

**PRESIDENTIAL ADDRESS TO THE OPEN SESSION OF THE 78TH ANNUAL
GENERAL MEETING OF THE SOUTH AFRICAN CHAMBER OF BAKING
ON 25 FEBRUARY 2016**

Good morning Ladies and Gentlemen

It is my privilege to welcome you to the Open Session of the Seventy Eighth Annual General Meeting of the South African Chamber of Baking.

In particular I welcome:

- Peter Cownie, former Executive Director of the Chamber and Honorary Life Member;
- Willy Bright, Honorary Life Member;
- Mr Matsobane Komape, Chairman of the Board of the FoodBev SETA;
- Dr Simon Letsoalo, Administrator of the Winter Cereal Trust;
- Boikanyo Mokgatle, Executive Director of the National Chamber of Milling, and John McConnell, Operational Services Manager of the NCM;
- Mariana Purnell, General Manager of Agbiz Grain;
- Wiana Louw, General Manager of The Southern Africa Grain Laboratory NPC (SAGL);
- Nico Hawkins, General Manager of the South African Grain Information Service NPC (SAGIS);
- Lillibeth Moolman of the South African National Consumer Union, who has been closely involved with the baking industry for many years. Lillibeth is also a long-serving trustee of the Winter Cereal Trust;
- Maudé de Hoop from the Department of Health;
- Ishmael Tshiame, former administrator of the Winter Cereal Trust, and currently General Manager of GFADA (Grain Farmer Development Agency).
- Willie Louw of Mediacom.
- Venesee Richards of the Wesvaal Chamber of Commerce.
- Tony Godrich of Godrich Flour Mills; and

We are really pleased to have so many of our stakeholders are here with us today and appreciate your interest in the baking industry.

And then I also warmly welcome our guest speakers:

- Doctor Marinda Visser from Grain SA;
- Advocate Andre Bouwer from Nexus Forensics, and
- Nico Kruger from Tongaat-Hulett

all of whom have generously given of their time to address us today. We look forward to listening to, and learning, from you.

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. During the Closed Session the chairpersons of the Chamber's two Standing Committees, namely the Technical Committee and the Training Committee, delivered their reports.

I wish to divide my address into two halves, namely the **Macro-environment** in which the Baking industry operates, and then the **Micro-environment** where I will pay attention to wheat- and baking industry, and Chamber-specific matters.

MACRO-ENVIRONMENT

Much of what I am about to present has been reported on and debated in the media recently, so I will be brief in dealing with the broader issues relating to the wheat industry, the food industry and the economy in general, all of which may have an impact on or relate to the baking industry:

- 1. Food Price Inflation.**
- 2. Depreciation of the Rand, the Economy and Ratings Agencies.**
- 3. Drought and Climate Change.**
- 4. Revival of the Wheat Industry – begin with the end in mind!**
- 5. “Arab Spring” (food riots, corruption, unemployment, food insecurity, etc.), and Social Media #**

1. FOOD PRICE INFLATION

These are the headlines we read daily in the national media.

“Food inflation in shock rise to 8.7%”.

“Poor people the hardest hit”.

“ ... neighbouring Lesotho yesterday declared a national state of emergency ... ”

“Escalating costs hit Pioneer”.

“Skyrocketing food prices to hit pockets”.

The primary reason for the upward pressure on prices is a combination of the weak rand and the drought. Wheat prices are up by around 21% year-on-year, despite there being record global wheat stocks. We all know that the rand has depreciated against the US dollar by in excess of 35% in the past year. Were the rand to have remained stable we may have been looking at a decrease in the price of wheat! Many of the ingredients used by the baking industry have a US dollar or Euro component and it is estimated that more than 50% of the cost of a loaf of bread is influenced by the exchange rate. Local wheat farmers are buffered against falling international wheat prices by an import tariff which contributes to the increased price of bread. Last year the tariff was R911. It may soon be increased to more than R1 200 per ton. This tariff is not paid to the farmer, but to the national treasury. But it does find its way into the price that consumers pay for bread.

Bakeries, like the rest of the food industry are taking severe strain. We appreciate that there is a limit to what cost increases manufacturers can absorb. However there is also a limit to what consumers can afford. 2016 and beyond will be a very challenging period for the baking industry.

As consumers reach a tipping point, lighter mass bread will become an option and we may well see growth in the volumes of 600 gram loaves produced. It is worth noting that in the January 2016 price survey by Stats SA, bread prices increased year-on-year as follows:

700 gram loaves	
White	5.34%
Brown	5.73%
600 gram loaves	
White	7.45%
Brown	2.98%

Only 600 gram white bread increased at a rate slightly above inflation. I think that is a big accomplishment and say “well done” to the baking industry. Realistically we know that this situation cannot be maintained. Increasing the prices will lead to a decline in volumes. Holding prices at current levels will lead to closures and loss of employment. The industry finds itself in a space where there is little compromise.

The free market is tough!

Per Stats SA the price of maize meal, the product most consumed by the poorest sectors of our population, has increased by between 20% and 33% brought about mainly by raw maize prices increasing by more than 100% since January 2015. Should it be necessary to mix imported yellow maize with white maize for human consumption there could be significant consumer resistance, as happened in the 1980s. This may benefit the rice and bread industries in a small way, but by and large

the sad situation is that consumers in the lower LSM groups have little choice and may simply eat less. Not only will affordability be an issue, but perceptions about the nutritional value of the blended “yellow” maize meal will contribute to consumer dissatisfaction.

I am sure that you will all agree that this situation poses great risks to the food industry.

2. DEPRECIATION OF THE RAND, THE BUDGET AND RATINGS AGENCIES

The baking industry is caught up between consumers getting poorer, and ingredients and other input costs increasing at rates greater than inflation. Cost recovery is going to be increasingly difficult. There is no doubt that there will be huge pressure on wages later this year, not to mention possible fuel and likely electricity price increases. This at a time when many bakeries will be marginal and close to shutting their doors. Much of the equipment in plant bakeries is imported from Europe and capital replacement has become prohibitively expensive. Very little new baking capacity has been created in the recent past and it is likely that rationalisation will become the order of the day should consumers consume less.

Prospects for economic growth are not positive. We can only dream of a 3% GDP growth right now. It is unlikely that more jobs will be created than are lost in the next 12 months.

The government and industry are going to have to join hands in doing everything possible to avoid South Africa falling below “investment grade” credit ratings. Yesterday our Minister of Finance presented a tough budget. He had no choice. We are all going to have to punch a few more holes in our belts. The bottom line is that South Africans are going to have less to spend on consumer goods and food. Consumption patterns may begin to change.

The Minister will do everything possible to contain the budget deficit. Not always a popular thing to do in an election year. But the ratings agencies (Moody’s, Standard & Poor, and Fitch) will be monitoring South Africa closely and deviations from what the Minister promised yesterday will result in that feared downgrade.

The consequences of a downgrade might seem a little remote to us ordinary bakers. It is not the case. The knock-on effects of a downgrade fuel inflation, lead to increased interest rates and discourage foreign direct investment which South Africa badly needs. After PW Botha’s Rubicon speech in 1985 investment in South Africa dried up and in a short space of time interest rates climbed to above 20%! Bear in mind that countries such as the USA, have national legislation prohibiting institutions such as banks, pension funds and investment managers from investing in countries which are not rated “investment grade” by at least two agencies. Being downgraded increases

perceptions of a country's risk and pushes up the cost of attracting investment and funds. At the end of the chain of events is the consumer who ends up paying more for everyday goods, including bread and other staple foods.

I am sure we all agree that South Africa cannot afford another downgrade.

In 1990 Nelson Mandela walked out of prison a free man and South Africa was a favoured destination for foreign direct investment. South Africans were repatriating funds they had ferreted offshore. The future looked good. Today, 26 years later, South Africa is fighting off being downgraded to junk status. In these difficult global economic times all South Africans need to stand together, swallow the medicine and do what we have to, to restore the country to being a good investment destination.

May I suggest that you read our good friend JP Landman's newsletter published on 11 February 2016 for more information on what a downgrade will mean for South Africa.

3. DROUGHT AND CLIMATE CHANGE

Now here is something over which we have no control so I cannot be accused of being negative!

The reality is that due to climate change wheat is no longer being planted in the eastern Free State. Rains are just coming too late. The latest crop from this region was less than 70 000 tons. In the past we could count on more than a million tons being produced in the Free State. South Africa will import in the region of 2 million tons of wheat this year. Add this to the maize that needs to be imported and the country is going to part with billions of rands.

What a pity that this money could not be kept within our own agricultural sector, boosting GDP and creating jobs.

South Africans are optimists by nature. However we need to face a few facts. Zimbabwe needs more food aid. Lesotho has declared a state of emergency. And we in South Africa are experiencing one of the worst droughts on record with states of emergency in numerous provinces.

But, we are not alone. Let's briefly consider a few global climate facts.

Some of you may have read the article by Tom Randall of Bloomberg on 18 February titled "Global warming crushes records. Again."

I will quote briefly from his article to help give us perspective on global climate change.

“For the surface of planet earth, 2015 was the hottest on record by a stunning margin. But already, 2016 is on track to beat it.

Last month was the hottest January in 137 years of record keeping. It is the ninth consecutive month to set a new record.

But the broader trend is clear: we live in a world that is warming rapidly, with no end in sight. Since 1980, the world has set a new annual temperature record roughly every three years. Fifteen of the hottest 16 years ever measured are in the 21st century.

The current El Niño is considered to be the most extreme on record. The heat that’s dispersed into the atmosphere during an El Niño can linger, which means there’s a decent chance 2016 will turn out to be the third straight year in a row to set a new temperature record.”

We all hope and pray that we will receive good rains this year. But we need to take note of the trends. Fifteen out of sixteen years of record global temperatures is a serious trend and we will have to manage the consequences as best we can.

If we think baking is tough, consider the lot of the grain farmer!

4. THE REVIVAL OF THE WHEAT INDUSTRY

Food security in South Africa is under threat. In normal years we produce enough to feed the nation and have maize to export. Not so this year.

The Department of Trade and Industry, a few years ago, declared the wheat industry to be an industry in distress.

Given the seriousness of the consequences of downgrades, the prospects of food inflation increasing further and the likelihood that severe weather could disrupt grain production, all stakeholders and role players in the wheat to bread value chain need to collaborate in efforts to revive the wheat industry in South Africa.

This involves everyone from the seed breeder, farmer, grain silo operator, grain trader, miller and baker. We will all have to make compromises to revive the wheat industry. We need to see the bigger picture and realise that our own agendas may need to be compromised somewhat. We are not going to revive the wheat industry without some “give and take” by each member of the value chain.

Steven Covey suggested that we should “Begin with the end in mind” when making difficult decisions. If the industry looked at its problems and challenges through the eyes of the poorest of consumers we may find that we come up with some unique and innovative solutions and strategies for revival.

Should we fail in our efforts to revive the industry the consequences are dire. The last thing we need is for South Africa to become dependent on the world markets for the supply of wheat.

I am sure that Dr Marinda Visser in her presentation will elaborate on the status of the grain industry in South Africa and some of the actions we must consider in reviving the wheat industry. In years gone by South Africa was able to export surplus wheat. It is difficult to comprehend that we will import more than 60% of this year's needs.

Marinda, I look forward to your presentation in a short while and will now move on to another concern.

5. "ARAB SPRING" (FOOD RIOTS, CORRUPTION, UNEMPLOYMENT, FOOD INSECURITY, ETC.) AND SOCIAL MEDIA #

I would probably not have included Arab Spring in this address had it not been raised at the Agriculture Portfolio Committee briefing in Parliament last week. The possibility of this happening is not something that we wish to contemplate. I refer you to the article in the Saturday Star of 20 February 2016 headed **"Grain SA warns of food riots"**.

Anyone who has bungee jumped off the Storms River bridge, the highest bungee jump in the world at 216 metres, may have purchased a T-shirt or peak cap with the words "Face your Fears" embroidered on it.

In facing this fear of food riots I will restrict myself to briefly listing the ten most important conditions that prevailed in Tunisia and Egypt prior to the "Arab Spring" uprising. While I read them out, please consider whether these prevail in our own society in SA today.

The prevailing conditions in those countries were:

1. Unemployment and low living standards.
2. Ruling elite's incompetence.
3. Corruption leading to economic hardship, including crony capitalism, which benefitted a small minority.
4. Bankrupt dictatorships.
5. National appeal of the "Arab Spring" which united people across various spectrums and groupings. (Here think of the #FeesMustFall social media movement)
6. Leaderless and spontaneous revolt for which security forces were totally unprepared.

7. Social media created powerful anonymous groups e.g. Facebook attracted tens of thousands of people.
8. Rallying call from gatherings at seemingly peaceful points e.g. mosques.
9. Bungled state response. Every funeral brought more people onto the streets.
10. Contagion effect.

Food insecurity is growing in South Africa for circumstances beyond our immediate control, corruption is a big problem and will be highlighted by parties trying to score points in the run-up to elections, unemployment is unlikely to decline given the challenges facing our economy and the daily incidence of service delivery protests across the country makes it understandable that the “Arab Spring” issue should have found its way to parliament.

We cannot bury our heads in the sand any longer and need to remember that the issue of food prices was the spark that ignited the Arab Spring powder keg.

The success of the #FeesMustfall campaign and the backtracking by government on some key issues recently may just have some social movements smelling blood!

Towards the end of last year an article was written with the heading “#WhyThePriceOfBreadMustFall”. Bread in this case referred to food. We all know that when someone refers to “bread on the table” they are referring to food in the house. The industry has taken note of this article and will be preparing itself to counter any social media aggression.

In concluding on this point we need to ask ourselves how many of the conditions that prevailed in Tunisia and Egypt are prevalent in South Africa today. I count seven. You may count differently. We need to take note of the power of social media and harness it to the benefit of our industry. And we need to be prepared in the event of an “uprising”.

Ladies and gentlemen, those are some views on some macro matters affecting our country, the food industry and the baking industry, which I think we ought to take note of today. Unfortunately they are not all that positive. But to be forewarned is to be forearmed, and I am confident that the leadership in our own industry will respond responsibly to these issues.

Chamber members and guests, I now wish to deal with further developments on some of the matters that I touched on in my President’s Address in 2015 and will include them under the heading of “Micro-environment”.

MICRO-ENVIRONMENT

1. SODIUM REDUCTION IN BREAD

In March 2013 the Minister of Health signed an amendment to the Foodstuffs, Cosmetics and Disinfectants Act of 1972. Since 1972 there have been numerous amendments and an increasing number of regulations passed relating to foodstuffs that I think we, the food industry, should have our own act! Should we, the baking industry, really be grouped together with cosmetics and disinfectants? Sodium reduction has little, or nothing, to do with cosmetics and disinfectants!

June 2016 is now just over 3 months away. Many food companies have been gradually reducing the salt content in their products. We are confident that Chamber members will all comply with the new regulations of 400mg of salt per 100 grams of bread. We cannot speak on behalf of non-members but express the hope that they too will comply in the interests of the health of all South Africans.

For those who may not already know, Salt Awareness Week begins on Monday.

As reported in 2015, studies undertaken by Newson et al reveal that close to 80% of South Africa's population believe their salt intake is satisfactory. Consumers may notice that their food does not taste the same after June 2016, and may compensate by adding salt, something that cannot be regulated. The purpose of the well-intended legislation to reduce the incidence of NCDs (non-communicable diseases) in South Africa and needs to be supported by an ongoing and effective communication and education programme. The baking industry, along with the rest of the food industry, has incurred significant costs in preparing itself to comply with the new regulations, and we all trust that this will not have been in vain, and that the incidence of NCDs will indeed decline.

I have noted that Professor Tim Noakes now doubts that there is a correlation between salt intake and hypertension! Is there no end to his ingenuity?

A number of meetings and workshops relating to Sodium reduction have taken place involving the food industry and Department of Health. In these meetings the regulations for testing methods and tolerances were reviewed. In the past bread was subject to a tolerance of only 10% whilst the tolerance for other food products was 20%. We are pleased, that through our engagement with the Department of Health, the tolerance for bread has now been aligned with that of other foodstuffs.

The industry is somewhat concerned that enforcement may be a problem and that the Department may not have the resources or people qualified to ensure compliance with the new sodium regulations. The Chamber will engage positively with the Department should monitoring and enforcement be inadequate. Time will tell!

2. TRAINING AND EXAMINATIONS

Examinations for the Chamber's two courses, the Certificate in the Theory of Breadmaking, and the Certificate in the Basics of Breadmaking, took place in September 2015 at 5 centres around the country. Very good results were achieved with pass rates of 87.5% and 86% for the respective courses. The top students were Zaheer Aboo from Albany in the Certificate in the Theory of Breadmaking and Quinton Darvall from South Bakels in the Basics of Breadmaking. These candidates were recognised for their achievements during the Closed Session earlier and I wish them both great success in their careers in the Baking industry.

I wish also to thank the various organisations who made their facilities available for examination purposes, providing invigilators and refreshments.

Training and development is one of the cornerstones of the Chamber and I encourage members to register their employees for the courses on offer.

While addressing training and development I appeal to members to participate in the meetings of the **Baking, Confectionery, Cereals and Snacks (BCCS) Chamber of the FoodBev SETA**. We often hear of concerns and complaints about SETAs in South Africa. The BCCS Chamber is your channel to raise concerns and express your needs. You are all no doubt aware that SETA's licences to operate have been extended for a further two years from March 2016. I have it on good authority that the FoodBev SETA has attended to a number of its challenges and shortcomings and is now better able to serve the needs of the food industry.

3. FORTIFICATION AND SENSORY EVALUATION

This project was successfully concluded in respect of flour and bread. Especially noteworthy was the way in which the DoH team consulted and kept industry in the picture as to the demands of the department. The way in which this project and working group functioned could serve as a model for other departments. We have Maudé de Hoop with us today from the Department. Maudé, please convey our appreciation to your colleagues at the DoH for the positive way in which industry and the department worked together.

We can happily report that the new fortificant mix when used at salt levels that will apply in 2019 had no adverse effect on bread quality. We also wish to thank SAGL, UP and TUT for their collaboration.

4. LEGISLATIVE MATTERS.

I will briefly deal with certain legislative matters, limiting myself as far as possible to matters affecting the baking industry.

Firstly, the draft **MARKETING OF AGRICULTURAL PRODUCTS AMENDMENT BILL**.

Nothing further has been heard of this controversial bill and I hope that further consultation with agriculture and industry will take place before any changes are made or the bill passes through parliament.

Secondly, the **AGRICULTURAL PRODUCTS STANDARDS ACT & PLANT IMPROVEMENT ACT**.

Despite the best efforts of the NCM and SACB Technical Committees the Department went ahead and made changes to the APS Act and removed the wheat variety (cultivar list) from the regulations. Your Chamber will continue to work closely with the registrar to have the cultivar list incorporated in the Plant Improvement Act.

Thirdly, **GOVERNMENT GAZETTE No. R 884** regarding the establishment of a Statutory Measure in respect of Records and Returns. As reported last year this was promulgated late in 2014. Nico Hawkins and his team at SAGIS have made good progress in registering bakeries and we now have some statistics to work with. We appreciate that this will always be work in progress and we wish to assure the management of SAGIS of the support of the Chamber in getting bakers registered and providing reliable and valuable information.

5. MEMBERSHIP AND ACTIVITIES

- **Membership**

Recruitment of new members remains a priority for the management of the Chamber.

The Chamber continues to attract new members and it now represents:

¾ of the wholesale or plant bakers in South Africa and

¾ of the large national (international) retailers operating in our country.

The Chamber also has a significant number of important supplier and associate members. Many of the supplier members are part of large, well-respected international groups.

The Chamber has been invited to be an observer member of the International Union of Confectioners and Bakers.

- **Activities**

Under this heading I can report that the Chamber represents the baking industry on more than 20 external organisations and their sub-committees and working groups, including:

CGCSA

Wheat Forum

Wheat Forum Steering Committee
Winter Cereal Trust
DoH Fortification and Sodium reduction working groups
DAFF Wheat Value Chain Round Table and Plant Improvement Registrar
NCM
FoodBev SETA
SABS
SAGL
BICSA & SEDA

CLOSURE

Ladies and gentlemen, I have served the industry as President of the Chamber for three years and must now step aside and hand over the reins to my successor.

This morning during the Closed Session, Colin Hardy was elected President for the ensuing year. Colin, I congratulate you on your appointment and am sure that you will get immense satisfaction from serving the baking industry.

At the same time I wish to thank my deputy, Gerrit le Grange, as well as the other members of the Management Committee of the Chamber for their support during my term in office. It has been both a pleasure and honour to work with people of your calibre. Gerrit, thank you for your valuable input.

Lastly, I would like to acknowledge the small team at the Chamber's offices for their dedication and commitment to the interests of the baking industry.

Ladies and Gentlemen, that brings me to the end of my address. I thank you for your interest in our industry and trust that you will both enjoy and benefit from the presentations by our guest speakers which follow.

Thank you.

LORRAINE BEZUIDENHOUT
PRESIDENT: SACB