in South Africa”. This strategy will allow the South African ostrich industry to control the selling of crust and raw skins. Currently Korean tanneries buy ostrich skins and create fierce competition for South African ostrich leather in Korea and Japan.

Regarding the export of meat the ostrich industry should do everything possible to support the Department of Veterinary Services and Animal Health Department to ensure services, which are acceptable to the European Union and other importing countries of South African ostrich products. South Africa could find it more difficult in future to comply with EU standards if there is no drastic improvement towards full compliance with EU standards and regulations. Non-compliance could result that the South African ostrich industry be de-listed as an exporter to the EU.

In the past ostrich products (especially leather and meat) fetched higher prices mainly because it was regarded as exotic products. This status of ostrich products have however been negatively affected due to a number of reasons, including the recession in Japan (the major market for ostrich handbags), the manufacturing of cheaper handbags (from lower grade leather), the lack of marketing initiatives, etc. Currently ostrich meat is selling in the European market at approximately three times higher than pork and poultry, while ostrich leather is also selling at approximately eight times higher than bovine skins. The Committee was of the opinion that ostrich products should still be regarded as niche products and that any marketing arrangements should acknowledge this important aspect.

The industry decided to address this problem and worked through various workshops and facilitation processes to reach an agreement. Up to this stage no agreement could however be reached and the economic status of the industry is currently at one of its lowest levels since deregulation in 1993. Some initiatives are still being pursued in order to establish “some kind of body that can create

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industry control regulations in terms of items like marketing, pricing, financing, grading, codes of conduct, etc.”

Some members of the Committee were of the opinion that organic ostrich farming could be to the benefit of the industry in the long run. More information is however needed regarding what farmers should do to qualify to be certified as a producer of organic products.

In order to meet its environmental responsibilities, the ostrich industry, in cooperation with the Department of Agriculture in the Western Cape, compiled a booklet called “Guidelines for the sustainable use of natural veld in ostrich farming – a code of conduct for ostrich producers”. These guidelines were sent to all ostrich producers in South Africa. On the processor side the SAOBC is in ongoing negotiations with its NOPSA members on anti-pollution measures and adherence to clean technology principles. Within the broad framework of environmental, health and safety standards, the industry complies with first world export standards.

Summary

Ostrich products were previously (before 1993) marketed through a one channel marketing system in very sophisticated markets worldwide. Since deregulation, the marketing of ostrich products moved to a free marketing system and role-players started competing against each other in the world and local markets. The income and product status of ostrich products (especially leather) were severely damaged through continuous price undercutting in markets, lower demand and lowering of standards.

For the future development of the South African ostrich industry it is important that measures being implemented to enhance better liaison / cooperation between role-players within South Africa.

6.3 THE ABILITY OF EMERGING OSTRICH PRODUCERS TO PARTICIPATE MEANINGFULLY IN THE PRODUCTION OF OSTRICH PRODUCTS AND TO PROPOSE MEASURES TO INCREASE THEIR PARTICIPATION

Strategic plan for Black Economic Empowerment

The SAOBC, at the level of the Board of Directors, has committed itself to the principle of Black Economic Empowerment. It has also fed the principle through to its two bodies, the National Ostrich Processors of South Africa and the South Ostrich Producers' Organisation. Both these organisations are in full support of Black Economic Empowerment.

The SAOBC went further. At a special Strategic Planning Workshop on 31 July 2002, chairpersons and vice-chairpersons of the three organisations, decided to add Black Economic Empowerment to its list of original six Strategic Priorities. This proposal by the Workshop was endorsed at the SAOBC board meeting on 20 August 2002.

At the Second National Ostrich Conference in October 2002 in Oudtshoorn, the issue of Black Economic Empowerment was also addressed. The following points were *in te alia* raised:

- The process of Black Economic Empowerment must be market focussed – it is not a social process.
- Mentorships according to which established commercial producers develop functional contact with developing producers in order to provide directive, supportive assistance, are most important.
- Focus on a group and not on individuals.
- Supporting finances are extremely important. Not only the Land Bank should be considered, but also commercial banks.
- Training, for the advancement of skills and human capacity, should form part of empowerment.
- In the process so-called promoters, being accredited specialists, are important.

While fully and enthusiastically committed to its involvement with the emerging sector, the SAOBC is much aware of the developmental challenges in the South African ostrich industry. One of the members of the Committee mentioned in his inputs to the Committee that ostrich farming is a sophisticated business venture. He was of the opinion that more farm labourers must be seen rising to a level of farm owners. Constant coaching of these people who must now assume a different role is therefore a prerequisite.

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Problems identified for small-scale farmers in the ostrich industry include *inter alia* the following:

- Access to financial support systems
- Access to land
- Know-how to support technical and agricultural business decisions (currently the industry has only one extension officer)
- Do not have slaughter quotas / shares at export abattoirs
- High capital costs
- Low profit margin (currently due to a stronger currency)
- Chick mortality
- A high level of risk
- A vulnerable industry, as almost 90 percent of products is exported
- Lack of support services by the NDA

Chicken mortality remains a problem. Although research continues, answers to why and when evade the researchers. Much more research is needed to address this problem.

New export regulations for ostrich meat are much stricter than in the past, which will influence local production to be done in a more controlled environment. This led to an increase in production costs and raises the barrier of entrance into the industry for new farmers, especially in a time during which South Africa strives to get PDIs into the mainstream of ostrich production.

In 2002 the production by emerging producers was almost non-existent (less than 1% of total production). There are however exiting projects on the cards to rectify this situation. Due to budgetary constraints some of these projects are not yet operational.

Community based ostrich farming projects (CBOFP) in the Eastern Province

A CBOFP is based in Graaff-Reinet, Eastern Cape. The Graaff-Reinet community suffers from a high unemployment rate. In general there is a lack of funding to start up projects that would bring about positive change to the lives of the population of this poverty stricken area. Camdeboo Meat Processors (CMP) proposed the setting-up of this community based farms in Graaff-Reinet and the surrounding areas. CMP guarantees that once the farms are organized they will buy ostriches from these farms thereby guaranteeing a market for the farmers. This is a huge benefit because in a majority of cases farmers find it difficult to ensure markets for their products. CMP committed itself to buy 5 000 ostriches per annum from the emerging farmers in the Graaff-Reinet community and a further 5 000 ostriches from the emerging farmers in the East London community. CMP also undertook to organize mentors from commercial farmers for the emerging farmers.

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The Nciniba Trust has tasked the Nciniba Steering Committee to oversee the CBOFP. The Steering Committee consists of major players in the ostrich industry, namely:

- Eyethu Farmers Association - Eyethu is based in Graaff-Reinet and has 40 active members.
- Eastern Cape Ostrich Commodity Enterprises (ECOCE). ECOCE is based in East London and has more than 100 members. Both the above two organisation legitimately claim to be representative of all the emerging farmers of the Eastern Cape who wish to embark on ostrich farming.
- Eastern Cape Producers Association (ECOPA)
- Exotan
- Camdeboo Meat Processors (CMP)
- Government: The Eastern Cape Department of Agriculture and Land Affairs
- Eastern Cape Development Corporation (ECDC).

With the CBOFP initiative Camdeboo Meat Processors have not only guaranteed a market for the ostriches raised by emerging producers, but have also gave funds for the first development stages. Due to the lack of funding these projects could not be further developed.

Karoo Ostrich Empowerment Project in the Oudtshoorn district

Trade and Investment South Africa (TISA), which is affiliated with DTI, recently identified the ostrich industry as a growing agro-processing industry with a potential to create jobs, foreign currency and wealth. A project known as the “Karoo Ostrich Empowerment Project” (also known as the Dysselsdorp project), near Oudtshoorn, was launched in January 2002.

Overseas investors for the abattoir and deboning plant was secured with local investors and know-how, as well as an access to the international market for meat and leather.

This all resulted in a project that will include the following:

- Empowerment of 8 - 10 ostrich farms to provide 15 000 slaughter birds per year;
- An abattoir and deboning plant costing R9 million and built according to EU standards;
- A contract with a tannery to tan and finish the skins;
- A marketing contract with a leading marketing company, well established in the current ostrich industry locally and internationally;
- A meat processing plant;
- A retail butchery;

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- A feather sorting factory;
- A duster factory (ostrich feathers);
- An egg shell painting and souvenir factory;
- An ostrich museum and restaurant on the site.

Still negotiating with Italian investor with know-how and design skills to start an ostrich leather handbag factory at Dysseidorp.

The total employment will be around 200 people and the total project should be ready and running early 2004. The farms, abattoir and tannery, should be in operation from August 2003.

Through the Land Redistribution for Agricultural Development programme, the Landbank and commercial banks, the total project will be financed, while the Black Empowerment Fund will also take up a share in the abattoir.

SACTWU supported BEE as it contributes to the process of leveling the playing field in the South African ostrich industry. They subscribed to the policy of the Congress of South African Trade Unions that the most important way in which BEE could take place is through massive employment creation. The delivery of services, infrastructure and jobs to the poor, the vast majority of whom are black, constitutes to real economic empowerment.

Feather sorting projects

Currently in the Klein Karoo Cooperative (KKC) there are five feather sorting projects in and around Oudtshoorn which are employing approximately 250 people. KKC helped to find suitable premises and liaise closely with the managers of these projects. The Cooperative provides unsorted feathers to these projects and after the feathers were sorted, then KKC buys it back from the sorters. The sorting of feathers is very much labour intensive. Each worker's feathers are weighed separately as they are paid per weight. In other words workers worked for themselves.

Training for these people (to sort feathers) is lacking and assistance from the industry / Government would improve their current situation to a great extent. The duration of training is between 4 and 6 months and the training could also be divided in a number of short courses.

Summary

The ostrich industry is in the process of moving its strategy for the introduction and support of previously disadvantaged communities in this industry forward towards a functioning strategic plan. Various programmes are already in place and will be supported through management and mentorship programmes through all the levels of the industry from production through manufacturing to marketing and tourism. (The examples above from Graaff-Reinet and Oudtshoorn are supported by actions in Gauteng, the Northern Cape and North West.)

The Committee agreed that the South African ostrich industry should welcome any new emerging farmer project, being it only farms or being it new abattoirs or tanneries.

The clear definition for its strategic plan is to be formulated *via* an open and transparent workshop, to be conducted in the middle of 2003, under the leadership of the Corporative Development Initiative (CDI) and the SAOBC.

6.4 THE IMPACT OF CURRENT HYGIENE STANDARDS AND INSPECTION SERVICES ON THE OSTRICH INDUSTRY

During the April 2001 European Union inspection visit on the “Export of Ratites Meat”, it was pointed out that several veterinary posts in South Africa, which were budgeted for in April 2000, had as yet, not been filled and that the NDA has not progressed as promised, in assigning functions to Provincial Executive Officers as required in the Constitution. The inspection team expressed concern on the inability of the NDA to clearly distinguish and coordinate between national and provincial executive functions. The European Commission viewed this in an extremely serious light. It has major negative implications throughout the veterinary animal health and food safety control system. Due to the apparent reluctance from the NDA to assign executive functions to Provinces as obligated in terms of the Constitution and the Meat Safety Act, the continued export of ostrich and other perishable agricultural products are at a serious and immediate risk of being discontinued as the delivery of services are not available at a frequency as required by the EU. Currently only a few experienced veterinarians are left at central level to perform essential functions related to negotiations for export protocols and sanitary guarantees. It has the effect that the workload constantly exceeds the human resource capacity by far, resulting in tasks not being completed within set deadlines.

Export approved ostrich abattoirs are subject to inspection by the importing countries. One of the requirements of an export abattoir is that it should have a full time veterinarian in its service. By international export standards a country's state veterinary services is the acknowledged competent authority. Without an internationally acknowledged state veterinary service being able to give the sanitary guarantees for export certification, the South African ostrich industry will have difficulty to export to developed countries. A traceability system is an essential requirement to export ostrich meat to developed countries. South Africa is therefore moving towards an integrated system whereby animals are only sourced from export farms for the export market. This is to ensure that animals and animal products do not pose a risk to the health of humans and animals in prospective importing countries.

The Committee was of the opinion that the appointment of state veterinarians at the ten ostrich export abattoirs and the clarification of the roles of the NDA and Provincial Departments of Agriculture regarding inspection services, were the most “burning issues” at the stage of the compiling of this report. It was acknowledged that the primary function of the NDA is to set national norms and standards in collaboration with the Provincial Departments of Agriculture and to audit and monitor the application of these standards while the executive functions should be executed by Provincial veterinary officials. The Committee consequently decided to invite a representative of the NDA to inform the Committee about the latest developments regarding the appointment of state

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veterinarians and the roles of the NDA and Provincial Departments of Agriculture regarding inspection services. This meeting took place on 5 February 2002. The representative indicated that at that stage 13 permanent posts (some non-veterinary) were vacant in the NDA. Notwithstanding the above-mentioned, the Committee was informed that there is still uncertainty where the functions of veterinary services belong and who should take responsibility to execute the functions (the NDA or Provincial Departments of Agriculture). The opinion expressed is unacceptable to the industry as the assignment and delegation of powers is clearly defined within the Constitution and applicable acts. The EU has also indicated that they accept the execution of executive functions by PDA's as they perform these functions under the national Acts related to Animal Health and Meat Safety.

Currently the PDAs are, in terms of the Constitution and the assigned functions in terms of the Animal Diseases and Meat Safety Act, the responsible authority for the execution veterinary service delivery. The risk for the ostrich industry is that if the NDA and Provincial Departments of Agriculture do not have the required EU measures in place by the time the EU do the next inspection of export abattoirs, the EU could stop all ostrich exports to European countries. This could be a major blow for the South African ostrich industry. Thousands of people in South Africa could subsequently loose their jobs.

The Committee was also informed that only 100 veterinarians are trained in South Africa (at the Onderstepoort Veterinary Faculty) each year, of which less than 10% are black veterinarians. The Committee expressed its concern regarding the low number of black students who are trained as veterinarians. The Committee was furthermore of the opinion that consideration should be given to an arrangement that graduated veterinary students (like medical students) should do a one year compulsory community service in order to address the problem of a shortage of veterinarians at export abattoirs.

The SAOBC also voiced its concern that the Directorate of Veterinary Services would be unable to give the required sanitary guarantees for export certification from South Africa, should this lack of capacity continue to exist. The lack of capacity also deprive the industry to open new markets such as Korea, Russia and the USA, as export protocol questionnaires from these countries, are awaiting to be completed by officials of the NDA. At this stage attendance to these protocols are far behind schedule resulting in the loss of new export markets to the trade. The recently formed Meat Export Council, supported with financial aid from the DTI, will appoint a veterinarian to assist the NDA to complete questionnaires from different countries. These questionnaires form the basis to negotiate protocols with importing countries.

The South African ostrich industry has continuously done its part to ensure that structures and processes are in place to safeguard South Africa for its export

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interests, especially to its all-important EU meat markets. Examples of its commitment are listed as follows –

- In February 2001 a NOPSA-led workshop was held in preparation for the expected EU inspection visit. From this workshop, for example, a highly lauded document, South African Policy for the Export of Ostrich Meat and Offal, was finalised.
- The SAOBC has taken the lead and acts as co-ordinator for the group of animal product export industries that have received good attention for their united efforts at the highest level, specifically on veterinary services.
- A workshop on 17 May 2002 dealt with new EU decisions and implications.

To retain our current export status in the ostrich industry it is necessary to maintain a healthy ostrich flock in South Africa. Strategic diseases like New castle disease, Foot and Mouth Disease and Avian Influenza are an ever-present threat to South Africa's export status. Importing countries could stop all imports from South Africa if it appears that we do not have control over these diseases. Therefore, effective control measures should be in place to ensure a healthy ostrich flock. The NDA through the PDA's should accept responsibility that these requirements are complied with.

Summary

Approximately 90% of the prime cuts of ostrich meat are being exported, mainly to EU countries. This is a major earner of export revenue for the South African ostrich industry. Exports of ostrich meat could only be successfully done if the required controls and measures are in place to ensure meat hygiene and quality standards as required by importing countries are met.

The veterinary services in South Africa and specifically the coordinating and delegating function of the NDA lack seriously in this regard. The ostrich industry, as a major exporter to the EU, could be de-listed for export by the EU if the service as required from them, as certifying body, does not meet the required standards of the EU with their next inspection expected during the second quarter of 2003.

6.5 THE COLLECTION AND DISSEMINATION OF INDUSTRY DATA AND INFORMATION

The International Trade Centre of the World Trade Organisation has identified business information as an integral and necessary part of trade efficiency. Business information is defined in the broad sense as all information required by enterprises for the efficient planning, execution and monitoring of national and international marketing.

The Committee agreed that information drives agricultural development; assist in better decision-making and assist in identifying good business opportunities. Information is also a key component of trade, especially across international boundaries.

The South African ostrich industry is not known for the availability of coordinated and structured (meaningful) information. In the past some of the important role-players in the South African ostrich industry did not share the same opinion about industry information. For example, it came to the attention of the Committee that certain role-players did not want to reveal ostrich slaughtering figures for the reason that they are of the opinion that higher slaughter figures could give an indication of the numbers of skins available and a large number of skins could have a negative effect on world ostrich leather prices.

All the directly affected groups in the ostrich industry could get better quality market information if the collection and dissemination of information could be done in a more structured manner. The details, administration and funding thereof should be addressed by the ostrich industry themselves. The Committee identified three possible ways of collection information:

i) On a voluntary basis by an organizational institution

Currently SAOBC, the umbrella body in the South African ostrich industry, collects information in the ostrich industry. Information is collected on a voluntary basis.

ii) A private institution on an user-pay basis

Another possibility is that a private institution could collect information and disseminate the information on a user-pay basis. This had not happened in the ostrich industry but it happened in other agricultural industries. The negative of such a method is that only the role-players, who could afford to pay for the information, have access to the information.

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iii) On a statutory basis

The Marketing of Agricultural Products Act, 1996, makes provision for statutory measures relating to registration and relating to records and returns. In terms of this initiative it would be compulsory for certain identified role-players in the ostrich industry to provide generic information to a nominated institution, e.g. the SAOBC. In this regard information would be regarded as public information and all role-players would have access to the information. The ostrich industry themselves should decide what information should be regarded as public information. If the industry decided that this is the most appropriate option, the industry has to formally apply for these statutory measures (for the Minister of Agriculture to approve it so that it **may** eventually be promulgated in the Government Gazette).

Summary

The Committee was informed that since deregulation in 1993, the information and data collection systems of the ostrich industry failed. The two main reasons for this situation were that the collection of information was done on a voluntary basis and secondly the lack of infrastructure and funds to collect, interpret and disseminate such information. The opinion was that it would be to the benefit of all role-players in the industry if more comprehensive information on the industry is being collected and disseminated in a well structured manner.

To rectify the above situation the Committee was of the opinion that the industry should apply for statutory measures relating to registration and to records and returns.

6.6 THE EVALUATION OF CURRENT EXPORT ENHANCEMENT PROGRAMMES TO PROMOTE THE EXPORT OF OSTRICH PRODUCTS

An export-orientated culture is lacking in all but a few sectors of South African agriculture. Dedicated government support to agricultural exports has also been phased out since the removal of the General Export Incentive Scheme (GEIS) in 1997. However, South Africa is currently only one of a few countries, which is a net exporter of agricultural products.

Approximately 90% of ostrich leather and feathers as well as prime cuts of ostrich meat are exported. The market for leather is mainly in Japan, Korea and China and for feathers it is mainly in Italy and South America. The majority of the South African population could not afford ostrich meat due to its higher prices compared to other meat. Therefore ostrich meat is exported to consumers (mainly European countries) who are able and willing to pay for ostrich meat. A weaker currency further encourages the export of ostrich meat, leather and feathers.

The labour representative on the Committee stressed *inter alia* the importance of the export market for ostrich products in order to maintain and create job opportunities. He also indicated that SACTWU adopted a productivity plan and that labour representatives recognised the importance of increased productivity for the growth of the ostrich industry in particular and the country's economy in general.

Meat Export Council

The establishment of export councils for agriculture is a relatively recent innovation. An export council is a formal grouping compared to a joint action group that is a more informal grouping. Until May 2002, nine export councils (a section 21 company, which has its own identity) had been formed within the agricultural industry to actively market and promote the relevant agricultural products in the international market. A Meat Export Council was registered as a Section 21 Company in December 2002.

The South African Red Meat Exporters together with some ostrich exporters recently joined forces to register the Meat Export Council. The establishment of the Meat Export Council resulted from a need in the meat industry for an umbrella body to promote the exportation of ostrich, pork, lamb, beef, processed and canned meat products. The red meat industry (mainly beef) and the ostrich industry (ostrich meat) share common interests regarding veterinary services, export abattoirs and that both are regarded as "red meat". The first project of the Meat Export Council was the appointment of a veterinarian on a consultancy basis, in liaison with the Directorate Veterinary Services of the NDA to assist in completing export questionnaires.

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Meat exports are totally dependent on the establishment of veterinary protocols with importing countries. No exports will materialize if there is not an agreed protocol between South Africa and the importing countries. The NDA and its Directorate Veterinary Services are responsible to negotiate these protocols on behalf of the exporters. A lack of capacity in the NDA, currently impacts negatively on exports. Due to staff constraints the NDA has only a limited ability to negotiate international protocols, resulting that protocols are not in place and exporters could, for example, not take advantage of the benefits under the African Growth and Opportunities Act (AGOA) agreement (in terms of which South Africa could export agricultural products duty free to the USA for a period of 8 years) and other export opportunities.

Over and above current ostrich meat exports to the EU and Asia, meat could also be exported to Korea, Russia and Taiwan if the necessary protocols could be established.

Other export enhancement programmes to promote the export of ostrich products

The SAOBC is in negotiations with the Department of Trade and Industry (DTI) and with Trade and Industry South Africa (TISA) for developing a strategic plan as basis for future co-operation. Parallel to this, the SAOBC applied to the NEDLAC administered fund called FRIDGE (Fund for Research into Industrial Development, Growth and Equity) for financial assistance from Government to promote the export of ostrich products. To qualify for funds, an investigation into a number of aspects of the ostrich industry, like job creation, value-adding, expanding the manufacturing component, strengthening the industry in securing a long term growth trend, improving international competitiveness, etc. should be undertaken. Funds in this Fund is earmarked for export promotion subsidies, market visits and buyer support programmes.

Summary

The Committee was of the opinion that the South African Government should continue through its various support structures, support and facilitate efforts by the ostrich industry to develop new markets and secure them for the South African industry to the benefit of all role-players. This includes financial support for infrastructure and research into new markets or the development of existing markets.

The Committee stressed the importance that the NDA be engaged in a programme to establish protocols to export ostrich meat to *inter alia* Korea, Russia, Taiwan and the USA. These protocols are currently not being addressed by the NDA due to a lack of capacity.

6.7 THE IMPORTANCE OF RESEARCH AND DEVELOPMENT

Agricultural Research Council

The Agricultural Research Council (ARC) is on a national basis responsible for research and development in the agricultural sector. The mission of the ARC is to promote the agricultural and related sectors through research, technology development and transfer in order to encourage the national growth and development of South Africa.

The drastic cut in Government support and funding to agricultural science is hampering the ability of the ARC to render an efficient service to the South African agricultural sector. The cut in the Parliamentary Grant to the ARC from R337 million in 1996/97 to R262 million in 2002/03 represents a cut in real terms of nearly 50%, and for certain strategic institutes this has been in excess of 65%. Developed countries typically invest around 3% of an industry's GDP in public Research & Development, while for South Africa this is estimated at 1%. This impacted negatively on service delivery to the resource limited or previously disadvantaged agricultural sector, which are in even greater need of appropriate technologies to improve their situation. Government's intention to enlarge its contribution to agricultural research, in the next three to four years, to 3% of the value of the gross agricultural production, is most promising.

Many agricultural industries (non-governmental) have recognized their responsibility towards technology development and have, within their means, contributed substantially towards funding agri-science. External income for the ARC (from agricultural industries) has continued to grow in the past year, reaching the highest level since the ARC's establishment in 1992. For 2002 an amount of R172 million was contributed by non-governmental agriculture industries compared to R26 million in 1992. On the other hand the Parliamentary Grant, which, at its peak of R337 million in 1996/97 (then accounted for almost 79% of total ARC's income), now contributes only 59%. The external income from industries and other sources now comprises 41% of the total ARC income.

There are extreme concerns on the loss of more than 200 key research managers and in the agricultural sector in a period of less than 24 months. Of these, only 14% have been replaced. According to a reply in Parliament by the Minister for Arts, Culture, Science and Technology, the loss since 1999 is the equivalent of 4000 years of experience, while the new appointees have a total of 500 years of experience. The ARC employed only 49 black researchers in 2002. Only seven were true specialists. For decades white males occupied the domain of agricultural research. While the correction of unbalances is supported in principle, the non-availability of replacements should also be kept in mind.

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National Agricultural Research Forum (NARF)

The primary aim of the NARF is the facilitation of an integrated approach to agricultural research, technology development and transfer. According to the constitution of NARF there needs *inter alia* to be –

- Consideration of all inputs from private, provincial and national stakeholders in order to recommend national priorities in agricultural research; and
- Facilitation of information sharing among role players on on-going research, available resources and how to access them; and developments in agricultural research on a provincial and national basis.

The principles of NARF are supported by the ostrich industry. However, the slow process of moving forward is disappointing, and cannot be accepted. NARF was established on 22 May 2002, but in March 2003 final agreement on constitutional aspects were still outstanding.

Department of Agriculture Western Cape, at the Little Karoo Agricultural Development Centre, Elsenburg and Outeniqua.

The Little Karoo Agricultural Development Centre in Oudtshoorn, an initiative from the Provincial Department of Agriculture in the Western Cape, is the only state supported ostrich research station in South Africa, and the biggest of its kind in the world. Presently 450 breeding birds are kept and approximately 4000 chicks and slaughter birds are available for research, yearly. The Centre boasts research with facilities in the form of 183 breeding camps, 66 slaughter camps, three chick rearing systems, a modern hatchery, metabolism facility, handling pens and a well equipped feed plant. Six scientists are presently involved in 20 research projects supported by 30 technical staff and workers. A further six students are presently engaged in various scientific studies on different aspects of ostrich farming. Fields of study being explored are; incubation physiology, dietary aspects, genetics, meat and leather science, behaviour studies, physiological studies, and economics. The Centre is also closely linked to a modern virology and bacteriology laboratory. The Centre is privileged in having established a working and research relationship with seven South African Universities. Apart from serving the commercial farming community, it also plays a role in training and education towards short courses for agricultural students and training for unskilled farm workers. In future more focus will be put on the training and development of new farmers from previously disadvantaged groupings.

Research Related Products

- 1993-2003, A total of 204 scientific and popular publications and conference contributions.
- Genetics: First genetic parameters on ostriches in co-operation with Australian scientists.

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- Invited to present a review of advances in ostrich breeding, nutrition and husbandry at 10 international congresses.
- Develop feeding standards that made a significant contribution to the development of the local ostrich feeding industry. It is estimated that feeding research has led to a 50% improvement in efficiency. This improved the competitiveness of the South African industry.
- Research on artificial incubation led to a 20-30% improvement in ostrich chickens hatched as well as quality of day old chickens.
- The positioning of ostrich meat as a unique product with health benefits.
- Guidelines for the grading of leather and the production of high quality leather.
- Improvement of overall productivity of ostrich production through a multi-disciplinary approach by a team of experts. For example, the identification of prolific breeding birds and their management.
- Provision of superior genetic material to the local industry.
- Establishment of the optimum stage for slaughter according to market preference.
- Conservation of the natural environment by introducing a feedlot system where no slaughter birds are kept on natural veld.
- Development of dosing programs.
- More efficient lucerne production.

Onderstepoort Veterinary Institute

Other research infrastructure exists in the form of the world-renowned Onderstepoort Veterinary Institute (OVI). OVI has until recently been a pioneer and specialist institution in research and preventative medicine. Its specific specialty is in the field of African diseases. Veterinarians all over the world have respected the role of the OVI in this regard.

However, the lack of funding towards OVI has seriously affected the work output by them on the scientific field the past few years. It also resulted in the erosion of human capital in the sense that most of the experienced scientists left the service of the Institute. Interaction between scientists of the Institute and global role-players has therefore almost come to a complete halt. The net effect of the above is that the South African leadership and scientific credibility has suffered severely.

National Residue Monitoring Programme (NRMP)

A National Residue Monitoring Programme (NRMP) is an essential requirement to export ostrich meat to developed countries. The NRMP was during the past five to ten years assigned for execution to the OVI and other accredited laboratories such as the CSIR, University of the Free State and the SABS and funded by the NDA. By apparent lack of commitment and foresight, the correct procedures (for example on tenders) were not timeously put in place by the NDA. The ostrich

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industry, together with other meat exporters (for beef, lamb and pork) stepped in and provided financial support to safeguard the continuous requirements for this Monitoring Programme. The OVI furthermore needs R2.5 million to buy new equipment in order to meet EU directives.

Summary

South Africa, the leader in the world ostrich industry, is in desperate need of support services to maintain its leading role in the long run. A lack of research and development could jeopardize the South African ostrich industry position as the world leader of ostrich products. Becoming and staying a global player, needs research support systems for both established as well as upcoming farmers. Livestock industries, including the ostrich industry could in future suffer in a serious way due to the lack of proper research support.

It may also be necessary to protect the South African ostrich industry to have control over the export of flock and ensure that the research investments be utilised for South Africa's own benefit.

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ABBREVIATIONS:

African Growth and Opportunities Act	AGOA
Agricultural Research Council	ARC
Black Economic Empowerment	BEE
Bovine Spongiform Encephalopathy	BSE
Corporative Development Initiative	CDI
Department of Trade and Industry	DTI
Foot and Mouth Disease	FMD
European Union	EU
Fund for Research into Industrial Development, Growth and Equity	FRIDGE
Gross Domestic Product	GDP
Klein Karoo Cooperative	KKC
National African Farmers Union	NAFU
National Agricultural Marketing Council	NAMC
National Department of Agriculture	NDA
National Economic Development and Labour Council	NEDLAC
New Economic Plan for African development	NEPAD
National Ostrich Processors of South Africa	NOPSA
Onderstepoort Veterinary Institute	OVI
Previously Disadvantaged Individual	PDI
South Africa Meat Industry Company	SAMIC
South Africa Clothing and Textile Workers Union	SACTWU
South African Ostrich Business Chamber	SAOBC
Trade and Investment South Africa	TISA

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