

**PRESIDENTIAL ADDRESS TO THE OPEN SESSION OF THE 81st  
ANNUAL GENERAL MEETING OF THE SOUTH AFRICAN CHAMBER OF  
BAKING ON 12 JUNE 2019**

Good morning Ladies and Gentlemen

It is again my great privilege to welcome you to the Open Session of this, the 81st Annual General Meeting of the South African Chamber of Baking.

In particular I extend a very warm and sincere welcome to our special guests.

In 2017 our AGM could have been themed “The Bigger Picture” in 2018 “A New Dawn, and this year it is **“Our Commitment to a Better Tomorrow”**.”

At this juncture I wish to welcome our four guest speakers.

- Our first guest speaker is **Nico Hawkins, General Manager of the South African Grain Information Service** who is both a guest, and a guest speaker.
- Secondly we welcome **Matlou Setati**, who like Nico is both a guest and a speaker. **Matlou heads the Food Safety Initiative at the Consumer Goods Council.**
- Our third guest and keynote speaker is **Lynn Moeng, Cluster Manager: Health Promotion and Nutrition at the Department of Health** who is standing in for the Deputy Director of Health Dr Yogan Pillay.
- Our final speaker is **economic guru and renowned advisor on socio-political matters, Dr Roelof Botha** who also has an in-depth understanding of the milling and baking industries.

Tradition has it that events such as this have only one keynote speaker. But today we are privileged to be able to listen to, and learn from, four exceptional people. Each one will address us on a separate, but interlinked subject.

And each speaker is a respected leader in his or her particular field.

All speakers have something in common. They will all be contributing to our 2019 theme of **“Our Commitment to a Better Tomorrow”**.

This morning at the Closed Session of our Annual General Meeting we dealt with domestic issues, legislative and constitutional matters, the appointment of auditors, approval of Financial Statements, the election of office bearers of the Chamber, and the appointment of representatives on various external organisations. I am pleased to report that the Chamber again received a clean audit report and that our auditors gave the Chamber the thumbs-up in terms of its sustainability as a going concern. During this Closed Session the Chairpersons of the Chamber's two Standing Committees, namely the Technical Committee and the Training Committee, delivered their reports.

I assure all stakeholders that the Chamber, through its committees continues to apply its collective energy to focus on the issues and challenges that are both relevant and important, not just to the baking industry, but also to the entire wheat-to-bread value chain.

In this public forum I wish to sincerely express appreciation to those who serve on Chamber and industry working groups and committees. I realise that you all have other jobs and that in addition to the work you do for your employers, you manage to find time to share your expertise to the benefit of the greater wheat-to-bread value chain in this country.

Ladies and Gentlemen, in my address last year I referred to it being themed "The Bigger Picture" and we continue to be reminded as an industry and country that many of the rules we need to play by are not our own. South Africa cannot isolate itself from the global community. The baking industry too, plays in the far bigger food game and needs to manage its performance within the entire food industry. Aligned to the rules of the game are those factors over which we have absolutely no control, such as weather patterns, global wheat prices, exchange rates and ratings agencies. Yet these can all have an effect on the price of bread!

Our country departed 2017 with a lot more hope than it had when it entered the year. And 2018 brought with it even greater hope that the corruption and rot that had taken root in the previous "nine wasted years" would be arrested. In May we had successful elections and we now have a new cabinet and a new willingness to make South Africa a successful country.

Change is not an overnight process and we remain optimistic that the many challenges that society faces and those that influence the baking industry will be addressed by the new administration. It would seem that we have one last chance. New leadership in our country may provide the wheat value chain with new opportunities. Two government departments namely health and agriculture, that have strong ties with the baking industry, have had a change in leadership.

I have been confidentially informed that the new Minister of Health, Dr Zwele Mkhize was the keynote speaker at an event in Durban in the late 1990s when a national milling and baking group launched vitamin enriched bread. At the time he was Minister of Health in KwaZulu-Natal. This qualifies him immediately to be a friend of the baking industry! Friendships are reciprocal in nature and no doubt Dr Mkhize will expect the baking industry honour this reciprocity.

Lynn Moeng, Cluster Manager at the DoH, will be addressing the AGM this afternoon and I am sure that we (the baking industry) will have a good understanding of what the Department expects of the industry after listening to her. In particular we should be able to identify opportunities in developing Healthy Food Options to profitably participate in creating a **“better tomorrow”** for all South Africans.

Ladies and Gentlemen, I now wish to deal with a few distinct issues affecting the **macro environment** in which the baking industry operates.

## **1. The Wheat Industry in South Africa**

Last year the country prayed for rain to fall in the drought-ravaged Western Cape. A year later we can happily report that the rains fell, dams filled and wheat grew. So much so that South Africa's 2018 wheat crop exceeded 1.86 million tons. This was one of the bigger harvests in recent times. Based on the need of 3.6 million tons we still have to import 50% of our wheat requirements. Given the volatile rand this is an expensive exercise and it would be far better if we could buy good quality locally grown wheat.

To give a little perspective I need to mention that the global wheat crop is predicted to increase by 6% this year to 777 million tons. This makes our current

crop of 1.86 million tons just 0.24% of the global crop. And even if we were to grow all the wheat we need in South Africa our local crop would comprise 0.5% of the world harvest. This certainly makes the local wheat industry vulnerable to global events.

Besides the improved harvest in 2018 I can report that prospects for an increased 2019 wheat crop are also good. Farmers in some areas affected by climate change are looking to plant wheat that has a longer season, thereby negating the effect of later rains. In the northern regions farmers would plant more wheat if they could obtain more seed! Seed producers and distributors have actually run out of seed due to forecasts being based on the past and not on the future!

This is positive news.

The wheat industry has embarked on a revival strategy and I wish to share with you in brief point form some of the key strategic issues being addressed by the industry. These actions include:

1. Establishing an Alternative Import Tariff System;
2. Adapting Grading Regulations responsibly to encourage farmers to plant more wheat;
3. Addressing problems with the BLNS Rebate system;
4. Implementing "Location Differentials";
5. Reporting of Intentions to Import and Export Wheat; and
6. Transformation guidelines for the wheat industry.

These are not all the steps in the revival process. However each one is complex and requires the inputs and consideration of all industry stakeholders. And to make progress there are times where compromises are necessary and where the needs of producers, millers and bakers, and consumers are to be balanced. The Wheat Forum, of which your Chamber is a member, plays a key role in this process. We look forward to the day when the wheat industry will reach its target of producing 85% of South Africa's requirements.

I am not going to delve into any further detail but cannot leave this point without expressing the baking industry's concern at the lack of progress by National

Treasury and Dti in shortening the time taken to gazette newly triggered import tariffs, despite the best efforts of the industry.

## **2. Listeriosis**

The crisis in the meat processing industry is over and if there has been one positive outcome it is the renewed focus on food safety in South Africa. It is certain that all food production facilities are going to up their game and that regulatory bodies are going to sharpen their focus in protecting consumers from any further similar outbreaks. Bakers are encouraged to fully comply with food safety and food hygiene regulations.

## **3. Expropriation of Land without Compensation and Food Security**

This emotive issue made headlines throughout 2018 and will continue to do so. Through all the noise we are pleased that the President has emphasized that food security is a priority and should not be negatively influenced by expropriation. For the milling and baking industry one of the most important matters is security in the supply of acceptable quality of wheat. We have confidence that the panel of experts appointed by President Ramaphosa to advise him on land expropriation will provide wise counsel and will not allow expropriation to threaten food security in South Africa.

We also need to bear in mind that a quarter of South Africa's population is food insecure. An objective of land reform should be to reduce the number of people in South Africa who go to bed hungry each night.

### **I now wish to deal with a few matters closer to home!**

These **micro-issues** are:

1. Bread prices and food inflation;
2. Production volumes;
3. VAT;
4. Legislation;
5. Assigned Inspection Services;
6. Training and skills development; and
7. The Chamber's Constitution

## **1. Bread Prices and Food Inflation**

Ladies and Gentlemen, you are all more than aware of the tough business climate in which we find ourselves. From recently published results of retailers and food manufacturers it is clear that business conditions have deteriorated over the past 12 months. Yet, bread prices have increased at rates greater than inflation in this period which indicates that bakers could no longer sustain the low or no margins being made in 2018 when the price of bread was less than it was in 2017.

**In fact, over the 24 month period from April 2017 to April 2019 prices of 700 gram loaves only increased by 2.7% for white and 2.95% for brown bread. I will leave you to draw your own conclusions!**

It is worth mentioning that STATS SA conducts its food price surveys country wide, collecting data from over 2 000 retail outlets. This largely excludes the informal sector which sells up to 40% of certain grocery categories. Generally prices in the informal sector are higher than those in the highly competitive formal wholesale and retail sectors.

## **2. Production Volumes**

Since 2015 the South African Grain Information Service (SAGIS) has been collecting and publishing basic production statistics as authorised by a statutory measure. In the case of bread production statistics, only national totals are reflected. SAGIS acknowledges that the information is not 100% as there are bakeries that have not submitted information, but generally these are considered to be smaller operations and will not significantly influence the totals. I ask that you inform SAGIS of new bakeries entering the market to ensure that they capture as much of the national bread production as is possible, leading to even better information.

Ladies and Gentleman, I am not going to venture further into statistical analysis or provide information on production volumes. What I do recommend though is that you utilise the information provided by STATS SA and SAGIS to enhance your own business decision making.

I am also sure that you will find the presentation by Nico Hawkins of great interest and value to your business.

### 3. VAT

Firstly, it appears that the threat of removing the zero rating of wholewheat bread has abated. Yet we all know that SARS is continuously on the lookout for ways to meet its collection and revenue targets, so let us not be complacent. We may still have to work at keeping wholewheat bread zero rated should SARS revisit the definition of “brown wholewheat bread” or “wholewheat brown bread”. However, it is a fact that wholewheat bread is hardly a staple food anymore as it was in the days of unsliced, unbagged, 800 gram loaves, when its price was similar to that of brown bread.

In 2018 the Minister of Finance appointed a panel to review VAT on foodstuffs with the objective of compensating poor consumers for the increase in VAT from 14% to 15%. Many industries submitted applications to the panel and other non-food products were also considered. The Chamber, with the assistance of PwC submitted a comprehensive application. We were supported in our application by consumer, agricultural and organised labour organisations. Eventually, the panel recommended to the Minister that six products be zero rated, which included white bread, white bread flour and cake flour.

Our motivation was not based on increasing the profitability of the baking industry, but rather that the industry **would be doing the right thing** by making white bread more affordable, especially to the poorer sections of the population.

However when Finance Minister Mboweni made his mini-budget speech in October 2018 white bread was not on the list. Only cake flour and white bread flour were included on the list to be zero rated from 01 April 2019. Retrospectively some milling and baking companies were relieved about the decision. Zero rating white bread may have resulted in a large-scale swing to white bread leading to surpluses of bran building up at mills, with cost implications for the milling industry and ultimately for the baking industry.

We all know that SARS is not charitable and nowhere was this clearer than in their resistance to the possible zero rating of white bread! In our interaction with SARS officials it was abundantly clear that their insight and understanding of our industry is exceptionally limited.

#### **4. Legislation**

In 2018 I reported on the raft of legislation in the pipeline. The pipeline remains congested as much of the impending legislation has been floating between the government printer and legal departments for months, if not years.

Sodium legislation is generally being complied with and the industry has not been informed of a single baker being fined for too much salt in its bread. Chamber members have met the June 2019 target of 380 milligrams of sodium per 100 grams of bread. We will all recall how at the time this legislation was proposed by the DoH, it was considered impossible to achieve.

#### **Well done Chamber members on achieving the impossible!**

We await new labelling legislation as well as the finalisation of the new fortificant regulations. Currently the SAMRC is evaluating the new fortificants to be added to flour and by the end of the year will make new updated nutritional tables for flour and bread available. This project has been funded by the Winter Cereal Trust.

I now have a request for our DoH friends! It would be valued by the baking industry if the finalisation and publication of the new fortification legislation could be timed to coincide with the final approval and release of the new nutritional tables. This will allow the industry to avoid incurring the excessive costs of printing new bags more than once.

We again wish to express our appreciation to the Department of Health for their openness and willingness to engage with the baking industry on a number of fronts. Our thanks in particular to Maudé de Hoop and her

colleagues who have at all times promoted a positive and open relationship between the milling and baking industry, and the department.

In the legislative space we anticipate regulation in respect of environmental sustainability, in particular the disposal of packaging material, to feature strongly in 2019/2020.

Whilst on the subject of waste we need to be cognisant of the need for food manufacturers and distributors to manage food waste ethically. In October 2018 and April 2019, CGCSA in collaboration with the Dti and the SA-EU Strategic Partnership, held a Workshop and a Food Waste Dialogue, respectively.

It was revealed in studies that approximately one third of all food produced globally is lost or wasted. This is no different in South Africa. Yet 13 million South Africans routinely experience hunger, despite access to food being a constitutional right! South African companies are being encouraged to support the movement to reduce food wastage by half by 2030. And at the same time companies are asked to find ways to redistribute food that cannot be sold but is still perfectly good for human consumption.

We are likely to hear more about this challenge when Matlou Setati of CGC-FSI addresses us later today.

Another matter closely aligned to legislative matters is consumer education and communication. Awareness campaigns need to happen informing consumers of the benefits of fibre which is found in bread. In this area there is good potential for collaboration between the Department of Health, CGC-FSI and the Chamber.

And then there is allergen awareness. The Chamber, in collaboration with FACTS, will be presenting a breakfast session workshop on the 30<sup>th</sup> of July. Members and baking industry stakeholders are encouraged to sign up for this very important event. A "Save the Date" has been sent to all members.

## 5. Assigned Inspection Services

Little-to-no real progress has been made in respect of implementing assigned inspection services in the grain industry in South Africa. LEAF Inspection Services has not got off the ground despite having been assisted firstly by SGS and later by OABS in preparing business plans, budgets and getting agreement as to how they would approach inspections in the grain industry.

In reality we are no further down the road than we were two years ago and the lack of progress must be a frustration to DAFF and whoever is responsible for LEAF's salary and rental bills.

On a broader front, the Department of Agriculture, along with CGC-FSI has made significant progress in establishing a forum where parties can find each other and solve problems related to assigned inspection services. The terms of reference for this forum have been developed and agreed. When LEAF (or its possible successor) eventually becomes functional it will join this important forum and grain industry participants will benefit from the work of this body.

Matlou Setati of CGC-FSI will elaborate further on the mandate and terms of reference of this forum. We wish to commend CGC-FSI for the valuable work they do on behalf of the food industry. It is an organisation worthy of our support.

In respect of the baking industry it is to be noted that the only inspection by an assignee will be for **dry solids**. It is highly likely that bottlenecks will occur as there is insufficient capacity to carry out extensive dry solids testing. Although the test itself is fairly simple, the logistics of moving samples to laboratories can be complicated.

To obtain the support of the baking industry it will be crucial for the assigned inspection service to ensure that inspections are carried out equitably and efficiently across the entire baking industry.

## 6. Training function and skills development

One of the important offerings of the Chamber is its certificates in the Basics and Theory of Bread Making. The learning guides for these two courses are being updated with important contributions being made by members of the Chamber's Training Committee. On average 120 people employed in the industry write these examinations each year.

Management Committee has mandated the Chamber to investigate the possibility of extending its training offering. This may involve the appointment of a suitably qualified training "resource" who would ensure that the training programme gets accredited. Also to be considered would be the actual on-site training at bakeries of learners by this "resource". We would be grateful to receive feedback and input from the industry relating to need for the Chamber to expand its offering. A key element to consider is funding. **The envisaged expansion of the training function would need to be self-funding.** You are invited to contact the Chamber with your views and recommendations.

At this point I wish to comment on the **future of SETAs**. All SETA's licences to operate will come to an end in March 2020. That is just over nine months away! The Department of Higher Education and Training has made certain proposals regarding the merger of AGRI SETA with FoodBev SETA in the post-March 2020 landscape. Neither the agriculture sector, nor the food and beverage industry, supports the proposal and both have made strong representations to the National Skills Authority and to the Minister to this effect. The uncertainty caused by this has brought about job insecurity resulting in loss of skilled personnel at SETAs.

## 7. The Chamber's Constitution

The Constitution of the Chamber has evolved over the years and from time-to-time must be adapted to accommodate the changing business environment. Certainly, the original 1938 version would not be applicable today.

This morning the Annual General Meeting approved the updated constitution. Noteworthy changes included the creation of two additional membership categories, namely Emerging Bakers and Reciprocal Membership. In future the Chamber will have a Chairperson and Vice-Chairperson, and no longer a President and Vice-President. These offices served a purpose in previous industry structures. However, in the current structures they were merely a duplication. And a clause was added detailing the Governance structure of the Chamber.

Before **concluding** my report I wish to express my sincere thanks and appreciation to the members of the Chamber's Management Committee who have supported me in the past year, and who are committed to the success and prosperity of the baking industry in our country.

Thanks and appreciation are also due to the Chairpersons and members of the Standing Committees for the sterling work they do, and the personnel of the Chamber for their dedication to the industry. I again encourage member companies to avail their personnel the developmental opportunities provided by participating in committees operating at "industry level".

The baking industry has in recent times been the beneficiary of the skills, know-how and commitment of Kathy Surmon. Kathy served on the Chamber's Technical, Training and Management Committees with distinction and always contributed positively to the work being done by these bodies. She was at all times willing to share her knowledge and expertise to the benefit of the greater industry. She always saw the bigger picture and contributed strategically to the work of the Chamber. Kathy also served on industry related structures such as the Winter Cereal Trust Research Technical Committee and various SABS committees. Kathy has been promoted by her employer, Kerry Ingredients, to head up their operations in the Philippines with effect from June 2019. The Management Committee of the Chamber unanimously decided to award Kathy Honorary Life Membership in recognition of her exceptional contribution to the baking industry. As Kathy was unable to attend this AGM the award was made to her at the meeting of Management Committee on 29 May 2019. We wish Kathy great success in her new environment.

I do hope that you will enjoy the rest of the Open Session of our 81<sup>st</sup> AGM and am sure that you will all benefit from the presentations by our excellent guest

speakers. I trust too that you will always remember this 81<sup>st</sup> Annual General Meeting for having contributed towards a **Better Tomorrow**.

**Ladies and gentlemen, I thank you for your attendance here today and for your interest in, and support of the South African Chamber of Baking.**

**COLIN HARDY**

President: S A Chamber of Baking

12 June 2019