

S A CHAMBER OF BAKING

PRESIDENTIAL ADDRESS TO THE 70TH ANNUAL GENERAL MEETING HELD ON 6 & 7 MARCH 2008

Ladies and Gentlemen!

1. INTRODUCTION

It is probably an understatement to say that the Chamber of Baking is facing various significant challenges at this point in time in our industry's history.

During the first half of the reporting year the baking industry almost resembled Baghdad - bombarded with bad publicity regarding collusion and price fixing on an hourly basis. On the back of this, 2008 took off with the announcements of bread price increases. The combination of these two events at the same time had made it very difficult for our industry.

Following on the events of the past 18 months, we need to take stock and put some things behind us and maintain our status as a reliable bread supplier to the nation. We can't ignore the realities of the past which we have to deal with, but most importantly we still have a job to feed our nation.

2. FOOD PRICES

2.1 International

2007 and 2008 will be recorded in the grain history books as the years in which a structural adjustment has occurred in food prices internationally. We have seen record prices for grain and flour that we have never experienced before. The reasons for these huge increases were mainly due to three occurrences:

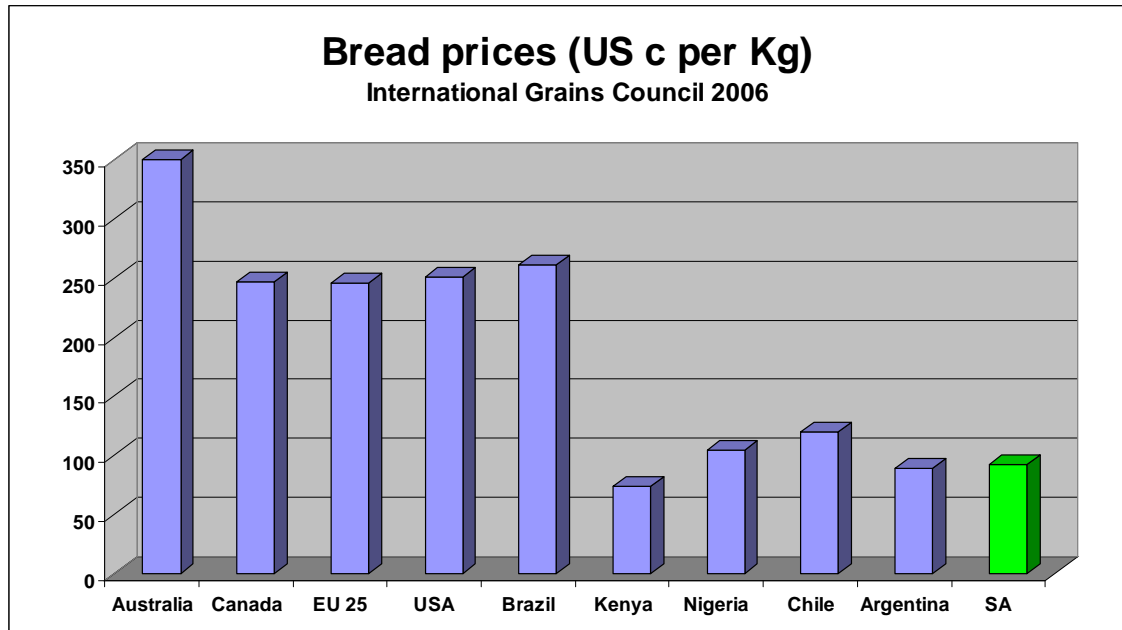
- Poor weather conditions in the main producing countries
- the growth of the biofuel industry
- the growth in wealth in emerging countries like China and India

These three factors together caused a shortage of grain which resulted in abnormally high prices. I am afraid that I cannot announce today that the storm is over. We need to wait for the Northern Hemisphere production to be harvested and can only pray that there will be enough moisture available in the Southern Hemisphere for a good crop. The impact of the development of the biofuel industry has caused governments to revise their food security policies.

From a baking perspective we therefore applaud the South African government for not including maize as a source for biofuel production. Having gone

through this bad patch in our industry, it might be time for government to also consider limiting wheat being used as a source for biofuel.

We have obtained some information from the International Grains Council regarding the prices of bread on the international scene. Unfortunately they have not updated their 2006 data yet, but I assume the prices will be relatively similar.



Looking at these prices it is quite obvious that the bread price in South Africa is still relatively cheap. The fact that the South African bread prices are relatively cheap does not take away the difficulty of the poor having to manage a household. We have also scanned the web and came across quite a few headings and articles which dealt with the ever increasing food prices all over the world. I would like to quote a few to you:

- **USA:** *“The retail price of food during 2007 went up 4%, the highest rate in the past 17 years”*
- **Japan:** *“The retail price for Double Soft, a popular loaf of bread will be increased from ¥200 to ¥220 (±R14), the first price hike since 1983.”*
- **Israel:** *“Bakeries had demanded the government to lift all price controls on bread. As no solution could be reached, many bakeries stopped making price-controlled bread, saying they were losing money.”*
- **USA:** *Wheat prices rise and so will bread prices – “A recent food price survey by Missouri Farm Bureau found that a 20 oz (567g) loaf of bread was up 30 cents (R2.30) to US\$2.00 (R15.20)”*
- **CIS (Tajikistan & Kyrgyzstan):** *“.... the price of bread in the capital, Bishkek, has increased by 50%.”*
- **Bolivia:** *“The government has empowered the national army to run some industrial bakeries to produce bread at affordable prices for the most vulnerable population groups.”*

- **Central Asia:** *“Rahmatullo Saidov, a Dushanbe resident who came to the city market to buy flour, found the price has gone up by almost 60% since the beginning of September 2007. I can’t believe that during one week the flour price goes up from \$20 per 50kg bag to \$32.”*(±R4 900/t)
- **Italy:** On 13 September 2007 a pasta strike was held in Italy to protest the sharp increases in the price of pasta.
- **Uzbek:** *“The Uzbek government has put pressure on private businesses not to increase bread prices. The measure has made some vendors close down at the prospect of losing money.”*
- **UK:** *“Tesco has been the first to move, rising the price of sliced white bread to £1.03 (R15.47) for an 800g loaf.”*
- **Oman:** *“Oman’s ruler ordered on Saturday an increase of up to 43% in state workers’ wages and a wheat price subsidy of 25 rials (±R500/t)”*

The reason why we included these quotes is not to justify the bread price increases of late, but to put them into perspective. According to published prices from Statistics South Africa the price of a 700g white loaf has increased by 16.6% between November 2006 and November 2007. Even after the recent increase that was mentioned in the media last month, the price of a 700g white loaf would have increased by ±20% (Feb/Feb).

2.1 South Africa

Wheat and flour prices have doubled during the past 12 months. The wheat price in South Africa was R1800 per ton early in 2007. The price broke through the R3 000 per ton barrier during August 2007 and through R4 000 per ton on 18 February 2008. Although this volatility is part of the free market, it makes it very challenging to do business in. With the adjustment in flour prices the baking industry was in a position where it could no longer keep price increases away from consumers. Despite these realities this news was not well received. We almost had to go through the same educational exercise the fuel industry had gone through: Consumers need to understand that when the oil price increases it eventually ends up in an increase in the fuel price at the pump. Similarly if the wheat price in the world goes up it eventually ends up in an increase in the bread price on the shelves.

If we look towards the future, observers cannot see the wheat prices coming down from these levels soon. It is far too early to try to be a popular prophet and predict decreases. Unfortunately the consumers in South Africa will still have to face further bread price pressures. The scope and timing thereof are in the hands of the individual bakeries. For the sake of the poor we can only trust that competition will ensure that the increases will be as low as possible.

Despite all these circumstances we are still in a period of positive growth in our volumes. Whilst the wheat milled for human consumption has shown an increase of 1.4%, the bread sales by the four plant bakers increased by a

healthy 3.4% for the 12 months ended in December 2007. We have also noted that the consumption of white maize meal had decreased over the same period. The constant increase in interest rates in South Africa has caused consumer spending to decrease. Economic theory teaches us that in times like these the consumption of basic foodstuffs will increase. I don't believe that we are there yet, but if this theory is correct, we can expect our volumes to continue to grow.

Before we get too optimistic about the future, I have to highlight some of the current concerns regarding our supplies. The limitations of our logistics system in South Africa especially our railway system as well as our road infrastructure, have already caused some disruption in our flour supplies. Late last year we learnt of some mills that had run out of wheat following a short supply of railway trucks. This was very bad news for the baking industry. As we all know, nobody buys two loaves the next day if the shelves were empty on the previous day. An annual report like this cannot go by without mentioning the huge disruptions that we are experiencing with the current energy crisis in South Africa. A bakery in the rural area reported that as soon as the oven was hot and ready to start baking, the power is cut. This trend continues for quite a number of days. I am not mentioning this to get sympathy from the consumers in South Africa but for stakeholders to understand that disruptions like this could result in food shortages in South Africa. This is not a threat, but a reality. Disruptions are also having its effect on the traffic and the delivery of fresh bread daily.

We have noted this year that the quality of wheat especially in the Western Cape is not what it is used to be. Notices from some of our pre-mix suppliers indicate huge price increases in the ingredients that they supply us with. The following approximate increases will all have some effect on the cost structure of a bakery and is compared to the fourth quarter of 2006:

- Palm oil +160%
- Glycerine +300%
- Stearic acid +65%
- Packaging ingredients
 - Wood +16%
 - Plastic +12%
 - Paper +16%
 - Metal +8%
 - Corrugates +21%

This is going to be a tough year ahead of us.

3. *OTHER ACTIVITIES*

Our Technical Committee has also spent a substantial amount of time to comment on the proposed draft labelling regulations. We are also looking forward to the impact of the results of the Stan Cauvain research report. The industry is in desperate need of more improvements in our baking technology to grow our productivity. In the long run these improvements will eventually contribute towards a more competitive bread price.

The Chamber of Baking's training course has seen a record number of students participating in the exam for the Certificate in the Theory of Bread making. Of the 92 candidates who wrote the exam, 57 were successful, a pass rate of 62%. Ten distinctions, 19 first class passes and 28 passes were recorded.

4. *FUTURE*

I am not one to try and predict the future for the baking industry in South Africa but I would like to leave you with a few pointers for the year ahead:

- Firstly: We need to stay focused in order to assist food security by providing our country with good quality fresh bread on a daily basis at every corner.
- Secondly: We need to ensure that we manage our business and govern our industry with a zero tolerance for anti-competitive behaviour. We owe it to our country.
- Thirdly: We have to keep on innovating and improving our productivity to keep the bread prices in South Africa as low as possible.
- Lastly: We need to co-operate with government and the grain value chain to achieve these goals within a free market environment.

5. *CONCLUSION*

In conclusion, I would like to thank individuals such as Kallie Paxton, Chris du Plessis and Allan Bishop and other of our predecessors who shared their expertise with this generation of bakers. Bill Nankervis from Anchor has been promoted to an affiliate in the USA and Willie Bright (NCP Yeast) has taken retirement from the yeast industry. Bill and Willie represented two of our supplier members and were very active on our Management Committee – thanks guys for your huge contributions to this industry. We are already missing your wise council during these difficult days.

I would also like to thank the Chairpersons of our various committees for providing leadership. I would like to encourage you to remain focused and to get the job done.

Lastly I would also like to thank Jannie and Isobel for keeping the fort back at the office in Centurion.

Last year the presidential address ended off by saying “I do not expect the short term period ahead to be an easy one for this industry.....”, but baking has never been easy anyway. So, let us keep our heads down and serve this country with good and healthy fresh bread – daily! In the process, let us not forget that life is to be lived looking forwards and to be understood, looking backwards.

Thank you!

Eugene Beneke

Chairperson: Management Committee
SA Chamber of Baking

6 March 2008