

**REPORT  
OF THE  
COMMITTEE TO REVIEW THE  
AGRICULTURAL MARKETING  
ENVIRONMENT**

**SEPTEMBER 2006**

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# **REPORT OF THE COMMITTEE TO REVIEW THE AGRICULTURAL MARKETING ENVIRONMENT**

**TO:** Ms Lulu Xingwana  
Minister of Agriculture and Land Affairs

1. We, the undersigned, appointed by your predecessor, Ms Thoko Didiza, on 22 September 2005 as members of the Committee, have the honour of submitting our report.

## **TERMS OF REFERENCE**

2. The terms of reference of the Committee are to:

- Review the impact of deregulation on the structures of the agricultural marketing systems and institutions. Specific consideration should be given to the following issues:
  - ⇒ Are agricultural markets and marketing institutions consolidating, integrating or fragmenting? What causes the observed trends?
  - ⇒ What has been the extent of agricultural markets' reorganisation since deregulation?
  - ⇒ What is the extent of market integration (vertical and horizontal) in different marketing chains, from input supplies to trading?
  - ⇒ Determine whether the deregulated environment created opportunities for the development of new markets and participation by new players (blacks, BEE, traders, agents, etc.) to take the role formerly carried out by state enterprises.
  - ⇒ Has deregulation increased or decreased marketing chains' (up and downstream) efficiencies and competitiveness? Specify.
  
- Review the pricing structures of major commodities, cost price or competitive pricing? (Link this point with the Food Price Monitoring Committee's terms of reference).
- Review whether the deregulated marketing environment stimulated increased production which subsequently expanded existing markets and/or created new ones.
- What are the key market access qualifiers in the deregulated environment?
- Review the impact of deregulation on import and export requirement policies.
- Has deregulation stimulated the emergence of public and private networks and institutions to provide market information, infrastructure, market research, market co-ordination and representation, technology, skills training, finance, asset acquisition and other market access enabling resources? If not, how could it be made to do so?
- Determine the importance of trade and tariff policies and the impact of international trade agreements on domestic marketing arrangements.
- Determine the impact of deregulation on national and household food security.
- Review and define the role of the state in a deregulated environment with respect to appropriate instruments and measures to use to create a conducive marketing environment such as:
  - ⇒ Legal framework for marketing dispute resolution
  - ⇒ Financial and credit provision system towards market development
  - ⇒ Product standard setting and verification system
  - ⇒ Institutional infrastructure to reduce marketing transaction costs, especially for previously disadvantaged farmers
  - ⇒ Set norms and standards for agricultural marketing and a system for enforcement

- ⇒ Development of agricultural trade and tariff policies
- ⇒ Facilitate the development and support of agricultural marketing co-operatives
- ⇒ Establishment of strategic grain reserves to buffer food insecurity risks
- ⇒ Facilitate the restructuring/privatisation of the National Fresh Produce Markets with an empowerment imperative

- Review the impact of the Marketing of Agricultural Products Act No. 47 of 1996, focussing on existing research and analysis and international benchmarks. Undertake a gap analysis of what else needs to be done if the market environment is to respond to the current economic policy challenges such as employment creation, food security, BEE, competitiveness, export and investment promotion, and value addition.
- Make recommendations on a desirable institutional framework for management of the agricultural marketing environment.

## PROCEDURE

The Committee met on 12 occasions between 16 November 2005 and 12 September 2006. The schedule of meetings, and the main purpose of each meeting, was as follows:

<b>Date</b>	<b>Main purpose</b>
16 November 2005	Planning
20 January 2006	Hearings: Red meat industry
2 February 2006	Hearings: Wine industry
14 March 2006	Hearings: Cotton, sugar, broiler and egg, grain, banana, and canning fruit industries
17 March 2006	Hearings: Potato and mohair industries
23 March 2006	Hearings: Fruit, wool and ostrich industries
30 March 2006	Hearings: Grain milling and dairy industries
6 May 2006	Workshop: NAFU
16 May 2006	Hearings: Input and service suppliers (SANSOR, FSSA, AVCASA, AFGRI, PPECB)
17 May 2006	Hearings: Government agencies (NDA Directorate of International Trade, NAMC, ARC, ITAC)
28 June 2006	Hearings: Industry trusts (Citrus, maize, red meat, and mohair).
29 June 2006	Hearings: Industry trusts (Oilseeds and protein, winter cereal, and wool).
12 September 2006	Finalisation of report.

The Committee requested the various agricultural industries, input and service suppliers, government agencies, the industry trusts and the public at large to submit information in the form of responses to the following questions:

- 1) Provide a brief summary narrative of the process of deregulation of your industry in the period after the report of the Kassier Committee in 1992. In this narrative, show also why things happened in the way and sequence in which they did.
- 2) Describe the organizational arrangements that have since been put in place to manage the affairs of the industry.
- 3) Describe the experience of the industry in the post-deregulation era with respect to:

- a) Trends in total output;
  - b) Trends in exports & imports;
  - c) Trends in the use of resources (land, capital & labour);
  - d) Changes in the structure of the sector in terms of farm size, shifts in location of production, etc.;
  - e) Social aspects such as schools, education, health, housing; etc
  - f) Environmental impacts;
  - g) Research & technology development;
  - h) Competitiveness (global & domestic);
  - i) Regulatory environment and how they impact on business;
  - j) Competitive behaviour, and
  - k) Prices and margins.
- 4) What in your view would the role players in the industry have done differently in terms of deregulation, if it had been able to?
  - 5) Provide an overview of progress with land reform and Black Economic Empowerment in the industry. State whether deregulation had any impact here.
  - 6) Provide an overview of industry performance in relation to objectives of MAP 1997
    - a) increase market access for all market participants
    - b) promote efficiency of the marketing of agricultural products
    - c) optimize export earnings
    - d) enhance viability of agricultural sector
  7. Describe the most important factors in the global trade arena that impacted on your industry. How did your industry contend with it?
  8. What can government do to improve marketing in your industry?
  9. Identify the positive and negative impacts of deregulation on your industry, and your opinion on whether deregulation was beneficial.
  10. Provide any other information that you would like the Committee to take into consideration as well.

These written inputs were augmented by the oral evidence provided by the various parties as shown in the schedule above. The written inputs are included in Annexure 1 to this report.

## **ACKNOWLEDGEMENTS**

The Committee wishes to express its appreciation to all individuals and organisations that contributed to its deliberations by the submission of evidence. A special word of thanks is due to Mr. Billy Morokolo, Senior Manager: Marketing of the National Department of Agriculture and his team for the logistical support provided to the Committee.

SIGNED ON THIS DAY OF 12 SEPTEMBER 2006 IN PRETORIA

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Dr. Mohammed Karaan  
Chairperson

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Ms Jean Davidson  
Member

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Dr. Tobias Doyer  
Member

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Prof Eckart Kassier  
Member

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Prof. Charles Machethe  
Member

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Mr. Bigman Maloa  
Member

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Dr. Patrick Sokhela  
Member

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Prof. Herman van Schalkwyk  
Member

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Prof. Nick Vink  
Member

# Report of the committee to review the agricultural marketing environment

## 1. The impact of policy shifts on agriculture

The Marketing of Agricultural Products Act, no 47 of 1996 (hereafter “the Act”) was promulgated on 1 January 1996, and the National Agricultural Marketing Council met for the first time on 7 January 1997. This latter date is important, as the Act stipulated that the statutory powers of the Control Boards established under the Marketing Act of 1968 would lapse one year after the first meeting of the Council. As a result, the agricultural sector faced a rapid and inexorable process of deregulation, a process that was successfully completed within the stipulated time.

The agricultural sector was subjected to extensive foreign trade liberalisation prior to the promulgation of the new Marketing Act, through the implementation of South Africa’s commitments under the Agreement on Agriculture of 1994. Similarly, the extensive range of instruments available to policy makers to subsidise certain aspects of agricultural production among commercial farmers, such as fixed improvements, conservation works, fencing, emergency relief, etc., were removed during this time.

The net impact of this process of policy reforms has been assessed by the FAO<sup>1</sup>, the OECD<sup>2</sup> and the World Bank<sup>3</sup>. The main conclusions of these assessments are:

- Commercial farmers in South Africa receive as little support as their counterparts in countries such as New Zealand, Australia, India and Russia, and may even face a net tax on their operations;
- This process of policy reform has benefited the agricultural sector as a whole. The gainers are the most efficient commercial farmers, and farm workers who have been able to retain positions as permanent employees. Those who have lost include those commercial farmers who have had to leave the sector, some 400 000 farm workers who have lost their jobs, and a smaller but significant number of farm workers who have lost permanent jobs and are now seasonal/temporary workers.
- It is feasible that there have been some environmental benefits from these policy reforms.

Table 1 puts these findings in perspective. The Table provides a synthesis of the opinions of industry organisations on the impacts of deregulation of agricultural marketing on production, and on the structure of the agricultural sector<sup>4</sup>. These opinions were submitted by the respective industry organisations in response to the set of questions sent out by the committee, and supported by oral evidence provided during the hearings.

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<sup>1</sup> Vink, N and JF Kirsten, 2003, Country synthesis report: South Africa. FAO Project on the Roles of Agriculture in Developing Countries

<sup>2</sup> OECD, 2005, OECD Review of Agricultural Policies: South Africa. Paris, Organisation for Economic Cooperation and Development

<sup>3</sup> Johann Kirsten, Lawrence Edwards and Nick Vink, 2006, Distortions to Agricultural Incentives: South African case study. Washington, DC, International Bank for Reconstruction and Development, Forthcoming

<sup>4</sup> The full submissions by the industry organizations, based on the set questions, are presented in Annexure 1

**Table 1: Industry submissions on the output and structural impact of deregulation**

Industry	Impact on output <sup>1</sup>	Structural impact <sup>2</sup>
Bananas	Output and yield growth	Shift in production from Tzaneen and Kiepersol to Komatipoort
Canning fruit	Neutral	Neutral
Citrus	Strong output and export growth	Slight increase in land use; decline in employment but higher wages for those permanently employed; some foreign investment; fast-tracking of social investment <i>inter alia</i> through pressure from supermarkets; creation of strong research capacity based on industry/University collaboration; strong diversification of export destinations; information a problem
Cotton	Limited	The cotton industry is in decline in terms of output, employment, etc., but this is largely the result of trade liberalisation
Deciduous fruit	Industry grew by 25% from 1991 to 1997, thereafter grew more slowly; however, export volumes continued to increase until recently	Area and employment decreases experienced (but better conditions for permanently employed workers); production shifts between deciduous fruit and wine grapes, and table grapes and stone fruit experienced; research capacity now largely based on industry/University collaboration; loss of global competitiveness in apples and pears; unreliable 'fruit flow' information; monopoly power of buyers, shippers, etc.; greater supply chain integration; counter-seasonal imports increasing
Grains	Decline in wheat production; minor switch from yellow to white maize production; an increase in soybean production; overall more stable grain production, especially maize, partially explained by increase in irrigation, better cultivation practices and improved cultivars; decline in exports of yellow maize and more stable exports of white maize and sorghum; wheat and barley exports lower	20% decline in area planted (especially wheat, sorghum and yellow maize); increased imports of yellow maize, mainly for animal feeds in coastal areas; increase in the imports of wheat, groundnuts, soybeans and sunflower oilseeds; real gross capital formation declined to 1999, then increased; employment decreased; farm size increased; positive environmental impact through withdrawal of marginal land from production and shift to minimum intervention farming; loss of research capacity; evidence of a decline in competitiveness; concentration in the supply chain and increased downstream margins; increased price risk
Milk	Long-term increasing trend, and an irregular cyclical pattern that has shortened after deregulation as farmers had to cope with volatile grain and other input prices	Expanded range of products produced; import surge due to trade liberalization; instability in net exports and declining competitiveness; increased capital intensity and larger farming operations (fewer farmers); shift of production to coastal areas; deteriorating research capacity; problems with enforcement of regulatory standards
Mohair	Globally, production has been in a downward spiral	Substantial increase in raw mohair imports, especially from (subsidised) USA farmers; conversion of land to game farms, but some expansion of mohair into adjacent areas; negative impact of labour legislation; increased farm size; negative impact of contraction in state research capacity; textile industry uncompetitive, so dependent on fibre exports; price instability affects margins
Ostrich	Deregulated in 1993; generally positive output and export trend for meat and leather	Some producers left the ostrich industry; move to intensive feedlot system due to pressure from environmentalists; some exit from the industry in the Eastern Cape following the AI-episode; growth experienced in the Northern Cape; close collaboration with environmental groups in the production areas;



Industry	Impact on output <sup>1</sup>	Structural impact <sup>2</sup>
		research switched from co-op to University; regulatory capacity a problem
Potato	Output and exports (also of seed potatoes) have increased	Area planted has decreased (strong yield increases); exports subject to the exchange rate; potentially disruptive imports of processed product; significant decline in dryland area planted; the decline in throughput on the fresh produce markets is problematic
Poultry	The industry was never regulated, hence no impacts	
Red meat	Growth in volume of beef and sheep meat output, decline in pork; decline in exports	Imports of beef and sheep meat declined, pork increased; shift to informal market; lack of information a problem; industry requires better plans to deal with disease outbreaks; border controls are a problem; implementation of food safety standards, traceability requirements lagging
Sugar	Controlled under own legislation, but significantly deregulated within the framework of the Sugar Act: however output and export trends more reliant on global market trends and preferential SACU, SADC access than deregulation	Scrapping of pool quota system has resulted in more planting (5% increase); shifts in the location of sugar mills reflect changes in planting; number and size of large scale growers has increased while deliveries by small scale growers have declined slightly
Table grapes	Output grew by 50% and exports by 67% to 2003, thereafter stagnated because of strong Rand and power of the supermarkets	The number of exporters increased, but export destinations did not diversify; lack of information results in lack of supply coordination; some counter-seasonal imports; new plantings increased to 2001, has reduced since; shift in production to Northern and Orange river areas; farm sizes are increasing; research capacity adequate but little market research
Wine	Total output steady but strong export growth now hampered by strong Rand; stagnant domestic market	Slight area expansion but radical replanting to noble varieties, mainly but not exclusively by owners of private cellars; some shifts to new areas; relative prices have shifted in favour of noble varieties; increased investment, but little foreign direct investment; profitability of grape growing under pressure; industry competitiveness has increased substantially since 1988; some concern about the downscaling of government research funding; increase in employment; marketing chains remain highly fragmented
Wool	Deregulated in 1993; Output and exports have been in decline since the 1960s in line with global trends unrelated to deregulation – domestic factors include stock theft	No real value-adding to exports; some evidence that HIV/AIDS is impacting on shearing; withdrawal of subsidies for fencing, soil conservation works, erosion control measures, water supply for livestock, declared weed- and pest control etc. problematic; erosion of research capacity (ARC) a problem; vulnerable to exchange rate movements

<sup>1</sup> Where reported by the industry in response to Questions 3a) and b)

<sup>2</sup> In the broadest sense, including industry organisations, relations in the value chain, pricing mechanisms, farm size structure, etc. These are generally the responses to Questions 3c) to 3k)

The following broad conclusions can be drawn from this synthesis:

- It is difficult to separate the impact of policy shifts in agriculture from those of related policy shifts such as trade liberalisation, labour market reform, water law reform, etc.;
- It is likewise difficult to separate the impact of deregulation of agricultural marketing

from other agricultural policies such as land reform, the Extension of Security of Tenure Act, etc.

- Factors external to the South African agricultural sector, such as global market trends, exchange rate instability, etc. have also impacted on the agricultural sector.

For this reason, the synthesis focuses on those impacts that are most likely to have resulted from deregulation. In this regard, the following conclusions can be drawn:

- There is some evidence that the increase in the production of bananas can be ascribed to deregulation, although technology also played a role.
- Increases in the production and exports of citrus and deciduous fruit (including table grapes) are more likely the result of the post-sanctions export boom, supported by the collapse in the value of the Rand until 2002. The consolidation that took place thereafter, especially in deciduous fruit, can also be ascribed to the strengthening of the Rand rather than to deregulation. There is some anecdotal evidence that the proliferation of exporters, especially in the early years, depressed the earnings of exporters.
- There can be little doubt that deregulation had its greatest effect on the grain industry, through its effect on the quantity and composition of output (the shift away from wheat, the increase in the production of soybeans), the location of production, the adoption of new minimum-intervention production practices, and the structure of the supporting institutions such as the creation of SAFEX, the new roles played by the former grain cooperatives, the increasing importance of small-scale millers, etc.
- There is little evidence that deregulation had large direct impacts on the meat and animal products industries, although the substantial shifts away from large centralised abattoirs in the main metropolitan areas was not mentioned by the red meat industry in their evidence.
- Deregulation seems to have resulted in an increase in the minimum viable farm size in commercial agriculture, largely because low-intervention cropping practices require more land to be left fallow in rotation, and instability requires farmers to diversify out of the monocropping that had become standard practice under the Control Boards (often into more extensive livestock production). At the same time, economic growth means that the opportunity costs of the best managers increases. Unless these managers are able to increase the size of operation in agriculture, they will leave the sector.
- There is ample evidence that deregulation had considerable effects on the agribusiness sectors, both in terms of input supply (fertiliser, seed, machinery, animal feeds, etc.) and in terms of downstream processors (millers, cooperatives, abattoirs, etc.). Many input industries have experienced a decline in domestic sales (e.g. fertiliser, tractors) while the Association for Veterinary and Crop Protection Associations (AVCASA) reports annual sales increases of the order of 10% in veterinary medicines, but a decline of 15% per annum in the crop protection sector. However, most of these industries still have considerably more market power than the farmers to whom they sell, and from whom they buy.
- Most industries reported problems with accessing timely and accurate market information. This problem seems to be less evident in the grain industries (but not entirely absent), and more evident with perishable products destined for export markets.
- These latter industries, as well as the livestock industries, expressed concern with the capacity of the Department of Agriculture in terms of the maintenance and monitoring of food safety standards in both the domestic and international markets.
- Most industries expressed grave concern with the state of agricultural research, especially as embodied in the Agricultural Research Council. In some cases (citrus,

deciduous fruit, ostriches) research had shifted away from the ARC to industry/university collaboration.

The report of the Kassier Committee (p25)<sup>5</sup> stated that:

*There was a curious anomaly in the submissions and evidence of the members of the Boards (and some others) regarding the definition of 'chaos' and 'orderly marketing'. This usually surfaced in descriptions of the situation before the Marketing Act in 1937, and the fear that chaos would return should the Act be repealed or substantively amended. Many of these protagonists came very close to defining their own control scheme as 'orderly' and any other option as 'chaotic'*

It is evident that deregulation did not result in 'chaos' for commercial farmers, and that in many cases they benefited from the process. Nevertheless, it is also instructive to hear what the industries would have done differently themselves, or would have advised the state to do differently if they had to go through the whole process again.

## **2. Industry views on the process of deregulation**

Industry views on how the process could have been conducted 10 years after the fact are synthesised in Table 2. While industries were asked to elaborate on what they themselves would have done differently, many also reported on what they thought the state should have done. The common denominator in these responses is:

- Virtually all industries (explicitly the fruit industries, grains, poultry, red meat, wine) argued that too little attention was paid to the critically important information function. In this regard, industry spokespersons mentioned strategic information (required for planning), market intelligence, and the normal flow of information from research. In this latter respect many repeated their concern with the scaling down of the funding of agricultural research by the state, especially the ARC.
- Many industries were concerned at the loss of capacity (or institutional memory) that occurred with the dissolution of the Boards.
- Some industries (citrus, grains, red meat, table grapes) and supporting institutions (ARC, dti – although their concern was more with the pace of trade liberalisation - ) argued that the pace of deregulation was too fast, and that a more measured process would have been more successful, while others (bananas, sugar) were satisfied with the pace of deregulation. Yet another set of industries and (milk, grain millers, mohair, ostriches, poultry, wine, wool) were more concerned with the fact that too little preparatory work was done than with the pace of deregulation *per se*. The general conclusion is therefore that the state (and the industries themselves) did too little to prepare for deregulation, and there was not sufficient planning of safety nets for those adversely affected by deregulation.
- Some spokespeople (ARC, citrus, the Fresh Produce Exporters' Forum (FPEF), mohair) believed that a golden opportunity for meaningful BEE was missed during the deregulation process.

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<sup>5</sup> Report of the Committee of Inquiry into the Marketing Act. Pretoria, National Department of Agriculture, 1992

**Table 2: Industry views on the process: 20:20 hindsight**

<b>Industry</b>	<b>Comments</b>
ARC	Too fast, especially tariff reductions below bound rates; support for small farmers; NAMC more accessible
Bananas	There was a time for regulation to help the industry get on its feet, and a time for deregulation. The fact that the industry has doubled in size since proves that this was a timely process
Canning fruit	There were few regulatory measures in place, so the industry would have done no more and no less than what was done
Citrus	Rapid or ‘big bang’ deregulation results in fragmentation and loss of capacity that takes many years to rebuild. The industry would have done three things differently: a) Key functions (research, information, market access, representation, generic marketing and promotions, communication) would have remained in an industry-funded body; b) Grower education in marketing; and c) Transformation goals should have been fast-tracked in the process, e.g. licensing BEE export agents, or legislating procurement from a certain percentage of BEE product suppliers
Deciduous fruit	Stable industry funding: the NAMC took too long to announce guidelines for the use of statutory levies: a quicker response to re-introduce statutory levies to fund essential industry functions, and some measure of coordination in the marketing arena would have assisted in a more mature industry by now; free riding in terms of export qualities was detrimental to the industry’s image; the information and market development functions suffered from a lack of funding
dti	Government should have been slower in phasing out import control and aligned import duties with the putting in place of support structures (e.g. if SPS requirements were not aligned with those of competing countries, then a higher import duty should have been put in place and phased down): SA’s bound rates are high enough to enable increased import duties on some products, and SA’s applied duties are significantly lower than the bound duties. This would have given industry more time to adjust to deregulation. Furthermore, SA terminated export subsidies on agricultural products whilst the WTO requirement was to only phase down by 36% in value terms and 21% in volume terms over 10 years. Industrial/manufacturing supply side measures that were developed to replace export subsidies in most cases do not cater for agricultural value addition
FPEF	A lot of industry information (fruit-flow, training material) was lost with deregulation; industry fragmentation means that the industry seldom talks with one voice to government, foreign representatives, etc.; started investing in research and extension capacity sooner after deregulation; created a new country brand to replace the ‘Outspan’ and ‘Cape’ brands; used industry assets such as port terminal facilities, the brands, Paltrack as part of BEE initiatives; create a better relationship between government and the industry; brought in a system of accrediting export agents much earlier
Grains	A more gradual transition to give producers the opportunity to adjust; government should have played a more important role in investment in the information function rather than leaving this to the private sector
Milk	Government should have been more proactive in developing the industry with regard to key functions such as regulations in respect of food safety, product composition and animal health, as well as the provision of infrastructure; government should have supported cooperatives to afford producers greater bargaining power; tariff protection should have been given the industry
Milling Chamber	There was a lack of trained procurement risk managers capable of operating on SAFEX
Mohair	Government should have assisted the industry to establish an entity to trade mohair and add value to the raw material. This would also have provided better support for BEE
Ostrich	Industry should not have allowed the creation of additional processing capacity; a generic South African ostrich brand should have been developed before deregulation; strict controls over the export of genetic material should have been put in place; ostrich products (leather and meat) should have had their own, unique tariff codes in order to measure imports and exports; and the domestic market should have been developed
Potato	Fresh produce markets should have been deregulated at the same time as the Boards
Poultry	The industry should have ensured a more secure funding basis for generic promotion and statistics; the government should not have thrown industries out into international arena without protection as fast and enthusiastically; the government should have paid more

Industry	Comments
	attention to 'illegal' imports; and there should have been more studies of the impact of free trade agreements on sectors before committing to agreements
Red meat	The three biggest problems faced by the industry were the collapse of the information and extension functions, and the decentralisation of veterinary services. Deregulation should have been better planned, and should have been accomplished over a longer period
Sugar	Deregulation has been a carefully managed process, and has been successful
Table grapes	The liberalisation process should have been more structured. This would have ensured that functions such as information, market intelligence, market power and brand value would have been preserved, and industry structures would have been more innovatively designed. Furthermore, the ownership of industry assets (monies and physical structures) would have remained in the hands of the industry
Wine	Greater consolidation in the wine production sector to build brands; better liaison with government in the early stages; more strategic interpretation of global market trends; better infrastructure, e.g. port facilities and laboratories
Wool	Greater effort should have been made to convince growers and government to maintain statutory funding to support international commitments. This would have contributed to avoiding the current isolation of South Africa from other wool producing countries

It is also important to ask what the effect of deregulation was on empowerment in agriculture.

### 3. The impact of deregulation on empowerment

The evidence on progress with empowerment that was provided by the various industries and other organisations in the agricultural sector is provided in Annexure 1. It is well to remember, though, that deregulation of agricultural marketing was accompanied by the withdrawal of many of the farmer support services that new entrants to agriculture require. In this sense, the industry initiatives described in Annexure 1 are all related to attempts to find private sector sources of support for emerging farmers, or to forge public private partnerships to further this end.

Table 3 summarises industry views specifically on the impacts of deregulation on empowerment for those industries that were able to answer this question.

The main conclusions that can be drawn from this synthesis are:

- It is doubtful whether deregulation of markets had much of an influence, while the removal of direct support and trade liberalisation had a strong, mostly negative impact on transformation
- A lot of the action is in supporting industries rather than farming itself (e.g. bananas, cotton, dried fruit, maize and wheat milling where 40% of the market is controlled by BEE companies, ostriches, potatoes, sugar, wool)
- Deregulation increased marketing risk, especially in those industries where single channel schemes were in operation (e.g. grains, fruit), and hence discouraged new entrants, including black farmers.
- Industry bodies are more free to contribute to BEE than the Boards (Mohair, but probably shared by all the industry bodies)
- Some industries (e.g. cotton, sugar, wine) are more proactive than others

**Table 3: Industry submissions on the impact of deregulation on transformation**

Industry	
ARC	Initiatives cannot be related directly to deregulation
Bananas	Farms in the industry remain small but labour intensive. Some 90% of second-level managers (i.e. other than the owner/managers) are black man and women, which provides opportunities for training and capacity building. The informal market in bananas is estimated at R7.5m per year, and is served largely by black traders who purchase directly from farmers. This market arose as a result of deregulation
Cotton	Prior to deregulation, between 3000 and 3600 small-scale farmers produced between 14 000 and 20 000 bales of cotton lint, or 12% of total RSA production. Their share declined to 1.8% three seasons ago, but has since increased to 9%, and is expected to increase further to 20% (of a smaller total crop). Furthermore, the establishment of new (BEE) gins in recent years has created opportunities for their participation in structures further down the pipeline
Deciduous fruit	The industry has a data base of 134 farmers who dry fruit either produced by themselves or bought from (white) commercial farmers to dry and thus add value
Grains	Higher (marketing) risk may have discouraged new entrants, especially poor black farmers
Grain milling	Premier Foods as well as FoodCorp are mainly owned by black empowerment groups and control ± 40% of the market share in South Africa for wheat and maize. One of the big feed milling companies has also acquired a black partner in their shareholding. None of this was possible under the control schemes
Mohair	Industry bodies are more free to contribute to BEE than the Boards
NDA	Trade liberalisation penalises small farmers, hence they need additional assistance
Ostrich	List projects in farming and allied downstream industries
Potato	Deregulation has improved awareness of the importance of BEE. Some 40% of potato sales on fresh produce markets are handled by PDI buyers who sell into the informal market.
Sugar	Industry has a strong track record. Deregulation created the space for settlement of medium-scale growers, establishment of Inzeko Land Company
Wine	Creation of SAWIT, industry unity made possible by deregulation

#### 4. Industry views on the role of the state

Table 4 provides a synthesis of the ‘wish-list’ of the various industries regarding the roles that the state should fulfil in agricultural marketing.

**Table 4: Industry opinions on the role of the state**

Industry	
AVCASA	The state should streamline the seed registration process, address capacity and expertise issues through capacity building and better enforcement of the law e.g. inspection
Bananas	Provincial or local authorities should assist their local market authorities in the funding of ripening rooms; the state should alleviate the burden of toll fees
Canning fruit	Support required at a political, strategic and policy level, specifically in terms of preferential market access in trade negotiations; of support for downstream users of steel and cans; and of exploiting new emerging markets, new products and new technology. Furthermore, the Agricultural Product Standards Act should be reviewed
Citrus	Oppose rich country subsidies to agriculture; enforce market-orientated standards; ensure that certain marketing decisions are binding on all growers
Cotton	Provide price support to farmers as long as international cotton subsidies remain in place; revisit the SADC free trade agreement - the re-introduction of import tariffs from SADC should be considered; restrict the importation of subsidised and low-cost textiles and garments which impacts negatively on the consumption of cotton lint; investigate affordable crop revenue and insurance programs; contribute financially to the establishment of regional/provincial organisational structures for emerging cotton farmers; provide increased technical and research assistance and efficient extension services; establish an Input Cost Forum with the aim of monitoring increases in farmer input costs
Deciduous fruit	Adequate capacity and expertise to deal with sanitary and phytosanitary issues, food safety, standards and protocols, registrations and database management; assistance with new and environmentally safe practices such as the Sterile Insect Technique (SIT); protection of the

Industry	
	domestic market and production areas against foreign pests and diseases, local market standards, food safety and health issues as well as possible dumping of foreign produce. Adequate quarantine measures (ports, airports and border posts) and protection of domestic trade should produce be dumped (a quick introduction process of tariffs via ITAC), are therefore required; legislation to ensure that the required (non-proprietary) fruit flow information is provided timeously and in the correct formats; limited intervention measures on product standards are required to safeguard against free riding with respect to exports; “Brand SA”, needs attention in order to “tell the story” and to differentiate the SA product in terms of all the positive attributes it stands for (also on the domestic market); support to emerging market agents (domestic market); investigate uncompetitive practices in the input supply industries; support for the Fruit Industry Plan
dti	Provide marketing infrastructure e.g. an Agri-Food Website with national standards, products and contact details of industries; establish of a national food control authority as a one-stop access point to information, issuing of permits; increase export incentives; facilitate the achievement of fairer trade agreements; foster import parity pricing on agricultural input sectors; support and encourage Geographical Indicators (GI)
FPEF	Combat the power of supermarkets worldwide; review the functions of the PPECB; address market concentration in the supply chain (shipping, packaging, PPECB); centralise levies and use throughout the marketing chain; build capacity in government using public-private partnerships; limit number of export licences, enforce an ethical code, and reserve a proportion for BEE entities; limit growth in volume of production by reassessing the tax laws that allow deductions for capital expenditure; fund an industry ‘Infohub’ and provide legislation to ensure that required information (e.g. weekly shipping information) is available; clarify industry position regarding competition law; generic promotions; assist in creating market access
Grains	Provide timely and objective market information to all role-players; formulate and enforce effective and consistent legislation regarding all quality aspects of agricultural products; enforce adherence to trade rules within the SADC and SACU; play a more active role in the promotion of South Africa’s grains and oilseeds internationally and in SADC; develop new markets that will enhance the long term viability of grain and oilseeds production, including renewable fuels; reduce the volatility risk emanating from the current price discovery mechanism; level global playing fields by using tariffs and dispute resolution instruments
Milk	Pay more attention to the application of regulations in respect of food safety, product composition and animal health; take proactive steps to counter the effect of the highly distorted international market
Milling Chamber	Implement the recommendations of the Section 7 Committees
Mohair	Fast track the removal of non-trade barriers on agricultural exports; upgrade research and agricultural development institutes; improve infrastructure and extension services, especially for BEE and PDI development; support voluntary mechanisms to ensure a more stable market environment
Oilseeds Trust	Eliminate inequality of competition in the international market; create proper quality control on imported products; create better access to ITAC and faster response by ITAC
Ostrich	Ensure that SA is seen as a credible and trustworthy trade partner by filling critical vacancies in the Department of Agriculture; improve coordination between provincial and national departments, and between DTI and the DoA; eliminate red tape to ensure quick response from Government officials and access to funds (e.g. DTI funds); award unique tariff codes to ostrich leather
Potato	Assist with controls to protect against dumping and against imports from subsidised countries; assist in establishing trading opportunities especially in SADC countries; separate ownership and management on fresh produce markets; revisit the regulation of Market Agents and their sales staff and place function in the private sector; assist in the funding of innovations to support emerging farmers
Poultry	Stay out of it, except for tariffs; support to upcoming sector on supply side only
Red meat	Centralise the Veterinary Services of the NDA; publish the regulations which ban the feeding of protein of mammal origin to ruminants; ITAC must expedite investigation on the increase in the tariff on imported pork; NDA, ARC, NAFU, NERPO etc. must design a coordination strategy for emerging farmer support programmes; strengthen the control on the removal of swill from ships in harbours; appoint independent third parties (assignees) at all abattoirs performing meat hygiene standards; develop of a traceability system for export certification
SACTMA <sup>1</sup>	Implement a cotton subsidy scheme to the producer as is practiced in many countries for small scale farmers; facilitate the development of small- scale farmer cooperatives

Industry	
Seed industry	Address unjustifiable phytosanitary requirements as technical barriers to trade; address the tension between ministries of agriculture and environment regarding biodiversity issues such as the listing of kikuyu and ryegrass as invaders, while these are crucial pasture crops; address the use of anti-GMO campaigns as a form of trade barrier
Sugar	Maintain the Sugar Act, the import tariff and the SADC trade arrangement as the three pillars of support as long as there are global trade distortions
Table grapes	DoA rather than dti should be responsible for all aspects of agricultural trade; develop greater capacity for implementation of trade access and trade protocols; create a Food Control Authority to coordinate and effect <b>all</b> legislative requirements for exports of food and food products; review the structure, mandate and current practices of the PPECB, and consider the composition of the PPECB board; set minimum standards for the export market and investigate the possibility of local market standards; use regulation to ensure that credible industry statistics and information can be collected, collated and disseminated for use by both industry and government (e.g. the regulating of Pallet Identification Bar Codes in line with international practices); develop tools to support industry needs in regard to market intelligence
Wine	Index annual increases in statutory levies; increase contribution to wine research and development; foster structured communication between the wine industry and government; support the promotion of 'Brand South Africa' at international events; embrace the Biodiversity & Wine Initiative to ensure that natural eco-systems do not suffer at the hand of evolving wine markets and the search for superior terroir; reduce excise taxes; finalise the Liquor Products Amendment Bill; enforce legislation against illegal actions such as e.g. water being added to wine and the products then being sold as ale, brandy being produced from cane spirits, and excise duty evasion; collaborate with industry to establish an economy-wide strategic intelligence system; improve capacity of government laboratories; expand port infrastructure and upgrade port business systems and organisation of facilities; revive the Joint Commission established under the RSA/EU Wine and Spirit Agreement; speed up International Agreements such as involvement in the activities of the World Wine Trade Group, ratifying the Mutual Acceptance Agreement on Oenological Practices, etc.; support the creation of 'Wine-Online solutions' to facilitate export transactions
Wool	Provide funding via a joint venture programme with Cape Wools to reposition South African wool and wool products internationally; make funding more readily available to support wool R&D; train and equip South African Embassy representatives to identify market opportunities; simplify the rules regarding the criteria for acceptance of industry requests for statutory interventions

<sup>1</sup> South African Cotton Textile Manufacturers' Association

The industries identified a variety of areas where government intervention was, in their view, desirable and justifiable. These included issues related to:

- Facilities such as the improvement of infrastructure, including roads, ports, laboratories, and research, and an Agri-food website and a national Food Control Authority;
- Uncompetitive practices relating to input supply industries, the supermarkets (domestically and in foreign markets) and fresh produce markets;
- Support to emerging entrepreneurs in primary agriculture, but also in related industries;
- Coordination between government agencies: examples cited included the tension between the ministries of agriculture and environment regarding biodiversity issues, improved access to ITAC, the lack of coordination between provincial and national departments of agriculture regarding the veterinary service, and coordination between dti and the DoA regarding international trade issues;
- Coordination and cooperation between government agencies and industries;
- The structure, mandate and current practices of the PPECB, including the composition of the PPECB board;
- The capacity of government. Here various industries argued for the filling of critical vacancies in the DoA, and for the development of greater capacity for implementation of trade access and trade protocols;



- Engineering better market access for South African exporters, including using tariffs, SPS protection and dispute resolution instruments against disruptive imports and generally opposing the use of unfair technical barriers to trade by our trading partners;
- Giving greater priority to the design and establishment of better inspection services for product standards, including those over imports;
- Opposing rich country subsidies more effectively in trade negotiations;
- Promoting exports to traditional and new markets (especially SADC), typically through the promotion of ‘Brand South Africa’, through increased export incentives and through support for Geographic Indicators;
- The development of tools in collaboration with the industries to support industry needs with respect to market intelligence )

In addition, there were calls for re-regulation by the citrus and deciduous fruit industries, despite protestations about the merits of free markets. These include:

- Enforced cooperation;
- Legislation to mandate fruit flow information;
- A limit on the number of export licences issued, together with an enforceable ethical code;
- A limit on the volume growth in the fruit industries (by disallowing tax deductions for capital investment in new fruit trees!);
- Legislation of minimum standards for the export market (and possibly for the domestic market as well);

Similar calls for statutory powers reminiscent of those under the old dispensation were made by the cotton and mohair industries.

## **5. Synopsis**

Deregulation had an overall positive impact on the agricultural sector. The main areas where little progress was achieved are in the advancement of black agribusiness enterprises, research, information, and in changing the composition and direction of trade. Hence, it is generally recommended that specific support measures be introduced for black firms, and incentives be developed for closer cooperation with the private sector in information, promotion, research, consumer protection, and transformation. Support measures for black firms do not need to be in the form of market interventions, but they can include direct support as defined in the ‘green box’ and special and differential treatment clauses of the Agreement on Agriculture. Therefore, the Committee does not necessarily call for state intervention in markets, but rather for closer collaboration with markets through incentives in addressing the contemporary challenges.

## **6. Recommendations**

### **6.1 The role of government**

**The state, and especially the Department of Agriculture, should:**

1. Recognise that capacity problems exist at all levels of government and cannot be remedied quickly, hence greater reliance on markets is necessary, with effective state sanction and supervision.

2. Resist attempts to reintroduce market regulations/control unless absolutely necessary.
3. Develop more effective incentive programmes to direct industry efforts towards public priorities (e.g. land reform, BEE, research, information, etc.).
4. Promote cost-sharing arrangements with industry. The existence of statutory levies, trust funds, voluntary levies and private funding for research proves that the private sector is committed to generate own funds for its priorities. Many of these priorities concur with those of government (e.g. research, information, transformation, generic promotion, export promotion, etc). Cost sharing on joint priority areas would improve impact and foster much needed collegiality.
5. Maintain closer and collegiate relations with industry without reverting to intervention. Government is expected to provide leadership whilst relying more on the private sector for implementation.
6. Provide a clearer mandate and support to its key marketing instrument i.e. NAMC. The ambiguity and duality of marketing functions between the DoA and the NAMC causes unnecessary confusion. If the state has a dedicated Marketing Act and a special agency for agricultural marketing (NAMC) it is imperative that this agency be given an expanded mandate and resources to operate more effectively in this domain as seen any many other countries. In this regard, it is recommended that marketing functions be delegated to the NAMC (see further below). These functions include international trade promotion, agricultural tariff and trade matters, economic and market research and contributions towards the skilling of agricultural economists in this domain.
7. Only consider strategic grain reserves when international trade and available storage capacity become inadequate in addressing food security. These systems are however well developed in South Africa.
8. Show greater commitment to upgrading and establishing the requisite physical infrastructure required to make markets function more efficiently and equitably.
9. Execute policy, leadership and strategies through closer alignment with other spheres and areas of government. The various spheres and demarcations of government have led to greater complexity and undue bureaucratisation of effort, despite the envisaged merits for delivery. Insufficient collaboration exists with important bodies like ITAC, the Competition Commission, TISA, the Dti, the Department of Foreign Affairs and government departments who serve as institutional markets for agricultural produce (Prisons, hospitals, schools, etc.)
10. Provide greater economic leadership in SADC and proactively handle deliberations on regional trade towards the development of the regional economic state

## **6.2 Marketing legislation**

### **The Department of Agriculture should:**

1. Conduct legislative reviews and redrafting of all laws and bodies related to agricultural marketing.

2. Redraft the Marketing Act following this report. Whilst the Act remains relevant, in principle it requires further amendments to become more effective.
3. A technical committee should address the deficiencies in the Marketing Act that include the following areas:
  - (a) the powers of the NAMC
  - (b) transformation targets
  - (c) the definition of statutory measures
  - (d) maintaining a public information system
  - (e) export promotion
  - (f) trade and tariff measures
  - (g) domestic markets
  - (h) developing regional trade
  - (i) market intelligence
  - (j) market and economic research
  - (k) respective powers of the NAMC and the DoA
  - (l) roles of industry trusts
  - (m) roles and responsibilities of private sector
  - (n) consumer protection
  - (o) the application of levies

### **6.3 Industry trusts**

**The Department of Agriculture and the NAMC should ensure that:**

1. Trust funds remain public goods and reserved for public priorities in industries.
2. Industry trusts are aligned to national priorities as outlined in a revised Marketing Act.
3. Industry trusts make a greater commitment towards transformation and black economic empowerment. This will include providing them with assistance to make the necessary adaptations to their statutes.
4. Government nominees to the trusts are regularly and better informed of national priorities and expectations so that they can play their roles more effectively.
5. Closer working relation between the trusts and the NAMC are fostered.
6. Closer and more regular monitoring of the application of trust funds is introduced to prevent misallocation and undue depletion of funds.
7. Industry trusts remain independent but are closely aligned with industry structures.

### **6.4 The role of the NAMC**

Whilst several industries have questioned the effectiveness of the NAMC in recent years, all agreed that the NAMC should be retained but improved. **The recommendations below provide further content in this regard:**

1. The promulgation of statutory levies by the NAMC should remain and continue, as it generates valuable industry contributions. However, a voluntary basis and sufficient consensus must be ensured to keep these measures effective and sustainable.
2. The NAMC functions cannot be limited to investigation and advising on statutory measures which had become its dominant function. The state and industries should commit to positioning the NAMC as its main agency for agricultural marketing. It can solicit state and industry funding for priority programmes such as market access for black farmers, export promotion, levies, application of trust funds, research and market intelligence.
3. The NAMC is well positioned as an important liaison between industry and the state and *vice versa*, and should assist industries in preparing and advancing their agricultural marketing interests with government agencies.
4. The NAMC should assist the private sector with developing and maintaining an effective information and market intelligence system that will increasingly assist in proactive strategic positioning in global markets.
5. The NAMC should develop a credible programme of economic and market research. The DoA may retain a statistics service, while the NAMC develop a comprehensive programme for agricultural economics and markets research. The research should be aimed at tracking economic trends and render valuable market intelligence that will enhance competitiveness and future positioning in markets.
6. The NAMC may at the request of industries introduce statutory and other measures to be promulgated under the marketing act that will promote market access for black firms and new entrants.
7. The NAMC should operate a concerted export promotion programme in close collaboration with industries, firms and the state. This pertains to domestic markets, established exports markets as well as new targeted growth markets in the global arena.
8. The NAMC should in collaboration with industries develop a collective generic promotion programme for South African products in existing and new international markets.
9. The NAMC should introduce cost sharing arrangements with industries for selected programmes. Levies and trust funds could be valuable sources of matching funds in this regard.
10. The NAMC should monitor, advise and report on the role and execution of industry trusts.
11. Coordinate international trade deliberations and strategic positioning in global markets
12. Develop a regional trade administration and promotion programme that will provide economic leadership and facilitate agricultural trade and development in the region.

## 6.5 International trade

1. International trade must be afforded sufficient provision in a redrafted Marketing Act. The NAMC should subsequently play a key role in international trade deliberations by providing the requisite technical support capacity to the DoA in this regard.
2. The Department of Agriculture, supported by the NAMC, should pay stronger attention to changing the composition and direction of South Africa's agricultural export trade. This must be supported by a more aggressive export promotion programme.
3. The agricultural sector in conjunction with the NAMC and the DoA should draft tariff proposals before submission to the Minister of Agriculture and ITAC.
4. Closer working relations must be forged between the dti, ITAC, DoA and the NAMC regarding international trade matters.
5. Greater attention should be paid by the DoA, the DFA and the Dti to bilateral trade arrangements given the collapse of the WTO negotiations.
6. There is much dissension and confusion over international trade policy and administration. Coherent and clear policies and procedures must be devised by government.
7. A more simplified tariff regime must be developed by the DoA as part of the agricultural trade and tariff strategy in the interest of consistency, transparency and predictability.
8. Tariffication arrangements should not be allowed to exist beyond effective periods. In the interest of consumer welfare, tariffs must be more regularly revised by government as conditions change.
9. The Department of Agriculture should place more agricultural trade attaches in new international markets especially to assist industries with market intelligence and trade matters.
10. The Department of Agriculture, in collaboration with dti, should introduce an incentive programme to assist firms with entry into new markets.
11. The Department of Agriculture should consider the establishment of a dedicated body for international trade promotion, to be housed in the NAMC.
12. The Agricultural Trade Forum is a valued structure that gives effect to collaboration between the private and public sectors. However, government must ensure that structure moves from a consultative basis to a more proactive and formalised outfit.
13. The necessity for the existence of the PPECB is acknowledged with reservations. However, if retained the sustainability of the business model must be reconsidered as part of a review process that must be commenced by the DoA.

14. Government and industry leadership should develop closer collaboration with all southern hemisphere competitors in shared markets and in areas such as research, information and market intelligence.

## **6.6 The role of the private sector**

1. Deregulation had a net positive effect on the industry, despite the valid concerns raised. The implication is that markets take greater responsibility for industry matters. This approach must be further advocated by the state.
2. Industries should be further incentivised by government to take greater responsibility for the design and execution of development programmes such as land reform, black farmer development, mentorship, and the like.
3. Industry bodies should refrain from attempts to re-regulate the industry and keep effective checks on uncompetitive behaviour which should be brought to the attention of the state.
4. Industries and firms should make a more concerted attempt at transformation especially addressing youth and gender aspects. The gross under-representation of woman in industry structures as well as targeted gender programmes was noted.

## **6.7 Information and market intelligence**

The public information system has become disparate, uncoordinated and largely privatized. The Department of Agriculture should task the NAMC to develop a coherent public information system together with industry and research institutions, having regard to the following:

1. A public information system must be further utilised to build a market intelligence programme that is supported by the state and executed by the private sector.
2. Closer working relations must be developed with our embassies in target countries to regularly feed intelligence home.
3. A public information system must also encompass domestic markets.

## **6.8 Transformation**

1. Deregulation and trade liberalisation did not deliver better market access for black farmers, who lack the benefits of a supportive environment. Hence, support measures and marketing incentives must be developed by the Department of Agriculture and the NAMC.
2. Preferential and concessionary marketing assistance measures (including incentives) must be designed to complement other development programmes such as CASP, LRAD, MAFISA, extension, etc.

3. Marketing support schemes must preferably be executed by the private sector with state assistance.
4. Hard transformation targets must be set in agricultural marketing and enforced where possible (e.g. %exports, %procurement, %employment, %trade, participation in the value chain, etc.), as envisaged in AgriBEE.

## **6.9 Research**

1. The NAMC as an appropriate third party must be positioned to coordinate a credible economic research programme.
2. The private sector should co-fund the research programme based on their research priorities.
3. Research institutions especially universities must be capacitated and play an active part in the programme.
4. The NAMC must be tasked to investigate the possibility of state co-funding of technical research to supplement research funds raised by the levies.
5. International research collaboration must be encouraged.
6. A fervent effort must be made to ensure that a new cadre of young agricultural economists/professionals is developed who would provide the future intellectual capacity to government and industry

## **6.10 Promotion**

### **The NAMC, DoA and industry bodies should:**

1. Make greater collective efforts to promote South African agricultural products in foreign markets.
2. Develop promotional materials and strategies for local and international markets.
3. Developed an incentive scheme to assist industries to grow and penetrate new markets.

## **6.11 Intellectual property and Geographic Indications**

### **The DoA must:**

1. Consider proactive measures must to protect local intellectual property and geographic indications of local products.
2. Develop a public sector based intellectual capacity to support industries and protect future generations in this regard.

## **6.12 Consumers**

**The DoA and the NAMC together with consumer bodies should ensure that:**

1. Consumer interests are afforded greater priority and protection through effective and transparent information systems.
2. Food security and food safety monitoring mechanisms are introduced.
3. Costs and food price monitoring remain an ongoing programme.
4. A consumer desk is established in government to tend to consumer queries.
5. The research programme pays greater attention to consumer studies.
6. The capacity to conduct investigations into market structure and concentration in collaboration with the Competition Commission is enhanced.

## **6.13 The Value chain**

**The DoA and other appropriate state institutions should assist industries and firms to:**

1. Enhance industry competitiveness by advancing the development of the value chain. Much scope still exists here.
2. Pursue the many empowerment opportunities that exist in value chains.
3. Access targeted incentive schemes to encourage the development of chains in close partnership with the dti.
4. Benefit from a logistics strategy as proposed by the recent logistics study.
5. Have access to infrastructure, logistics and related intelligence which should become the key source of domestic competitiveness.
6. Expand production should across the SADC region based on comparative advantage, whilst value addition (physical and intellectual) should be located in South Africa.



**Annexure 1: Written industry submissions**