



innovate agriculture

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Competition Commission of South Africa
The DTI Campus, Mulayo (Block C)
77 Meintjies Street
Sunnyside
Pretoria

Attention: Peter Kumbirai
By email: PeterK@compcom.co.za

Private and confidential

12 May 2023

Dear Peter

**RE: GRIEKWALAND WES KORPORATIEF LIMITED (“Company” or “GWK”):
REQUEST FOR INFORMATION RELATING TO THE FRESH PRODUCE
MARKET INQUIRY (CASE NUMBER: 2022APR0051)**

1. We refer to the Competition Commission's (the “Commission”) letter of 21 October 2022, which sets out an information request (“RFI”) from the Commission regarding the Fresh Produce Market Inquiry (“FPMI”).
2. The responses contained herein are responses prepared by GWK.
3. The contents of the questions are repeated herein for ease of reference and thereafter the answer to the question is provided.

BACKGROUND AND BUSINESS ACTIVITIES

4. Question 1: Briefly describe the business activities of GWK and how it is positioned relative to other businesses that provide key inputs for growers in the fresh produce sector.
 - 4.1.1 GWK sees itself as an innovative and resilient pioneer in the agriculture and food value chain, committed to shaping a sustainable business, driving growth and providing a better future for all stakeholders. The business has a diversified range of activities related to the agriculture industry, and operates, mainly in

the Northern Cape province, in four main divisions: GWK Agri, GWK Farm Foods, GWK Trading and Professional Services.

GWK Agri

4.1.2 GWK Agri supports farmer producers by being involved on the farm from start to end through providing inputs, solutions and a range of services required for successful farming. GWK Agri includes, amongst others, agricultural services (precision farming and water scheduling), agri marketing (specialising in fertilizers, seeds and chemicals), mechanisation (sells a wide range of new and used tractors, harvesters, sprayers and other John Deere equipment, and also offers workshop services and parts), agri financing (offers innovative financing solutions to support farmers), fuel stations, GWK Prosperity (offers a wide range of financial planning services and insurance products) and trade retail stores.

GWK Farm Foods

4.1.3 GWK Farm Foods is a company that supplies processed and semi-processed foods to South African consumers. A small portion of its maize and pasta products are exported. The business prides itself on being customer centric and strives to provide high quality products, and wholesome goodness to the market. GWK Farm Foods includes the following:

4.1.3.1 GWK Farm Foods' grain product range includes maize meal, wheat flour and pasta.

4.1.3.2 GWK Pecans was established in 2018 to support the growing industry and to create a unique pecan business that empowers farmers. Its focus is on supplying the demand for high quality pecan nuts to the global market with a business model that offers farmers the opportunity to be shareholders in their own pecan business. This is supported by specialist support on cultivating pecan nuts as well as modern sorting, polishing and cracking facilities. More than 95% of its pecan nut products are exported to China and Europe.

GWK Trading

- 4.1.4 The GWK trading team is focused on providing access to the best national and international market channels for agricultural products. It offers marketing services to producers, traders and manufacturers of agricultural products. GWK trading opens marketing channels for a range of products such as: grain, cotton, lucerne, seed potatoes, wine, peanuts, macadamia nuts, walnuts, pecan nuts and raisins. GWK trading offers services through the value chain from procurement up to the end manufacturer in the form of a range of contract types, financing, handling and storage, manufacturing, packaging, marketing, and logistics. This includes contracting services, hedging, price risk management, forex management. The services include logistical services which consists of local transport, international transport, warehousing, forwarding, and clearing, and shipping to various international destinations.

Professional Services

- 4.1.5 This includes Marketing and Communications, Human Resources and Transformation, Financial Services, Secretariat and Legal Services, Information Technology, Risk Management and Internal Audit.

Fresh Produce Sector

- 4.1.6 GWK does not trade in any of the fresh commodities referred to in paragraph 6 of your letter dated 31 March 2023.
- 4.1.7 GWK only operates a seed potatoes business. We have relationships with seed potato farmers to assist them in multiplying and producing seed potatoes. Most of these farmers are GWK shareholders. GWK also finances most of these producers' input cost and they deliver seed potatoes to GWK for resale. We sell the seed potatoes back to the seed producers for the following season and also to other commercial/processing potato farmers. We also have cold rooms where the seed potatoes are stored. Potatoes need to be kept in cold

storage to ensure quality of the seed and to lengthen the period during which the seed can be sold.

4.1.8 Seed potatoes should meet specific quality standards that are determined and certified by Potato Certification Services (PCS). All the extra potato tubers (which are not used for seed) that are produced by seed potato farmers, are sold by themselves and we have no part in the selling of the commercial potatoes.

4.1.9 We are also not involved in any commercial/processing potato farms or the sale of potatoes grown from the seed that the farmers procure from us.

4.1.10 Our responses to the RFI will thus be limited to GWK's seed potatoes business.

5. Question 2: If GWK operates multiple businesses, provide the most recent organogram depicting the companies directly and indirectly controlled by your parent company and all its subsidiaries.

5.1



6. Question 3: Indicate if GWK or related operating companies are owned and controlled by Historically Disadvantaged Persons (“HDPs”).

6.1 GWK has a wide shareholder base of approximately 4'200 shareholders, and is a level 6 BBBEE contributor. GWK is involved in numerous local community projects with the aim of uplifting those communities. These include assisting schools and other community institutions financially, specifically in the small semi-rural areas. GWK also participates in the Youth Employment Service (YES) programme.

7. Question 4: Provide a list of products sold by GWK in South Africa.

7.1 Refer to the response to Question 1 for an overview of GWK's businesses and products sold.

7.2 With regards to the FPMI, only seed potatoes are sold.

8. Question 5: Provide the most recent audited annual financial statements (“AFS”) for the South African operations of GWK. If the AFS cover a number of businesses, then provide the management accounts for the South African business alone.

8.1

9. Question 6: To the extent that it is not contained in the AFS, provide a detailed financial breakdown of both revenue sources and operational costs of the firm for the most recent financial year (April-March basis,

9.1

10. Question 7: Provide illustrative examples of any monthly management reports on key metrics used to track the performance of GWK’s business. If no such reports exist, then provide a list of the key performance metrics that management uses to track the performance of the business.

10.1

11. Question 8: Provide investor or any other presentations that describe GWK’s current business and business model. If no investor presentations exist, provide internal documents describing the business model.

11.1

12. Question 9: Provide all internally and externally commissioned research and/or studies conducted in the past three years on the consumer side of the business, and the market position of your business relative to competitors.

12.1 No internally and externally commissioned research and/or studies were conducted in the past three years relevant to the FPMI and the seed potatoes business.

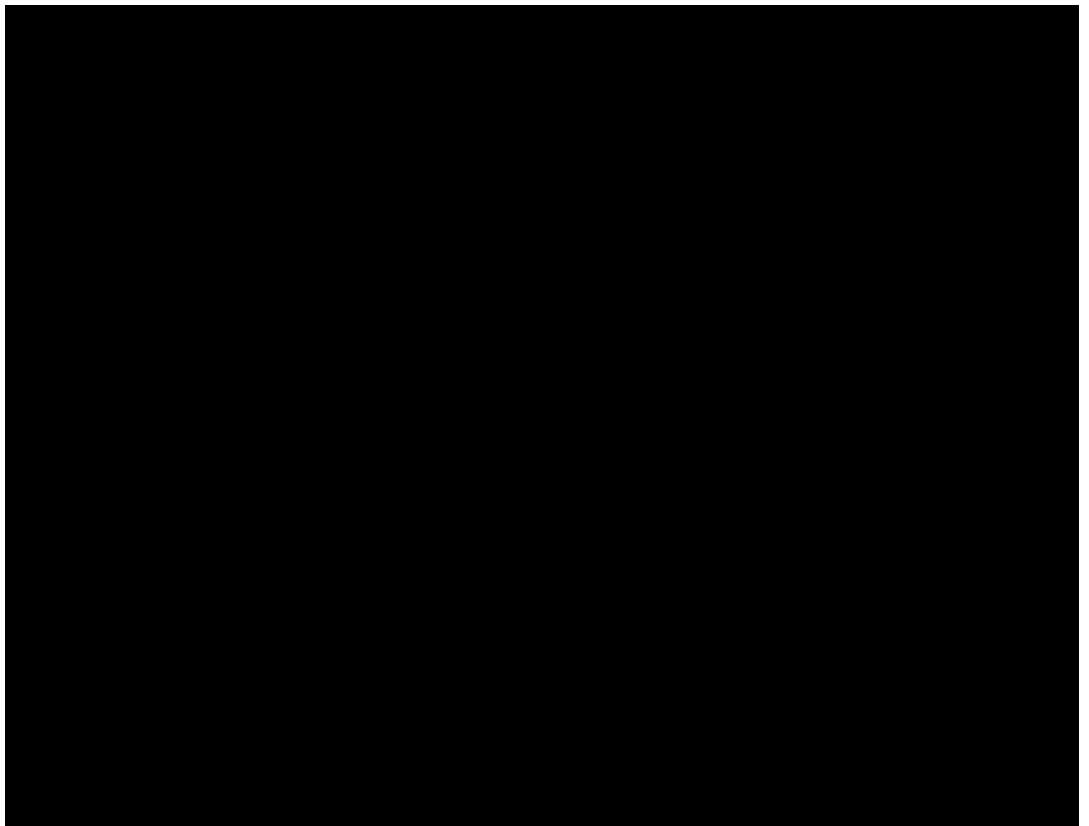
13. Question 10: Provide copies of GWK's latest marketing materials and presentations used in engagements with different types of potential customers.

13.

13.2 GWK concentrates at a consumer level with the aim of convincing producers to buy our varieties and seed to supply the demand required. GWK joined Potatoes South Africa in sponsoring certain events and publications with potato producers. Part of the sponsorship is to be at the events to engage and interact with producers. GWK has nine agents that sell seed potatoes in South Africa, and also conduct farm visits.

14. Question 11: Provide copies of GWK's latest marketing materials targeted at consumers.

14.1 See video link: See attached.



16. Question 13: Kindly provide the names and contact details of the following customers within the fresh produce industry:

16.1 Question 13.1: The 10 largest customers by sales in the last financial year.

16.1.1 [REDACTED]

16.2 Question 13.2: The 10 smallest customers by sales in the last financial year.

16.2.1 [REDACTED]

16.3 Question 13.3: The 10 most recent potential customers who engaged with GWK but did not end up using GWK (either because they did not meet the GWK 's requirements or on their own accord).


16.3.1 Due to the wide range of customers for potato seeds, certain customers may purchase a portion of seeds from GWK and the remainder from other suppliers. GWK unfortunately therefor does not track potential customers who did not end up using GWK.

BACKGROUND AND BUSINESS ACTIVITIES

17. Question 14: Explain your understanding of the value chain for agricultural inputs (all levels and players), the various activities of key role players at the different levels and indicate where GWK fits within the value chain.

17.1 Seed potatoes are essential for all fresh potatoes in South Africa. GWK invests a lot of time and capital to get better varieties for the potato farmer and indirectly the consumer of potatoes. GWK invests in a pipeline of potato seeds for the varieties owned.

18. Question 15: Identify and estimate the sizes of the manufacturers of agricultural inputs (seeds, fertilizers, agrochemicals (herbicides, fungicides and pesticides)) for the past 5 years up to and including 2022. The estimated market size should be based on value of sales, volumes, and revenues. This information should be based on all areas where GWK is active either as a manufacturer or distributor and ignore areas where GWK is not active as either manufacturer or distributor.



agricultural inputs (seeds, fertilizers, agrochemicals (herbicides, fungicides and pesticides)). In your response refer to:

19.1 Question 16.1: The methodology and factors considered when determining price;

19.1.1 Seed potatoes prices are determined by input costs, production costs (certification, bags, tickets, pallets, etc.) transport costs and also cold storage costs if applicable. Supply and demand also plays a big role. Seed potatoes are sold as commercial potatoes if the seed price to seed producers is too low. Commercial farmers can buy seed potatoes from other seed potato companies if your price is not competitive.

19.2 Question 16.2: The use of international bases for price including the use of import and export parity pricing in the determination of local pricing;

19.2.1 Seed potatoes prices are determined locally, seed potatoes are not imported.

19.3 Question 16.3: The main drivers of cost; and

19.3.1 Most of the inputs such as fuel and fertilizer for farming are imported from overseas and their prices and the Rand currency are the main drivers for input cost. Transport plays a big role in distributing the produce. Seed potato farmers transport the produce to packhouses

and the seed to cold storage facilities and then again to commercial farmers all over South Africa.

19.4 Question 16.4: Certification costs in relation to seeds.

19.4.1

20. Question 17: Provide the following information about agricultural inputs that you sell and/or distribute (seeds, fertilizers, agrochemicals – herbicides, fungicides, and pesticides) for the past 5 years up to and including 2022. This information should be provided in Microsoft Excel:

20.1 Question 17.1: Total volume sold;

20.2 Question 17.2: Average selling prices;

20.3 Question 17.3: Rand and percentage markups;

20.4 Question 17.4: Rand and percentage gross profit margins; and

20.5 Question 17.5: Rand and percentage nett profit margins.

20.5.1

20.5.2

21. Question 18: Provide a list of top 10 customers (per product) of GWK in terms of revenue for the past 5 years up to and including 2022. In your response, please include the average selling prices, discounts and/or rebates applicable per product per customer, and their HDP status.

21.1

22. Question 19: Provide a list of bottom 10 customers (per product) of GWK in terms of revenue for the past 5 years up to and including 2022. In your response, please include the average selling prices, discounts and/or rebates applicable per product per customer, and HDP status.

22.1 Due to the changing of customers, it is not practicable to provide the bottom 10 customers over this period.

23. Question 20: Where there are appointed distributors of your products, kindly provide a list of (i) top 10 distributors and (ii) bottom 10 distributors and indicate the products that these distributors have been appointed to distribute. In your submissions, also provide information about revenue, average prices, discounts/rebates where applicable and HDP status.

23.1 No distributors have been appointed.

24. Question 21: Provide distribution Agreements that GWK has entered into with (i) top 10 distributors and (ii) bottom 10 distributors.

24.1 No distributors have been appointed.

25. Question 22: Provide the volume of sales of agricultural inputs which are generated through the "Khula! Inputs App" or any similar or competing online sales platform(s), in the past 5 years. In your response, please include the volume of these sales expressed as a percentage of total sales for agricultural inputs, average selling prices, discounts and/or rebates applicable per product per customer, and HDP and SMME status of these customers.

25.1 None.

26. Question 23: What are the barriers to entry for input manufacturers and suppliers? In your response refer to:

26.1 Question 23.1: Capital and infrastructure costs;

- 26.1.1 A seed potato farmer needs to invest a significant amount of capital in the specialised tools and machinery required for producing quality seed and also for delivering the end product in bags on pallets in the different seed sizes that the customer wants.
- 26.2 Question 23.2: Time required to recoup the costs of investment;
- 26.2.1 Typically longer than 5 years.
- 26.3 Question 23.3: Other sunk costs; and
- 26.3.1 The best seed potatoes are produced on fields that had no crop for more than 5 years, so there must be 5 fields to plant one crop every 5 years.
- 26.4 Question 23.4: Scale economy advantages.
- 26.4.1 Large scale producers are typically more successful, as smaller farming operation are not sufficiently profitable to afford all the required capital investments.
27. Question 24: Kindly identify and list any new entrant that has entered the market for the manufacturing of any of the agricultural inputs that you manufacture in the past 3 - 5 years in competition with GWK.
- 27.1 None that we are aware of.
28. Question 25: Kindly identify and list any firm that has exited the market for the manufacturing of any of the agricultural inputs that you manufacture in the past 3 - 5 years.
- 28.1 None that we are aware of.
29. Question 26: In relation to producers/growers as customers of agricultural inputs, provide a breakdown of the costs of agricultural inputs (disaggregated please) expressed as a percentage of your total costs. In your response indicate:

- 29.1 Question 26.1: Whether any increase in these costs is absorbed by the growers or if they are capable of being passed down the value chain.
- 29.1.1 GWK is not a producer/grower of potato seeds. Over the short term costs are absorbed by growers and then it will be passed on over time. The higher the cost the less hectares that are planted resulting in higher prices over time due to the limited supply of products.
- 29.2 Question 26.2: To what extent GWK is able to procure from local suppliers or manufactures and the price and quality of locally produced agricultural inputs compared to imports.
- 29.2.1 GWK only procures potato seeds from local producers.
- 29.3 Question 26.3: The extent which volume purchases have on the pricing of agricultural inputs.
- 29.3.1 We do not have any data to confirm the extent.
- 29.4 Question 26.4: The role (or lack thereof) of cooperatives and public sector agricultural support in the provision of competing inputs.
- 29.4.1 We believe that cooperatives can play a significant part in providing new varieties to compete in the commercial market and to the consumer.
30. Question 27: Provide a broad overview of the role cooperatives play in markets for fresh produce. In your response kindly refer to:
- 30.1 Question 27.1: The ability of cooperatives to lower costs for producers/ growers (especially in the small-scale/emerging producers/growers segment);
- 30.2 Question 27.2: The ability of cooperatives to create access to input markets for growers/produces (small-scale/emerging segment);
- 30.3 Question 27.3: The ability of cooperatives to ensure better pricing and service outcomes for growers/producers.

30.3.1 The concept of a co-operative is intended to create scale benefits and greater bargaining power as a collective. To our knowledge for seed potatoes, there are no specific cooperatives that conduct business with GWK for this purpose.

30.4 Question 27.4: Provide a list of the top 10 producer/grower cooperatives that have bought agricultural inputs from GWK for the past 10 years up to and including 2022. In your response, please include value of sales, volume of sales, and discount rate/rebates whichever applicable. Provide this information in Microsoft Excel format.

30.4.1 To our knowledge, no producer/grower cooperatives have bought agricultural inputs from GWK in recent history.

30.5 Question 27.5: Provide a list of the bottom 10 producer/grower cooperatives that have bought agricultural inputs from GWK for the past 5 years up to and including 2022. In your response, please include please include value of sales, volume of sales, and discount rate/rebates whichever applicable. Provide this information in Microsoft Excel format.

30.5.1 To our knowledge, no producer/grower cooperatives have bought agricultural inputs from GWK in recent history.

31. Question 28: In relation to growers as customers of agricultural inputs, to what extent has changes in climatic conditions or any other changing dynamics impacted on:

31.1 Question 28.1: The need to source more complex agricultural inputs;

31.1.1 We do not have any concrete data to answer the question.

31.2 Question 28.2: The increase in costs of agricultural inputs, particularly for small holder farmers;

31.2.1 We do not have any concrete data to answer the question.

31.3 Question 28.3: The extent to which access to improved seeds and intellectual property around seed varieties has created market barriers and high input costs for smaller farmers and growers; and

31.3.1 The biggest seed potato variety (Mondial) is now an open variety and can be produced by any seed potato farmer. The royalties on seed potatoes that is protected is around R20 per 25kg bag and that is to ensure new and improved varieties is identified, tested and available to all potato growers. Our seed potatoes of open varieties sell for the same prices as protected varieties.

31.4 Question 28.4: The extent to which access to more advanced fertilizers, agrochemicals (herbicides, fungicides and pesticides), and farming equipment has created market barriers and high input costs for smaller farmers and growers.

31.4.1 We do not have any concrete data to answer the question.

DISCRIMINATION ON INPUTS

32 Question 29: Explain the factors that are considered in determining the pricing of the major key inputs?

32.1 Market dynamics together with supply and demand, as well as available prices mainly drive pricing strategies.

33. Question 30: Do small-scale/ emerging producers/growers have access to similar trading terms (e.g., quality, price, discount, rebates etc.) as those of large-scale farmers? In your explanation, provide supporting documents.

33.1 Yes, GWK has a sales policy for discount that is available for all potato farmers. Any potato farmers gets a 5% discount for cash payments on orders directly placed with GWK.

34. Question 31: What are commercial terms offered by GWK to large-scale farmers that may not be accessible to small-scale farmers?

31.1 The same commercial terms are offered by GWK to large-scale farmers and small-scale farmers.

35. Question 32: Provide the factors that are considered when determining the retail prices for the key input (seeds, seedlings, fertiliser, pesticides, herbicides)?

35.1 The price of commercial produce (price to produce potato seeds) has the biggest factor, because it determines the success of the commercial farmer, which is mainly driven by that specific farmer's input costs.

36. Question 33: What are the main factors that are considered when determining discounts, rebates, and pricing policies for key inputs? Provide documentary evidence and also indicate the extent to which you may offer a discount for each key input product sold, where applicable.

36.1 GWK has a sales policy for discount that is available for all potato farmers. Any potato farmers gets a 5% discount for cash payments on orders directly placed with GWK.

37. Question 34: What are the local and international pricing dynamics that affect growers and how these can be managed best?

37.1 Supply and demand, as well as quality determines price. GWK only sources from the local market.

38. Question 35: Are there any barriers that emanate from the pricing dynamics across the input level of the fresh produce markets?

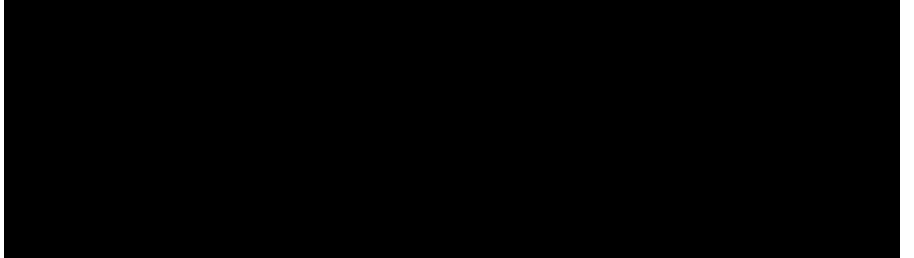
38.1 None that aware of.

ACCESS TO FINANCIAL SUPPORT

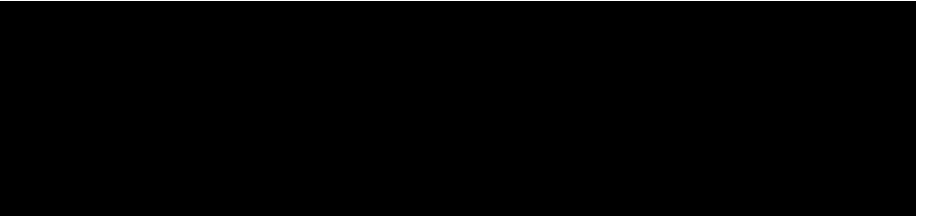
39. Question 36: Does GWK have policies/support mechanisms to assist SMEs and/or firms owned and controlled by historically disadvantaged persons? If yes, provide documentation which details the support

provided. If no such documentation exists, please describe the nature of the support provided. [Confidential]

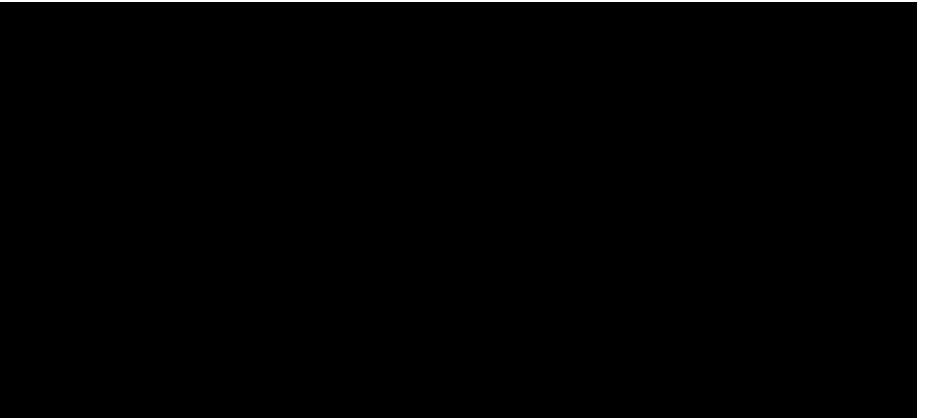
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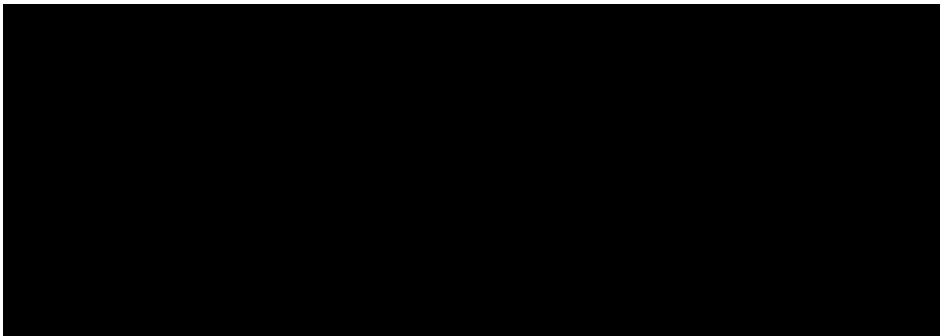
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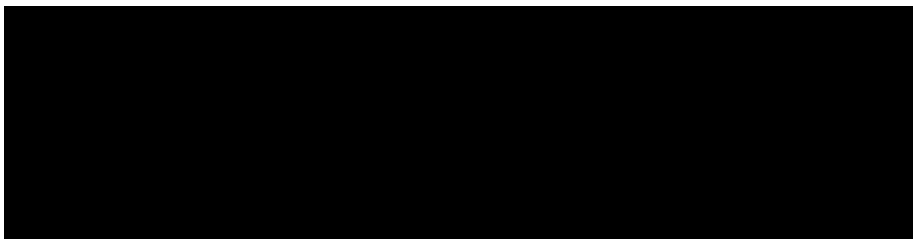
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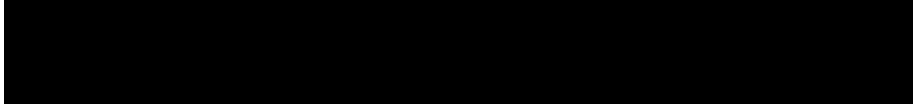
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39.1.4.1



39.1.4.2





39.1.4.3

39.1.5

39.1.6

39.2

40. Question 37: If your company operates internationally, does GWK have policies/support mechanisms to develop South African businesses? If yes, provide documents which detail any policies/mechanisms to support South African businesses. If no such documents exist, please describe mechanisms used by your company to support and/or develop South African businesses.

40.1 GWK mainly operates in South Africa, and thus actively supports the development of South African business.

INQUIRY SCOPE AND ISSUES

41. Question 38: Are there any additional areas of inquiry into the market for fresh produce not contained in the Terms of Reference that you believe are important for the Inquiry to cover as part of its work. If so, identify the specific area of inquiry or issue and the reasons why the Inquiry should include it in the scope.

41.1 No additional areas of importance to cover.

42. Question 39: Are there any other features of the market for fresh produce and the participation therein in South Africa of relevance to the

Inquiry and which has not been traversed in the questions above? If so, please provide details as to the feature and the relevance for the Inquiry.

42.1 No further features which have not been addressed in the questions above.

43. Question 40: Are there any other submissions GWK would like to make of a general nature?

43.1 No further submissions of a general nature.

Yours faithfully

Managing Director
Griekwaland Wes Korporatief Limited

GWK

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