

CHAIRMAN'S REPORT
ANNUAL GENERAL MEETING: 13 MARCH 2009

Honored Guests, Ladies and Gentlemen

1. INTRODUCTION

Last year's Annual General Meeting was over shadowed with the international food price crisis. Since then we spent many hours in analysing the supply and demand situation in the world and in explaining to customers, consumers, government and other stakeholders, the underlying drivers of these high food prices. This crisis was overnight replaced in the Developed World with the dawn of the credit crunch and the severe downturn in most economies of the world. Recession and now even depression fears have overtaken all issues as the Number 1 problem. In South Africa we are, however, still living in a developing country where high food prices remain one of society's most serious issues. Even more so in an election year.

A lot has been written about the food price crisis and amongst the literature I found the following sentence. I quote :

'The war on poverty does not require spears, but spades. It's through agriculture that dignity can be restored to our people.'

Given the high importance of food security, it therefore remains critical that the policy environment in South Africa enhances the production of food to ensure that we address both the availability and affordability issues through increased production and efficiency.

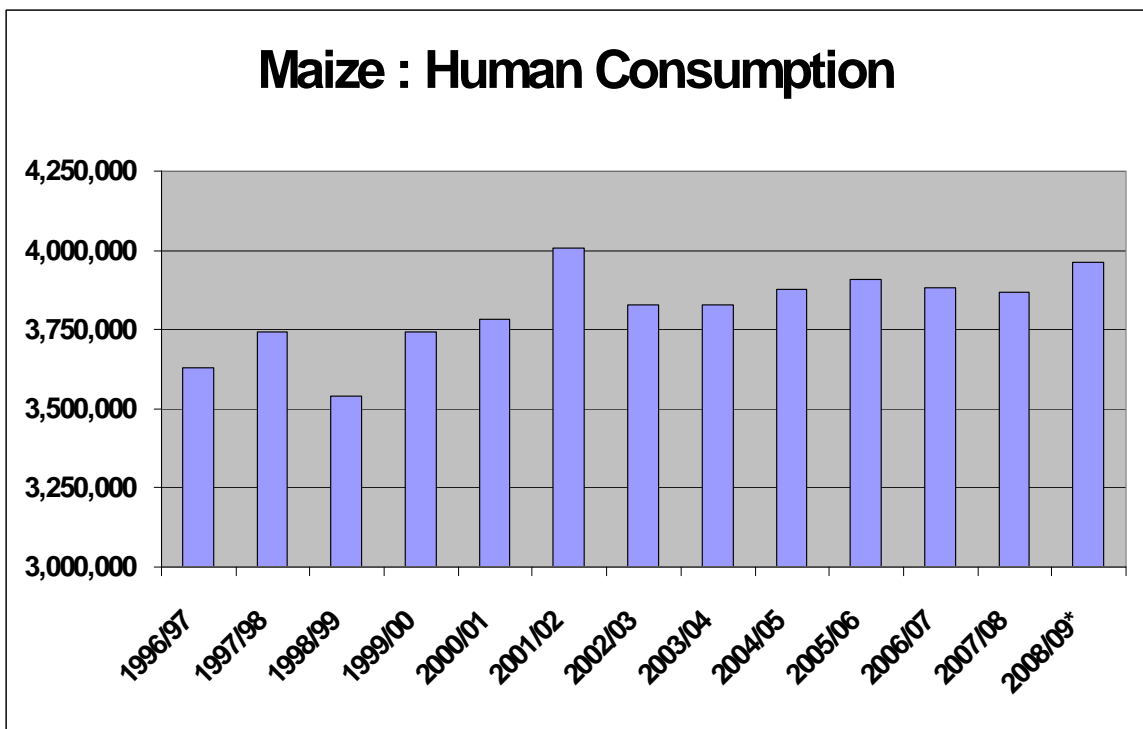
Business took the challenge very seriously when Government deregulated agriculture in 1997 and in the past twelve years we have not seen any shortages in the supply of food in South Africa. The free market mechanism produced excellent results in this area. We have, however, experienced two periods – during 2002/03 and 2008 - where food prices increased substantially more than inflation and the affordability of food was driven to the top of the agenda. We can only but call on Government to trust the market to ensure the availability of food, to invest diligently in our agricultural infrastructure, to promote job creation and to support growth in the economy to enhance the overall affordability of food. In addition to this we accept that a portion of our society requires further support and therefore the steps taken by Government to increase social grants should be applauded.

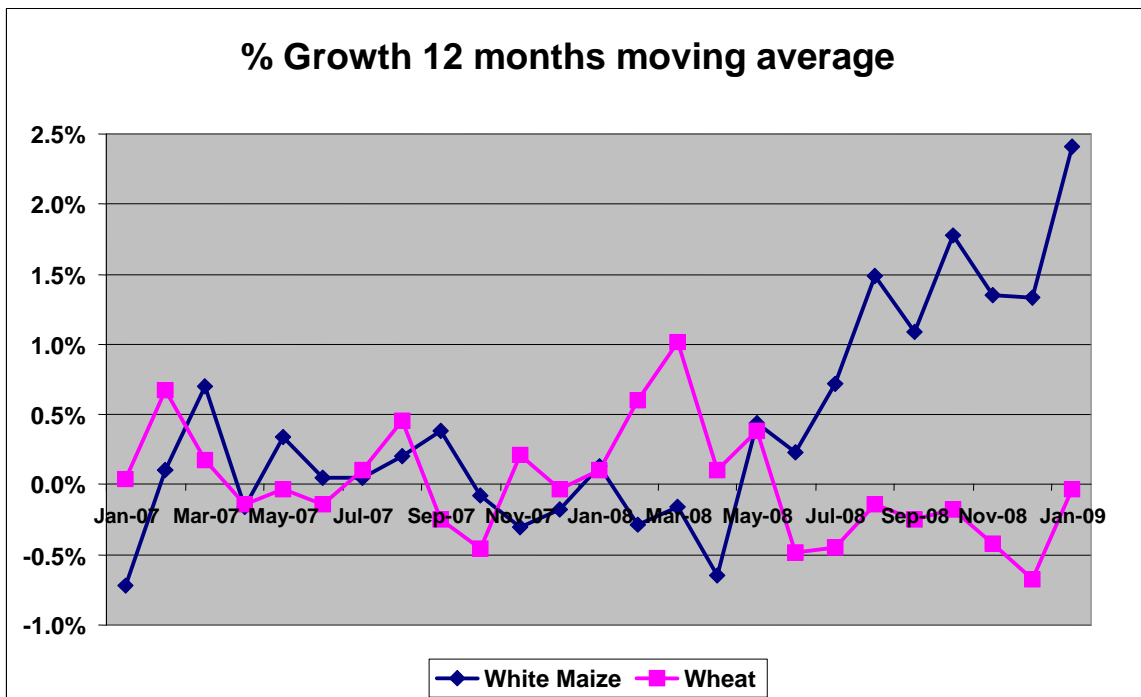
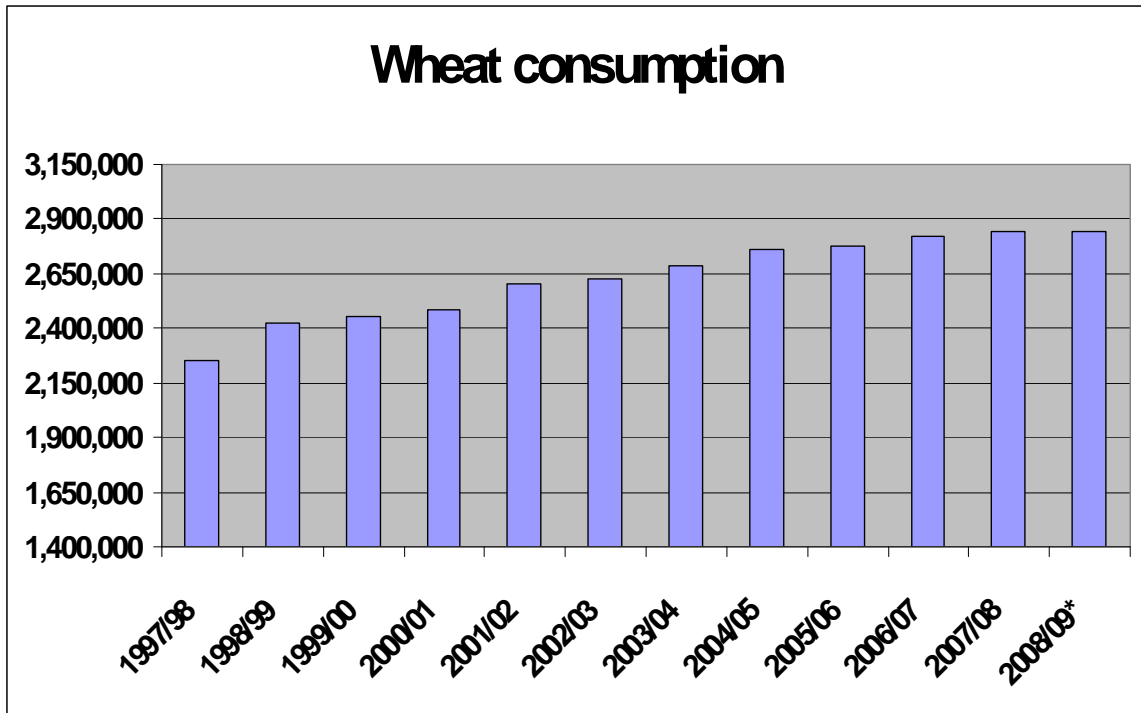
It would, however, be irresponsible if we as a sector do not flag another possible infrastructural failure when it comes to the current condition of the rail and road system that is required to serve the broader grain industry. The availability and affordability of food will be at risk if South Africa does not invest appropriately and timeously in upgrading and maintaining our road and rail infrastructure.





Given the very dramatic shift in personal economic well-being in the current environment of relatively high food inflation the industry is experiencing a major shift in consumer behaviour. There has been a very positive growth trend in the volume throughput in our maize milling business, but conversely a significant downturn in our wheat volumes. These changes in short term consumer behaviour are both counter to the longer term consumption trends within the industry.





The leadership team has considered it appropriate to invite an international speaker to enlighten us on the latest developments, from beyond our borders, with regard to policy changes following the high food prices. I trust that you enjoyed the presentation by Mr Charlie Sosland and that it would be a stimulus for those of us involved in policy formulation and strategic direction to ensure the industry's long term feasibility and competitiveness.

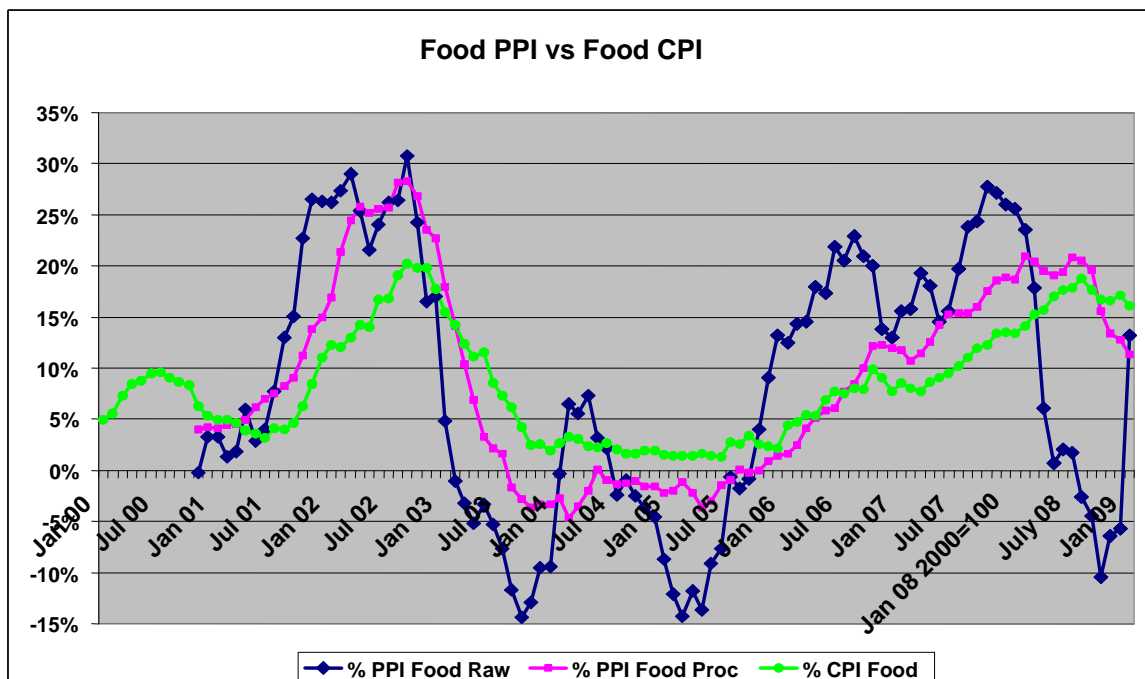
2. TRENDS

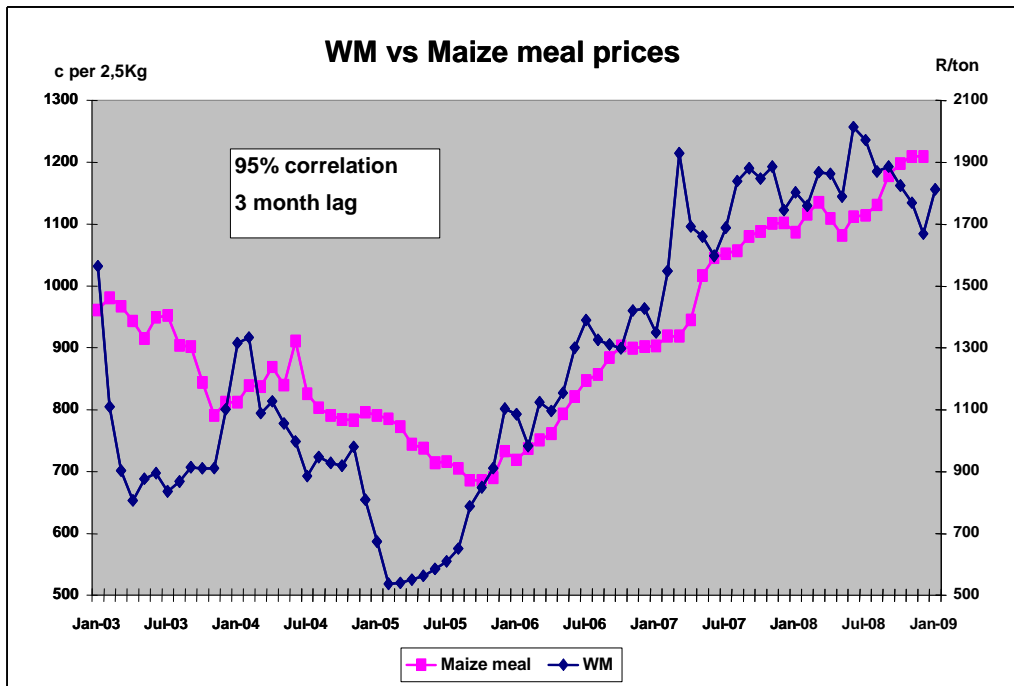
Before I touch on a few highlights of the work that the Chamber has done during the year under review, I would like to point out a few trends that are of importance to our sector as a whole.

The continued failures of the World Trade Organisation (WTO) to conclude the DOHA Round of trade negotiations reprioritised the importance of domestic policy responses as a possible solution to create the necessary environment for food security in South Africa. The Government's ability to adapt its views and policies and especially the speed at which it can adapt, will determine the influence and importance thereof on our business. This remark might be a bit premature, but we need to refocus our energy at the Chamber level towards domestic policies rather than waiting on international trade partners to solve their own problems because I am sure that Doha is nowhere on their agendas right now.

Although we might still be experiencing a very uneven playing field in the international agricultural environment, history revealed that in some instances the timing of the implementation of changes in policy might be counter-productive. As a specific example it may be noted that the local wheat import duty has been in place - albeit at a relatively low level of 2% – throughout the period of rising wheat prices, only to be removed when prices retracted to its lowest level in many months.

From the analyses undertaken by our office, we expect food inflation to retract in the months to come and together with lower interest rates we are looking forward towards a recovery in consumption.





3. YEAR UNDER REVIEW (2008/2009)

3.1 Achievements

It is quite an exercise to highlight all the achievements of the year under review, but I would like to mention a few. This also serves to ensure members that your levies received at the Chamber were put to good use.

The Chamber's role during these times of high food prices was very visible through our **liaison with the media**. There was extensive coverage of the food price crisis in the media, both on national television as well as in daily papers and magazines. Jannie participated in various forums, meetings with Ministers, labour unions, the Presidential Working Group and last, but not least, he also attended the Food and Agricultural Organisation's Food Crisis Conference in Rome as a guest of the Minister of Agriculture. I can confirm that it takes a cool head and an in-depth knowledge of the broader industry to navigate through these interactions in a responsible and well considered manner.

Our Executive Director also led the business delegation at the Nedlac discussions with Government and Labour with regard to possible solutions for the high food prices in South Africa.

The Chamber also played a pivotal role in supplying information to the National Agricultural Marketing Council's (NAMC) Section 7 Committee's analysis of the **Wheat to Bread Value Chain**. We are still awaiting the final report, but from our participation in the review of several drafts we are led to believe that the major conclusion is that legitimate market reactions based on

underlying fundamentals throughout the value chain, led to the substantial increase in bread prices. We shall wait for the release of the official document and will then further comment accordingly.

It is, however, disappointing that the Minister of Agriculture urged the NAMC to present this report in March 2008 already and that it took more than twelve months to complete this investigation. This matter is of such importance to us and the other players and stakeholders in the value chain that it deserved a better managed conclusion.

Another topical matter was the lack of response from Government on the poor performance of **Transnet Freight Rail** and the poor condition of the rail infrastructure in South Africa. Earlier this year we have very successfully elevated this matter through the assistance of the media. The Director General (DG) of Agriculture has, since she took office, assisted us in bringing this matter to the decision-making forums of our country.

One of the areas where the Chamber plays an important **leadership role** behind the scenes is in the transformation process in agriculture. Our Executive Director is very prominent in establishing partnerships in private sector as well as with Government in the establishment of new Black grain farmers. The Maize and Winter Cereal Trusts are playing very important roles to facilitate the implementation of these initiatives.

I also noted from the reports in your working papers that the Maize Trust is currently erecting a **building** to host industry organisations such as the South African Grain Information Service (SAGIS) and the South African Grain Laboratory (SAGL). This will ensure a permanent future home for these organisations and it will contribute towards their long term sustainability in support of the industry.

The Maize Trust also **donated R1 million** in the form of maize meal to social support structures in an effort to contribute towards poverty alleviation during times of high food prices.

The generic maize advertising campaign that ran for three years also comes to an end in 2009. It would have been wonderful if we could have ascribed the increase in our sales directly to this **generic advertising** campaign, but it is my belief that it did contribute during this time to highlight the nutritional value and importance of maize meal in the diet of a typical South African.

It remains important that the environment in which we conduct our trade plays a supportive role in enabling us to sustain our

businesses by operating at a profitability level that will also allow for continued re-investment. The review of the **Agricultural Sector Plan** reveals that the strategic intent of the Plan that was approved in 2001 by President Thabo Mbeki was still sound, but that it fell short on implementation. Through the Chamber's involvement in the CEO Forum we will continue to avail our skills and resources in assisting Government in this partnership. We shall endeavour to ensure proper implementation with deliverables that will support our sustainability.

One area that is currently on both lists of our achievements and shortcomings is our **maize quality project** at the Agricultural Research Council (ARC). We have not made sufficient progress in this project due to a lack of capacity and the exit of skilled staff at the ARC. Through our initiative we took corrective actions and acquired the services of one of our honorary life members, Mr Colin Wootton, to assist the ARC as a mentor and to ensure delivery on this project. The Technical Committee, with the help of Premier Foods, made special efforts this year to correlate the findings of the laboratory mill at Potchefstroom with commercial scale milling. We shall hopefully be in a position next year to report on sound progress towards the development of proper release criteria for white maize cultivars.

The Chamber also plays a major role in the **SAFEX** Agricultural Advisory Committee to ensure an environment in which we can trade with confidence. I would like to make use of this opportunity to thank the Management of the JSE Securities Exchange for the manner in which they responded to the situation where a silo owner defaulted on white maize contract deliveries.

The **Grain Milling Federation** also completed the update of our study material and we remain very proud of our training course that keeps on providing quality millers to the South African milling industry.

Lastly, we completed the exercise of **amalgamation** between the Chamber of Milling and the National Association of Maize Millers. You will also note that this milestone is celebrated with our new logo.

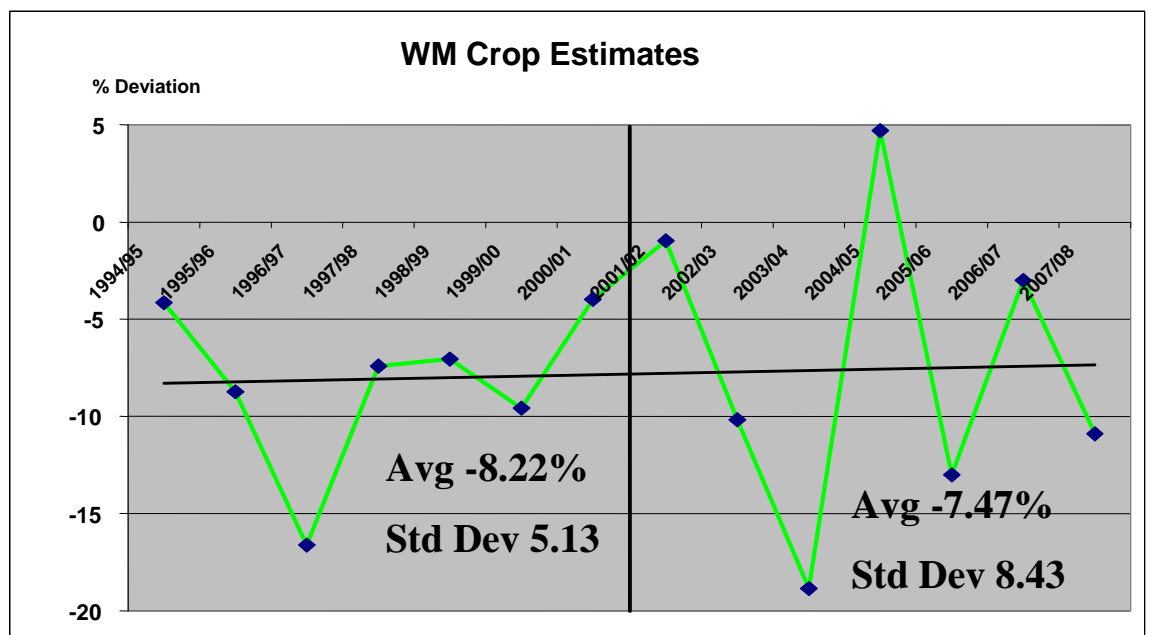
3.2 Goals not achieved

I am not going to spend a lot of time on those things that we would have liked to tick off today as part of the jobs that was completed successfully.

I mentioned the white maize project and we plan to speed up delivery on this project at the ARC during the ensuing year.

Enough has been said about the deterioration in our rail infrastructure and hopefully we will be able to report on positive developments in this regard in future.

Lastly, we made good progress to improve the situation with regard to **crop estimates** in South Africa, although we have not been able to get the white maize crop estimate within the 5% accuracy margin from the first to the last estimate. I believe that there has been some corrective actions taken and hopefully this new crop will be within those margins. At this point I would also like to thank the DG for her intervention to restore the government funding of the Crop Estimates project. This remains a very important cornerstone of the grain free market trading system.



4. FOCUS FOR 2009/2010

The leadership team of the Chamber reviewed our focus areas for the year to come and are comfortable of the strategic position and role that the Chamber is playing in the grain value chain. Through our **leadership** we will continue to assist in the broader **transformation** process through especially the establishment of Black grain farmers, to avail our skills and knowledge base for use within the industry and to give sound direction to future grain **research**.

I know that the Executive Director is also playing a leading role in improving the **co-operation** in our grain value chain through close interaction and collaboration with all stakeholders.

Our **relationship** with **Government** is very healthy and we will positively build on this to promote the **free market** principles of the economy within possible policy changes to ensure the profitability and

competitiveness of our sector - all in the effort to work towards improved **food security** for the people of South Africa.

Our status in the **media** relies heavily upon the information that is submitted to our organisation by our members and I would like to thank them for availing that to the Chamber. It has been put to good use to **build the image** of the industry and to communicate on issues relevant to our stakeholders.

It gives me great pleasure to announce that South Africa was requested to host the 2010 Conference of the International Association of Operative Millers. It would most likely be held in Cape Town during the latter half of 2010. The NCM will be involved in organising the event.

5. CONCLUSION

The milling industry has lost a number of experienced campaigners over the past two years, but the new – and younger - incumbants stepped up to the challenge and I am of the opinion that they have done a great job! I would also like to thank Mr Hamish McBain who has been appointed by the Minister of Agriculture to represent the industry as a Council member of the ARC and now also at the AgriBEE Charter Council.

In conclusion I would like to call on our members participating through our committee structures to focus on deliverables to ensure that through our participation and co-operation at the Chamber we are still delivering on our endeavors to improve the state of our broader industry. To Thabi Segole and the rest of the Board members: “Guys, thanks for your input and involvement in leading this industry!”

Lastly I would also like to thank Anne-Marie Barnard for organizing this event so stylishly. With the combination of the two Chambers it is very much more challenging to accommodate all of the requirements, but it remains a *‘must attend’* on everybody’s calendar. Jannie will you also convey our appreciation to the rest of the staff back at the office for a job well done during this year!

Thank you very much.

TERTIUS CARSTENS
Chairperson

13 March 2009