PRESS STATEMENT

11 January 2011

Competition Commission rejects Grain SA Application for Exemption

The Competition Commission ('the Commission') has rejected the application for exemption from the provisions of section 4 of the Competition Act lodged by Grain South Africa (see Government Notice 1259, 31 December 2010). The Commissions rejects the application on the grounds that:

The scheme:

a) will keep domestic prices of maize meal and inputs such as animal feed artificially high;

b) is not a viable mechanism to promote exports; and

c) does not meet the requirement of the Competition Act for a sector designated by the Minister of Economic Development.

We hereby elaborate on each of the grounds for rejecting the Grain South Africa application for exemption.

a. Impact on Prices

The surplus should under normal market conditions translate into lower prices for consumers including large industrial users of maize such as animal feed producers. We are concerned that the proposed scheme is likely to artificially keep prices in South Africa high, when they should be falling.

b. Promotion of Exports

The promotion of exports, as envisaged by the Grain SA is unlikely to be viable through the proposed scheme due to the limited export market available for maize produced in South Africa. The logistical problems associated with exporting grain in South Africa will remain a significant barrier and are not addressed by the proposed scheme.

The Commission found that most of South Africa's usual maize trade partners are also currently enjoying surpluses of their own, the greater proportion of maize produced in South Africa is white maize which is not as widely consumed globally as yellow maize is, and there is limited demand in the region for the genetically modified maize produced in South Africa. Further, the total maize surplus that would be pooled for export would still be insignificant in the global market to strengthen the position of local producers.

c. Economic Stability of a sector designated by the Minister of Economic Development

The objective of promoting the economic stability of an industry designated by the Minister fails on procedural grounds. The industry has not been designated by the Minister of Economic Development as required by the Competition Act.

We are further concerned that the proposed scheme is likely to have the following undesirable outcomes:

- increased risk of a threat to the security of supply and accordingly food security;
- reduced incentives for grain producers to be more efficient and innovative; and
- produce the same anticompetitive outcomes that resulted from the legally sanctioned cartel of the now disbanded Maize Board.

The surplus in itself is not indicative of an industry in decline. Surpluses and deficits arise due to changing market circumstances and markets adjust accordingly. There is no evidence that this industry cannot survive such an adjustment. Indeed there have been improvements in productivity which have contributed in part to the surplus.

The Commission recognises however, that the existence of the surplus may well result in lower than expected returns to farmers, and financial difficulties for some. Ultimately this may negatively affect the country's productive capacity of maize in the long run.

The surplus poses a challenge for government and the industry to consider alternatives that may on, balance benefit, the country and consumers. The Commission found that there are alternative less anti-competitive options which have not been adequately explored such as:

- crop substitution;
- bio-diesel;
- value added products;
- hedging and use of the Futures' market;
- storage for future use; and
- entry by exporter traders.

ENDS

Further Info:

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Background

Grain SA filed the application [INSERT DATE] on behalf of its members requesting that they be exempted so as to enable grain producers to form an export pool, which will be used to export surplus maize from South Africa. The export pool scheme proposed by Grain SA will result in a collective forum where maize producers will be co-operating with each other in order to set prices and/or allocate geographical markets for purposes of exporting the pooled surplus maize. This conduct would be a contravention of section 4(1)(b) of the Act.

Grain SA applied for an exemption on the grounds that the exemption is required in order to achieve the objectives set out in sections 10(3)(b)(i), 10(3)(b)(iii) and section 10(3)(b)(iv) of the Competition Act, namely the *maintenance and promotion of exports*, *change in productive capacity necessary to stop decline in an industry* and the *economic stability of an industry designated by the Minister of Economic Development*.