Ladies and Gentlemen

It is my pleasure to present the address of the President of the SA Chamber of Baking at this rather historic Annual General Meeting. Vasu Moodley has been seconded to Tiger Brands Nigeria and is therefore unable to attend this Annual General Meeting.

The 75th anniversary of the South African Chamber of Baking is of great significance for us as members of the Chamber. As a proud senior citizen of industry associations your Chamber can reflect on a remarkable amount of change in the country and world since its founding. Your Chamber has outlived many organisations which have played key roles in shaping the country. When the Chamber was established in 1938:

- The United Party was the governing party
- The Wheat Board was but six months old and there was no need for a Competition Commission as the milling and baking industries were tightly regulated.
- Although Germany had just invaded Austria, World War II had not started.
- And none of us here today had been born!

In fact, in 1941 when formal “registration” of bakeries was introduced by the Wheat Board there were 663 bread bakers in SA. By 1981, 40 years later, due to rationalization the number had dropped to 395, 140 in urban areas and 255 in the rest of South Africa. In most instances only three types of bread were baked and there was sufficient margin in the selling price for bread to be delivered daily to one’s home.

On a regional basis, 14 Master Bakers Associations co-ordinated the affairs of the industry. The Wheat Board conducted regular inspections and bakeries were penalised for underweight bread or delivering outside their zones. Punishment included withholding of subsidies or terminating (confiscating) licences.

How things have changed?

In the 1990’s the control boards were scrapped, including the Wheat Board, and deregulation ushered in an era of free market competition. In the first decade of this century the Competition Commission, through its investigations brought an end to industry co-operation and regional forums such as the Master Bakers Associations. At the Annual General Meeting of the Chamber in 2002 it was decided to close down the various Master Bakers Associations as the SA Chamber of Baking was better able to coordinate activities centrally. Early in 2010 two long standing members decided to withdraw from the Chamber as their boards considered it too risky to be participate in meetings where competitors were present. In 2010 the Chamber suspended its function as a collector and distributor of industry information and the costing committee was
dissolved, as was the operations and research committee. It was considered that industry statistics and surveys could lead to anti-competitive behaviour by members and with the loss of members, aggregation of information was no longer feasible.

Those were dark days in the history of your Chamber. However remaining members resolved to keep the SA Chamber of Baking alive and generously adjusted their subscriptions to cover the operational costs of the Chamber.

The Chamber has survived. The strategic workshop held in January 2012 will be seen as a turning point in the history of the Chamber and the bread industry as a whole. There is now far more optimism within the Chamber as new members are being recruited and negotiations are taking place with past members for them to again take their rightful places in the Chamber. I confidently anticipate that the organisations that withdrew their membership will in time rejoin the Chamber, thereby strengthening the Chamber’s credibility as the voice of the baking industry. This is not an overnight process so we need to be realistic in our expectations. However, the scenario is positive.

In the late 1980’s the Chamber produced a booklet entitled “The Baking Industry as a Career” where various employment opportunities in the baking industry were described covering the Administration, Production and Marketing functions, as well as a small section devoted to career opportunities for Females. I quote from the section dealing with “Females”

“As far as the structure of posts for females is concerned, the industry requires a large number of secretaries, typists, computer operators, clerks, receptionists and telephonists”. That is it! Fortunately that situation has changed and today we are seeing more and more women involved at senior management levels as our industry transforms itself.

The Chamber, like the baking industry, needs to transform and reinvent itself to remain relevant. I am very confident that the Management Committee of the Chamber and its personnel will be more than capable of meeting this challenge in the years ahead.

I wish briefly to refer to the Constitution of the Chamber. Paragraph 9 of the Constitution states that the Management Committee shall be made up of two wholesale bakers and two representatives from all other categories (excluding honorary life members). This structure was introduced at the time that two wholesale bakery members resigned from the Chamber. In order to accommodate the possible return of the two wholesale plant baker members in particular, and to allow for growth of the Chamber, it has been recommended that the Management Committee membership be amended to accommodate a minimum of two plant bakers. You will be asked to approve a resolution giving effect to this change later during this Annual General Meeting.

The Technical and Training Committees continued to do very good work in the past year. I will leave it to the Chairpersons of the committees to report further on their activities during this AGM. I would encourage members to avail themselves of the opportunity to contribute to the prosperity of the industry by participating in committee activities. I remind members that the exposure gained by your employees in these forums is invaluable in their development.
The SA National Consumer Union has, through the Wheat Forum, requested that a Statutory Measure be applied for which will again make more information and statistics available to authorities, participants and stakeholders in the bread industry. This is a lengthy process having to pass through the Wheat Forum, the National Agricultural Marketing Council, the Competition Commission and finally the Minister of Trade and Industry, before being gazetted. In that it will be a Statutory Measure and will apply to Chamber members and non-members alike I am confident that implementation of this measure will be of benefit to Chamber members.

I now wish to touch on wheat market conditions. The international wheat price remains significantly higher than the “reference” price of US$326 per ton, so it is unlikely that tariffs will be applied to wheat imports in the coming year. Currently the price of wheat is above R3 650 per ton compared to R2 820 a year ago, almost 30% more expensive. The local 2012 wheat crop was better than expected with good yields being obtained in the Western Cape and Free State. Agriculture has a target of South African farmers being able to produce 85% of our wheat requirements. Unfortunately we are still a long way off achieving this objective. Land reform is moving slowly in the wheat industry as wheat is not considered to be profitable by emerging farmers. Infrastructure decline is a concern. Currently the East London harbour grain terminal cannot handle rail trucks, which negatively affects both exports and imports of grain. SANSOR has reported that the Roodeplaat Evaluation Centre is on the point of collapse and R1 million is needed as an interim solution (the centre’s tractor and planter have both been stolen). However Transnet is giving attention to freight issues and lines are being upgraded which is a positive development.

I will now devote a portion of this address to developments in the staple foods market. The information presented is public knowledge, having been obtained from South African Grain Information Service (SAGIS), Statistics SA and indirectly from RMB.

**Staple Food Price Changes between January 2012 and January 2013**

<table>
<thead>
<tr>
<th>Product</th>
<th>Price January 2012</th>
<th>Price January 2013</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>*Wheat (ton)</td>
<td>R2 829</td>
<td>R3 655</td>
<td>+29.2%</td>
</tr>
<tr>
<td>*White Maize (ton)</td>
<td>R2 506</td>
<td>R2 102</td>
<td>-16.7%</td>
</tr>
<tr>
<td>Maize Meal Special (2.5kg)</td>
<td>R15.98</td>
<td>R16.59</td>
<td>+3.8%</td>
</tr>
<tr>
<td>Rice (2kg)</td>
<td>R22.64</td>
<td>R21.21</td>
<td>-6.3%</td>
</tr>
<tr>
<td>White bread flour (5kg)</td>
<td>R38.43</td>
<td>R41.16</td>
<td>+7.1%</td>
</tr>
<tr>
<td><strong>BREAD</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>White 600 grams</td>
<td>R6.24</td>
<td>R7.28</td>
<td>+16.7%</td>
</tr>
<tr>
<td>White 700 grams</td>
<td>R9.17</td>
<td>R10.09</td>
<td>+10.0%</td>
</tr>
<tr>
<td>Brown 600 grams</td>
<td>R5.35</td>
<td>R6.54</td>
<td>+22.2%</td>
</tr>
<tr>
<td>Brown 700 grams</td>
<td>R8.24</td>
<td>R9.01</td>
<td>+9.3%</td>
</tr>
</tbody>
</table>

* Information ex RMB, Global Markets Research
All other information ex SAGIS and Statistics SA
Worth noting is that the price of wheat has increased dramatically, by almost 30%, yet white bread flour (5kg) has only increased by 7.1%. This surely cannot last and while the rand remains weak against the US Dollar, wheat prices will remain high and it can be expected that millers will implement price increases in the near future to recover input costs.

The increase in the price of wheat contrasts sharply with what has happened to maize prices, where there has been a decrease of almost 17% year-on-year. This should result in moderate price increases for maize meal. Special maize meal has only increased 3.8% compared to 12 months ago. It is therefore likely that consumers will purchase more maize meal to the detriment of bread sales. Rice prices have declined by 6%, also representing a threat to bread sales.

Bread price increases over a twelve month period (January 2012 to January 2013) ranged between 9% and 22%.

If one analyses the Statistics SA bread price information one finds a significant and almost disproportionate difference in price per 100 grams between 600 and 700 gram loaves.

The price per 100 grams of bread is:

- White bread 700 grams: R1.44 per 100 grams
- White bread 600 grams: R1.21 per 100 grams
- Brown bread 700 grams: R1.28 per 100 grams
- Brown bread 600 grams: R1.09 per 100 grams

This represents a price differential of 16% in favour of 600 gram loaves.

With most food products the greater the mass the lower the price per 100 grams. It appears that the opposite is true for bread! Of course there are other factors to take into account including quality, packaging and distribution costs. Most 600 gram bread is produced by bakeries with lower fixed and overhead cost structures than the larger plant bakers. In that no production and sales statistics are available it is not possible to reliably state how many 600 gram loaves are being baked and sold.

The weak rand is placing ingredient suppliers under pressure. In many cases suppliers import more than 50% of their ingredients and pay in US Dollars so it is logical to expect ingredient suppliers to increase their prices in the coming months.

All participants in the wheat – flour – bread value chain are being affected by fuel and energy costs increases. Recent wage increases to farm workers may possibly ignite expectations for significant increases in remuneration to food industry employees and wage negotiations are likely to be tough and protracted in 2013.
Clearly, the industry will face challenges in the year ahead. But if we look back on the past 75 years we know that the industry is resilient and will survive, and that the SA Chamber of Baking will play a key role in promoting a healthy, competitive and viable industry. The Chamber recently met with a team from the Competition Commission. I am pleased to report the Deputy Commissioner expressed strong support for industry associations such as the SA Chamber of Baking and the role they can play in contributing to self-regulation of industries. In particular they praised the Chamber for its efforts in training and technical matters, especially fortification and nutrition.

The finances of the Chamber have always been managed conservatively and prudently. Subscription income suffered a body blow with the withdrawal of two major members in early 2010. Fortunately the remaining two wholesale bakery members increased their subscriptions voluntarily which has contributed to the survival of the Chamber. Another factor which will ensure that the Chamber has a solid future is that it has been able to build reserves over the years which can be utilised in times of need. The Management Committee has examined the cash flow forecast for the coming year and evaluated forecasts for the following three years and has approved the budget for the next 12 months. Subscriptions have been increased taking into account inflation and initiatives to expand the membership base.

At this juncture I wish to express appreciation to the members of the Management Committee for their commitment and support of the Chamber and to the members of the Technical and Training Committees who have all gone the extra mile in serving the industry in the past year. The people serving on committees do so in addition to their normal tasks and their commitment to taking the industry forward is greatly appreciated.

Special appreciation is reserved for the outgoing President, Vasu Moodley who has led the Management Committee admirably through some very difficult times. On behalf of all members of the Chamber I wish Vasu success in his new role in Nigeria and thank him for his dedication to the bread industry in South Africa.

The position of Executive Director was filled in November 2012 with the appointment of Geoff Penny. For a large portion of 2011/2012 the Chamber was managed by Isobel van Schalkwyk. This was a huge task and included relocating the Chamber’s office to Inkwazi Park in Centurion. I wish to sincerely thank Isobel for keeping the Chamber’s head above water and at the same time providing an excellent service to members.

In conclusion, on behalf of the Management Committee I wish to express appreciation to all members for their support of the South African Chamber of Baking during the past year.

LORRAINE BEZUIDENHOUT
VICE-PRESIDENT: S A CHAMBER OF BAKING