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CONFIDENTIAL : SEE ATTACHED CC7 FORM

The Competition Commission

Att: Mr Ian Mrozek / Mr Ruan Mare

By email: ianm@compcom.co.za / ruanm@compcom.co.za

29 May 2023

Dear Sirs

RE: REQUEST FOR INFORMATION RELATING TO THE FRESH PRODUCE MARKET INQUIRY (CASE NUMBER: 2022APR0051)

1. We represent Pick n Pay Stores Limited and its wholly owned subsidiary, Pick n Pay Retailers (Pty) Ltd (collectively referred to as “**Pick n Pay**”).
2. We refer to the letter addressed by the Commission to Pick n Pay, dated 31 March 2023, containing a request for information in relation to the Fresh Produce Market Inquiry (“**the FPMI**”).
3. For ease of reference, and so as to ensure that the information provided is accurately correlated with each request, we have repeated each question, followed by Pick n Pay’s response¹.
4. Please note that information contained in this letter and its annexures contains highly sensitive commercial information belonging to Pick n Pay, which would cause significant damage to its business if it were disclosed to third parties. We attach the requisite CC7 form in which Pick n Pay claims confidentiality over the information and documentation provided in response to the information request.

¹ It should be noted that the facts reflected in this letter are included on the instructions of Pick n Pay. Accordingly, we have not prefaced every statement with “*we are advised*” or “*we understand*” to facilitate the reading of the letter.

Competition Law Specialists • Litigation Attorneys • Regulatory Advice • White-Collar Crime

Directors: Anthony Norton • Anton Roets • Paul Russell • Warwick Radford • Michelle Rawlinson • Nicola Ilgner

Vice President - Economics: Avias Ngwenya

Senior Associates: Nicci van der Walt • Melissa Steele • Nina Greyling

Company Registration No.: 2009/006902/21 • VAT Registration No.: 4510252580

“BACKGROUND AND BUSINESS ACTIVITIES

1. Briefly describe the business activities of Pick n Pay and how it is positioned relative to other businesses that sell fresh produce directly to the end-consumer.”

5. The Pick n Pay group is a retail business in the fast-moving consumer goods industry which operates through multiple store formats and three different brands (Pick n Pay, Boxer and TM Supermarkets) catering for all demographics and customer segments. Pick n Pay seeks to procure quality products at the best available prices enabling it to provide customers with a range of high-quality food, grocery, clothing, liquor and general merchandise products at competitive prices.
6. In FY2022, it was estimated that Pick n Pay held an approximate 16% share in the formal food and grocery market.
7. We attach, marked “**Annexure P1**”, a copy of Pick n Pay’s Integrated Annual Report 2022 which provides more information in relation to Pick n Pay’s activities.

“2. If Pick n Pay operates multiple businesses, provide the most recent organogram depicting the companies directly and indirectly controlled by your parent company and all its subsidiaries.’

8. We attach, marked “**Annexure P2**”, a copy of Pick n Pay’s group organogram.

“3. Indicate if Pick n Pay or related operating companies are owned and controlled by Historically Disadvantaged Persons (“HDPs”).”

9. We attach, marked “**Annexure P3**”, a copy of Pick n Pay’s most recent BEE Certificate.

“4. Provide the most recent audited annual financial statements (AFS) for the South African operations of Pick n Pay. If the AFS cover a number of businesses, then provide the management accounts for the South African business alone.”

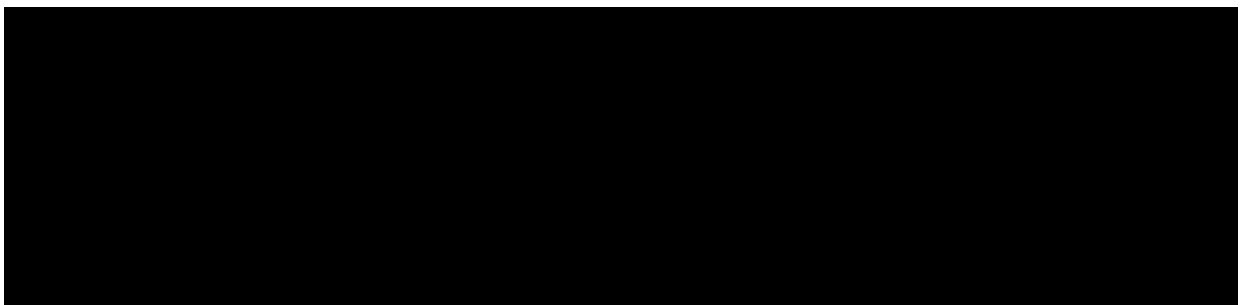
10. We attach, marked “**Annexure P4**”, Pick n Pay’s Summarised Group Annual Financial Statements for the period ending 27 February 2022.

“5. 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, if not, indicate).”

11. For purposes of the inquiry, Pick n Pay is of the view that sufficient financial information is contained in the annual financial statements, which have been provided in response to question 4. In the event that the Commission requires any additional or more detailed information, please advise us accordingly and Pick n Pay will consider any further requests in this regard.

“6. Provide illustrative examples of any monthly management reports on key metrics used to track the performance of Pick n Pay’s business in relation to fruits and vegetables division/segment. If no such reports exist, then provide a list of the key performance metrics that management uses to track the performance of the business.”

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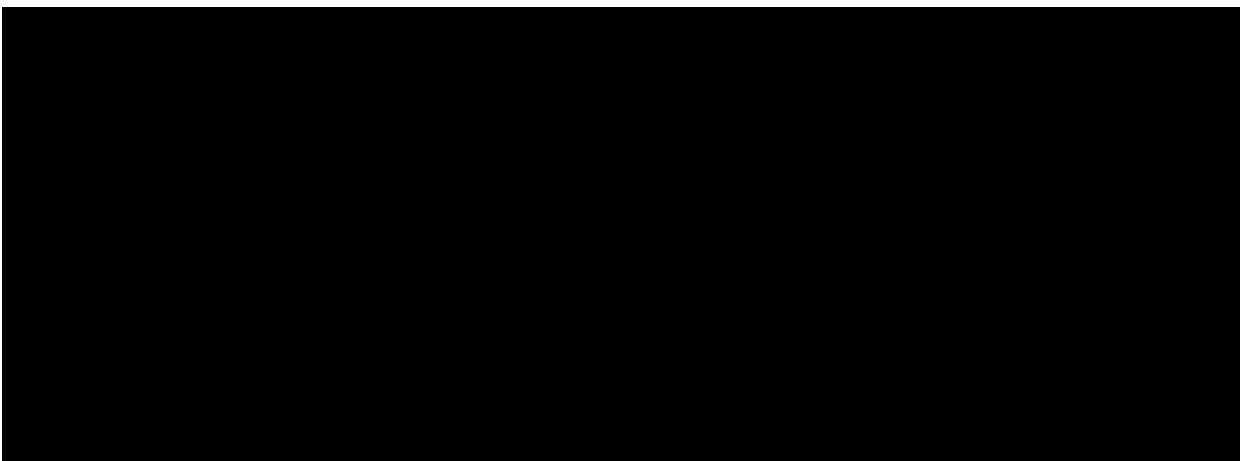
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“7. Provide all internally and externally commissioned research and/or studies conducted in the past 5 years on the consumer side of the business, in relation to the fresh fruits and vegetable segment/unit, and the market position of your business relative to competitors.”

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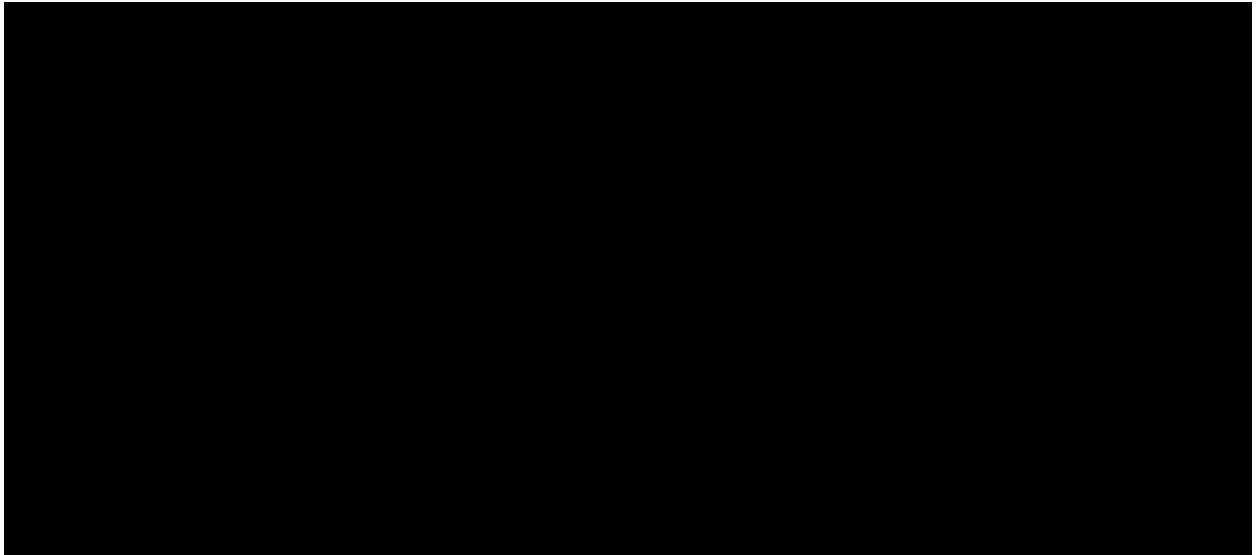
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relevant commodities identified in para 6 above) for the purposes of your retail operations/activities. In your response and where relevant/applicable, kindly refer (but do

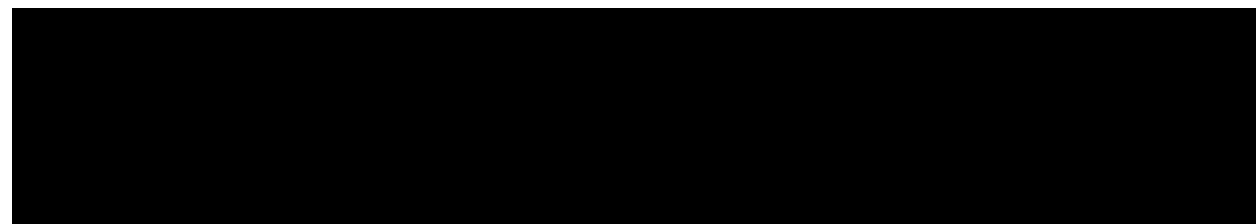
not limit your description) to the following and provide underlying documents/reports/data for your response”

24. At the outset, it is important to note that the procurement of fruit and vegetables by Pick n Pay, takes place in one of two ways for the Pick n Pay branded stores:
- 24.1. the centralised procurement and supply of produce directly to one of Pick n Pay’s four distribution centres around the country, which is managed by Pick n Pay’s Corporate division; and
 - 24.2. produce which is procured directly by individual franchisees which is de-centralised and not controlled by Pick n Pay.

25.

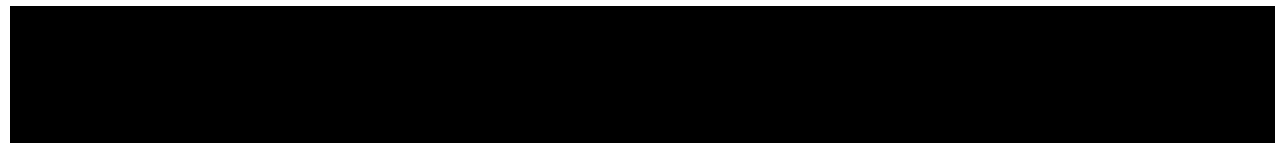


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8.1 How you identify producers/farmers/market agents/wholesalers etc. to buy from and/or participate in your supply chain network.

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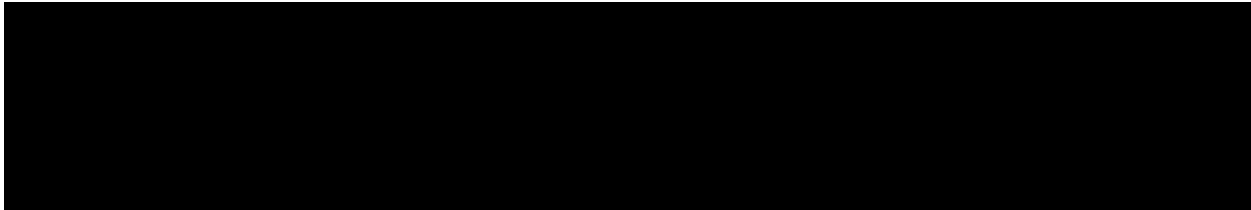


- 27.1. through Pick n Pay’s small business development programme, which is explained in more detail in response to the questions below;
 - 27.2. word of mouth from other stakeholders and/or networks within the industry (for example, sometimes a grower may know of another grower of the required produce);
 - 27.3. industry editorials, internet or social media searches; or
 - 27.4. identification of brand names in the market – awareness of suppliers that market their crop under their own name through which contact details can be found and contact made.
28. Alternatively, potential suppliers wishing to supply Pick n Pay may sometimes approach Pick n Pay directly with a view to becoming a supplier to Pick n Pay. In such circumstances, Pick n Pay may engage the supplier if there is a need for the product which the supplier wishes to provide to Pick n Pay. Given the *ad hoc* nature of such occurrences, no records are kept for reference purposes.

8.2 The role of market agents and wholesalers operating at or around the national fresh produce markets and any other relevant feature.

- 29. Pick n Pay does not source produce from the national fresh produce markets and is therefore not in a position to respond to this query.

8.3 The role of online trading platforms for e.g. “Khula!” and the extent to which Pick n Pay uses these platforms in relation to fruits and vegetables division/segment.

- 30. 

8.4 The role of contracts and the different types of contracts as a governance mechanism in your supply chain.

31. Every supplier of fresh produce to Pick n Pay concludes a standard supplier agreement with Pick n Pay. Given that Pick n Pay has over time developed standardised systems in place for procurement of products, having a standardised set of agreements ensures that Pick n Pay is able to effectively maintain such systems.
32. The standardised supplier agreement which is currently in use by Pick n Pay was introduced in 2016. A copy of the current agreement is attached marked “**Annexure P20**.”

33.



8.5 The location of the farmer/producer/wholesaler.

34. This is not necessarily a determining factor when selecting a farmer/producer/wholesaler to supply Pick n Pay with fresh produce. Provided that the produce is delivered to Pick n Pay's distribution centres and that the produce complies with Pick n Pay's quality standards on delivery, the location of the supplier is not a concern for Pick n Pay.
35. Location will, however, be a factor insofar as the geographic location must be conducive to the growing of a particular crop. In other words, the climatic conditions need to be suitable for the production of the crop in question. For example, the climate in Limpopo is not conducive to growing apples because of the harsh summers and low winter rainfall experienced in the region. This may result in circumstances where certain produce is grown in one part of the country and then transported to other parts of the country in order to ensure that it is widely distributed throughout the country.

8.6 Scale of production (volumes in terms of tons/kg).

36. Pick n Pay does not typically stipulate any pre-determined scale of production required of fresh produce suppliers in order to supply fresh produce to Pick n Pay. Each supplier is considered on a case by case basis.

8.7 Ability to comply with the minimum requirements for participation in your supply chain.

37. Pick n Pay's primary requirements of a supplier of fresh produce is compliance with national legislation and regulations pertaining to quality, grading, packing and marking of fresh produce, as well as compliance with food safety requirements, and Pick n Pay's own product specifications and audit requirements.
38. More detail in relation to the applicable national legislation and regulations as well as Pick n Pay's own product specifications and audit requirements, is set out in response to question 30 below.
39. Furthermore, Pick n Pay's supplier registration pack sets out the terms and conditions of supply to Pick n Pay, a copy of which has been attached in response to question 8.4.

8.8 Packaging and any other value addition to the produce.

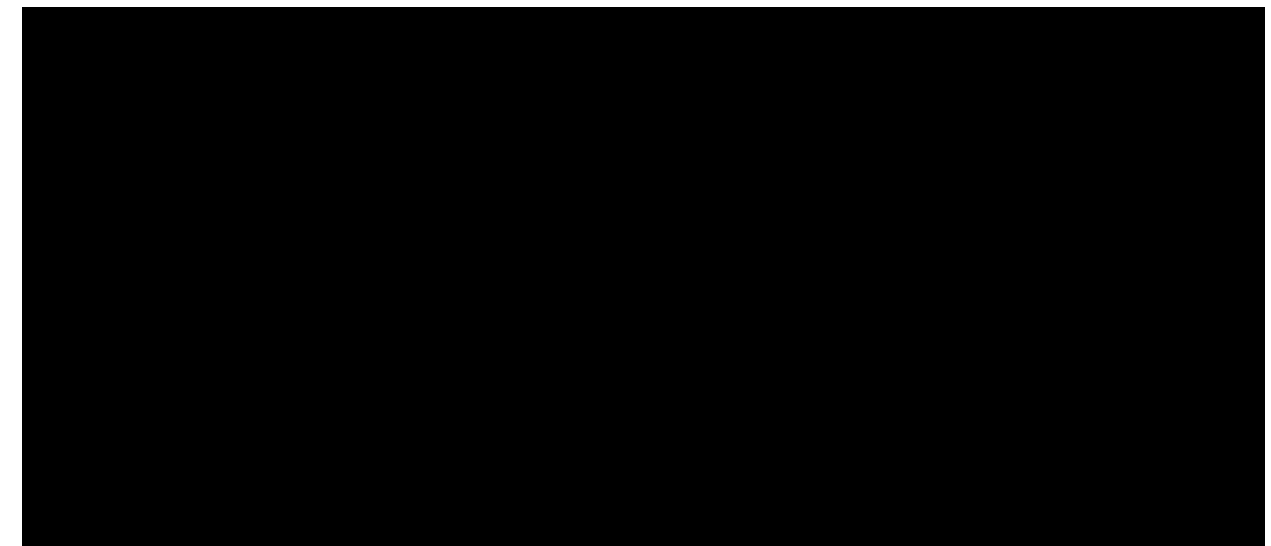
40. Insofar as packaging is concerned, fresh produce supplied to Pick n Pay needs to comply with the regulations referred to above pertaining to the quality, grading, packing and marking of each category of fruit and vegetable. Further detail in this regard has been provided in response to question 30 below.
41. In addition, products supplied to Pick n Pay under the “PnP” or “No Name” brands need to adhere to Pick n Pay’s packaging requirements as per the Pick n Pay product specifications. These specifications are also dealt with in more detail in the response to question 30 below.

8.9 How produce is delivered to your Distribution Centres (DCs) and the location of DCs.

42. The Pick n Pay distribution centres are located in Johannesburg, Cape Town, Durban and Port Elizabeth.

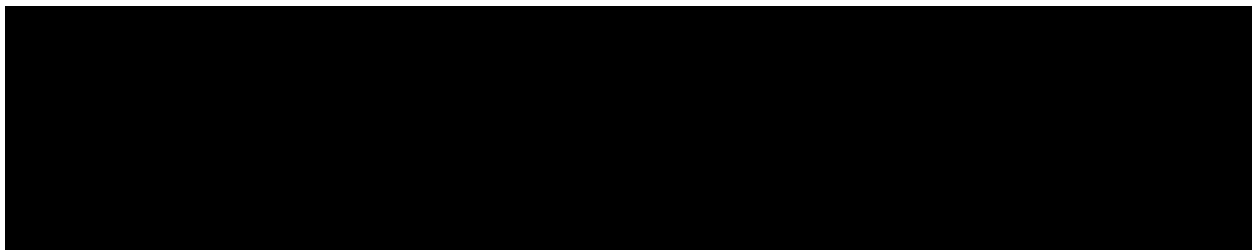
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8.10 The costs associated with activities of moving products from farm gate or primary source (e.g. wholesaler, national fresh produce market) to your retail outlets.”

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“9 Kindly provide the names and contact details of growers with whom Pick n Pay contracts directly (where applicable) for each of the relevant commodities identified in para 6 above as follows:

9.1 The 10 largest direct contracted growers by sales in the last 5 financial year (2017 –

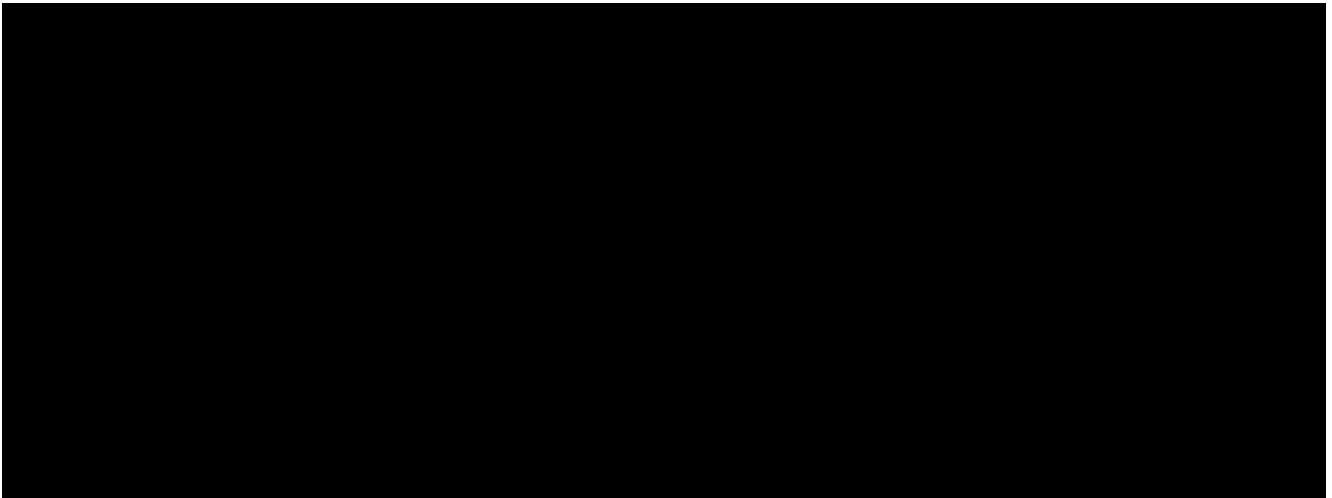
² A consolidator buys produce from growers and partner-owned farms and supplies the produce to Pick n Pay. Pick n Pay has no influence over the source of the product, but it has visibility from a traceability and food safety perspective.

9.2 *The 10 smallest direct contracted growers by sales in the last 5 financial year (2017 – 2022).*

9.3 *The 10 most recent potential direct growers who engaged with Pick n Pay but did not end up using Pick n Pay (either because they did not meet the Pick n Pay requirements or on their own accord).*

48. Pick n Pay's fresh produce team receives sporadic calls and email requests from prospective suppliers seeking information in relation to supplying fresh produce to Pick n Pay. The team will typically explain the basic requirements and processes from a Pick n Pay perspective, however, many of the enquiries are from companies or individuals who are not currently engaged in the production of fresh produce and Pick n Pay therefore does not retain records of all of these enquiries.

- *Examples of new suppliers enquiring to supply PnP:*



9.4 *Provide the actual contracts that you entered into with these growers for the past 5 years (2017 – 2022).*

49. A copy of the current standard supplier agreement which Pick n Pay enters into with fresh produce suppliers has been provided in response to question 8.4.

“10. Provide the following price and costing information for each of the relevant commodities identified in para 6 in the past 5 years:

10.1 *Total revenue earned*

10.2 *Total volumes sold*

10.3 *Average selling prices*

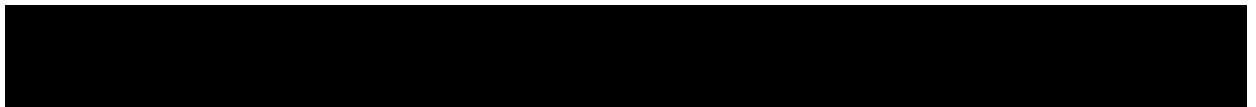
10.4 *Total cost of sales*

10.5 *Rand mark-ups and % mark-up*

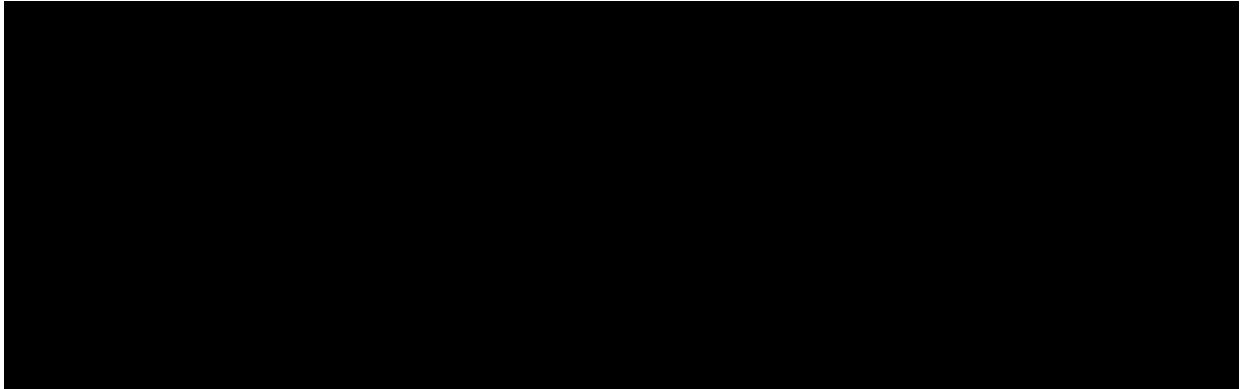
10.6 *Rand gross profit margin and % gross profit*

10.7 *Rand net profit margin and % net profit margin.”*

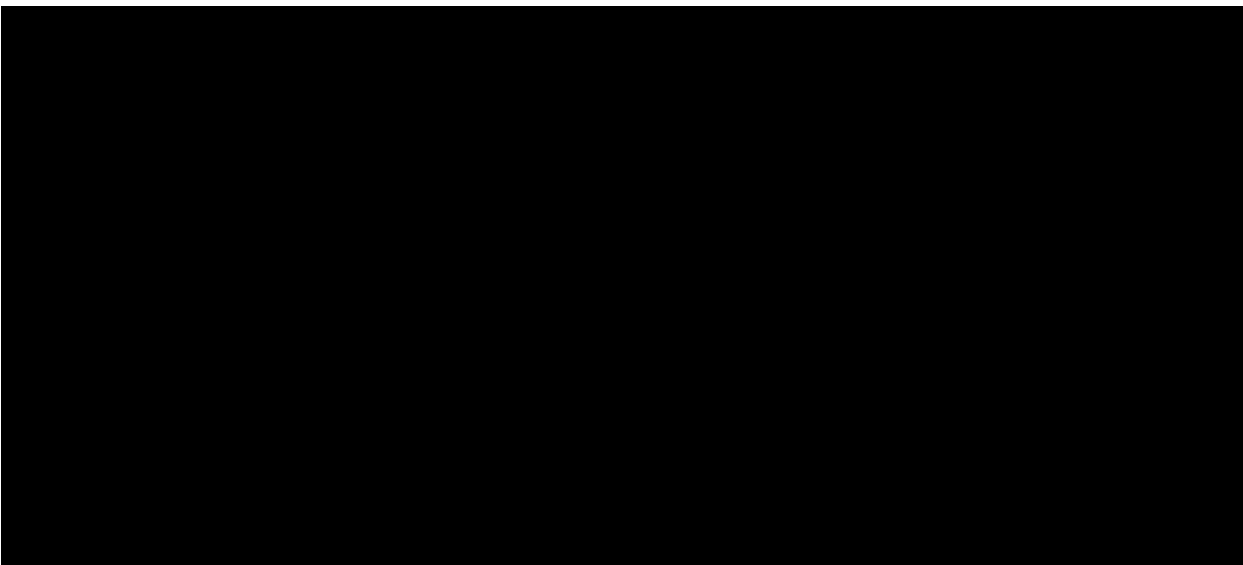
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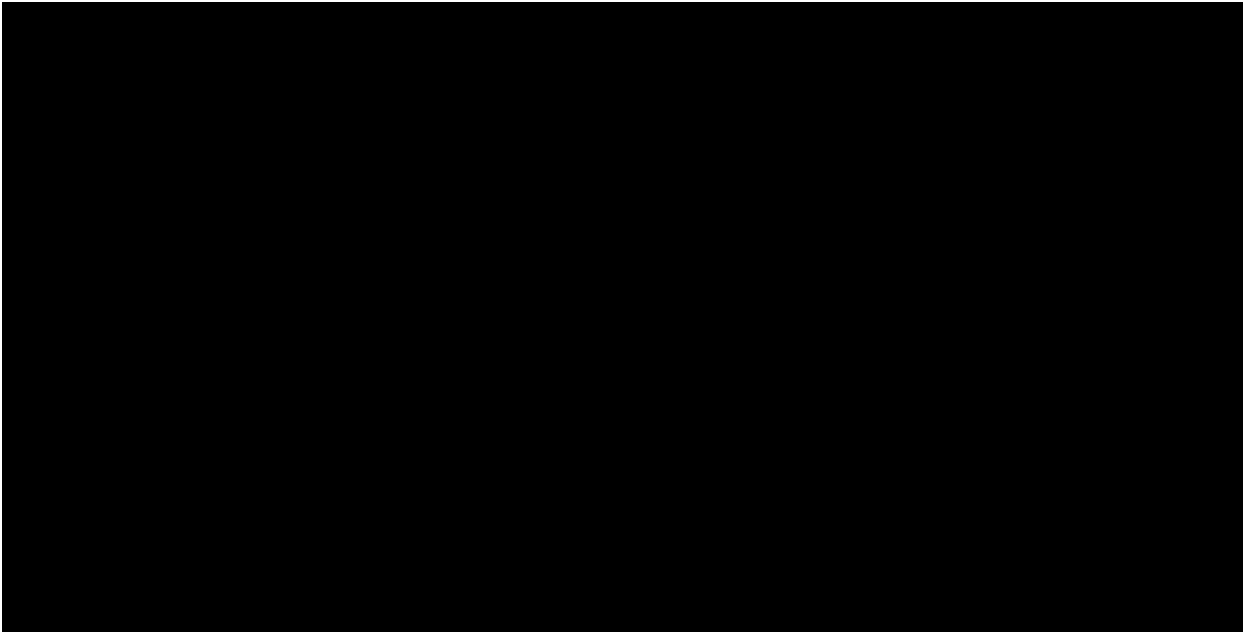
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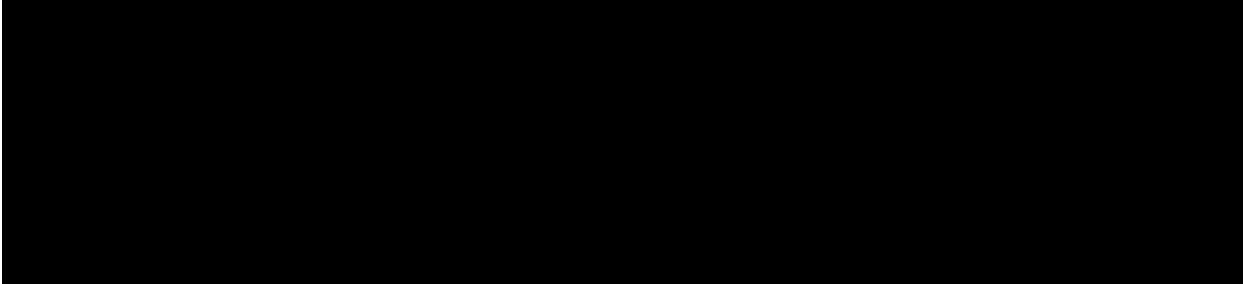
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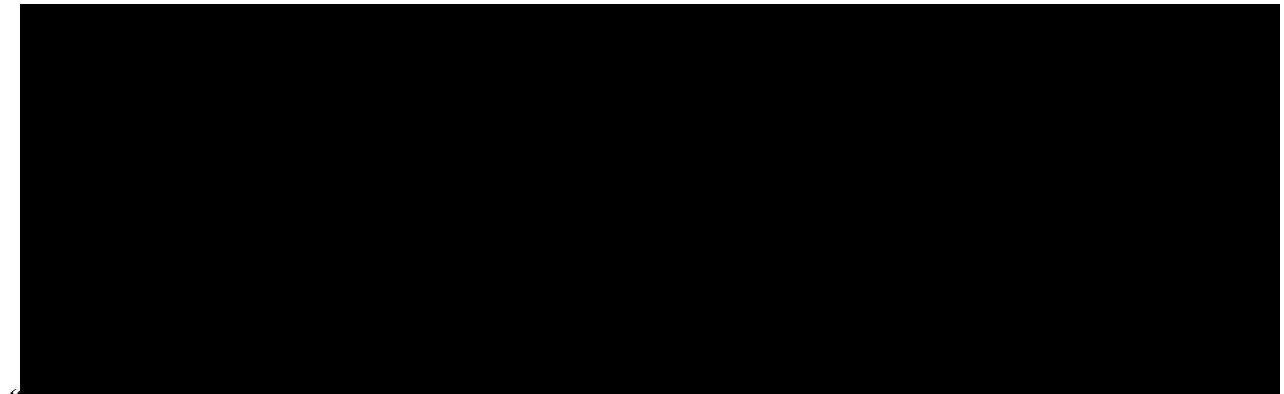
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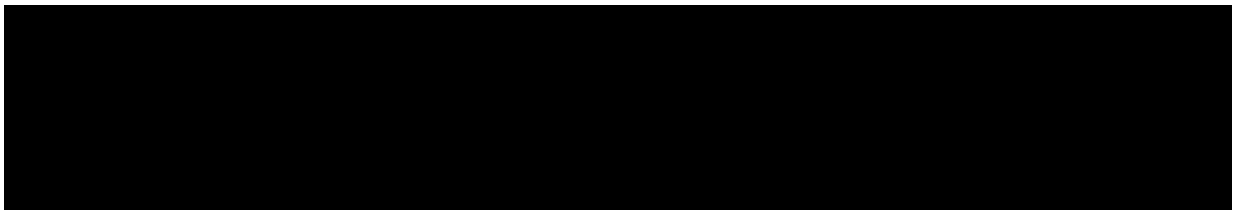


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11. Explain Pick n Pay 's understanding of the fresh produce value chain (all levels and players) and indicate where your firm fits within the value chain. Provide a broad overview of the regulatory framework in relation to the market for fresh produce. In your response kindly refer to the role of regulatory bodies operational within the value chain and how they contribute towards the overall efficiency of the value chain.”

56.



- 57. The producer will pack the product according to specifications stipulated by the Department of Agriculture, Land Reform and Rural Development (“DALRRD”) and, in addition, specifications agreed with Pick n Pay.
- 58. An assignee from DALRRD may inspect any consignment delivered to the distribution centres to ensure that the product is compliant with the specific regulations. If the DALRRD assignee picks up non-compliant product, a directive to comply will be issued.
- 59. In addition, the Pick n Pay Quality Control team inspects all fresh produce delivered to the distribution centres and, if any consignment is found to be non-compliant, it will be rejected by the internal Pick n Pay Quality Control team.
- 60. The sale of the fruit and vegetable products which are the subject of the market inquiry, are subject to, inter alia, the provisions of the Foodstuffs, Cosmetics and Disinfectants Act, 54 of

1972, the Agricultural Product Standards Act, 119 of 1990, and any regulations issued under the two Acts. The applicable regulations include the following:

- 60.1. Regulations relating to the grading, packing and marking of apples intended for sale in the Republic of South Africa (published in Government Notice No. R. 911 on 12 August 2016), a copy of which is attached marked “**Annexure P23**”.
- 60.2. Regulations relating to the grading, packing and marking of pears destined for sale in the Republic of South Africa (published in Government Notice No. 587 on 27 May 2016), a copy of which is attached marked “**Annexure P24**”.
- 60.3. Regulations relating to the grading, packing and marking of fresh vegetables intended for sale in the Republic of South Africa (published in Government Notice No. R. 364 on 24 May 2013), a copy of which is attached marked “**Annexure P25**”.
- 60.4. Regulations relating to the grading, packing and marking of potatoes intended for sale in the Republic of South Africa (published in Government Notice No. R. 273 on 1 March 2019), a copy of which is attached marked “**Annexure P26**”.
- 60.5. Regulations relating to the grading, packing and marking of onions intended for sale in the Republic of South Africa (published in Government Gazette No. 192 on 13 March 2015), a copy of which is attached marked “**Annexure P27**”.
- 60.6. Regulations relating to the grading, packing and marking of pineapples intended for sale in the Republic of South Africa (published in Government Notice No. 538 on 9 June 2017), a copy of which is attached marked “**Annexure P28**”.
- 60.7. Regulations relating to the grading, packing and marking of bananas intended for sale in the Republic of South Africa (published in Government Gazette No. 635 on 7 July 2017), a copy of which is attached marked “**Annexure P29**”.
- 60.8. Regulations relating to the grading, packing and marking of citrus fruit intended for sale in the Republic of South Africa (published in Government Notice No. 963 on 30 November 2012), a copy of which is attached marked “**Annexure P30**”.

- 60.9. Regulations relating to the grading, packing and marking of table grapes intended for sale in the Republic of South Africa (published in Government Gazette No. R588 on 27 May 2016), a copy of which is attached marked “**Annexure P31**”.
- 60.10. Regulations relating to the quality, grading, packing and marking of tomatoes intended for sale in the Republic of South Africa (published in Government Notice No. R. 750 on 3 October 2014), a copy of which is attached marked “**Annexure P32**”.
- 60.11. Regulations governing the maximum limits for pesticide residues that may be present in foodstuffs (published in Government Notice No. GNR. 246 on 11 February 2019), a copy of which is attached marked “**Annexure P33**”.
61. The regulations referred to above which relate to the quality, grading, packing and marking of fruits and vegetables are prescribed by the Minister of Agriculture, Forestry and Fisheries under section 15 of the Agricultural Product Standards Act, 119 of 1990, and stipulate, inter alia, the manner in which the products are classed, the standards applicable to each class, the manner in which the product will be packaged (including containers to be used for packaging, packing requirements, material used for packaging etc.), the requirements in relation to the marking of the containers in which the products are packed, the description of the products, the manner in which the products must be displayed, procedures applicable to sampling of the products, the methods of inspection of the products (including aspects such as the external appearance, condition and size of the product, uniformity, internal quality defects, ripeness, etc.), determination of the weight of the product, and offences and penalties applicable to any person who contravenes the provisions of the regulations.
62. The regulations pertaining to the maximum limits for pesticide residues that may be present in foodstuffs, are prescribed by the Minister of Health in terms of section 15 of the Foodstuffs, Cosmetics and Disinfectants Act, and provides maximum amounts of different chemical substances which may be present in different types of fruit and vegetables.
63. In addition to the above, there are a number of other standards which may apply to the products which are the subject of the Fresh Produce Market Inquiry including standards set out in the Food Hygiene Management Standard (SANS 100049), Guidelines on the application of ISO

9000:2001 for the Food Drink Industry (SANS 15161), and the Handling of Chilled and Frozen Foods standard (SANS 10156).

“12. Does Pick n Pay procure any fresh produce from a National Fresh Produce Market? If yes, provide a broad overview of the process required to move produce through the levels of the value chain from purchasing, storage, packing, grading, transportation to the NFPMs, and any post market (NFPMs) logistics.”

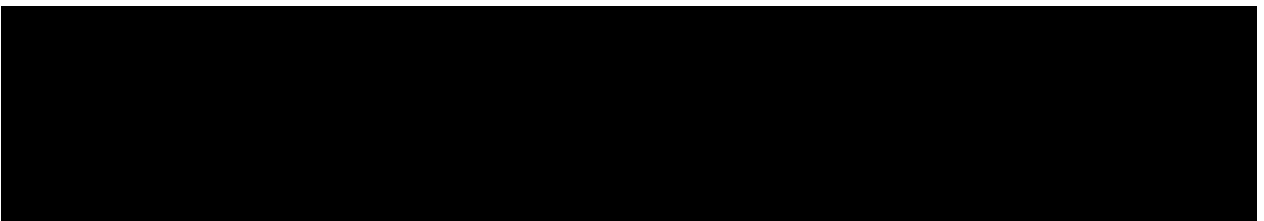
64. Pick n Pay does not buy any fresh produce directly from the National Fresh Produce Market.

“13. What is the proportion of products that you procure from NFPM versus what you procure directly from farmers? Provide these estimates for the products of interest that you sold in the past 5 years (2017 – 2022).”

65. Pick n Pay corporate stores do not procure fresh produce from a NFPM. However, there is a possibility that Pick n Pay franchise stores could conceivably procure products from an NFPM, but Pick n Pay does not have any information in this regard.

“14. Does Pick n Pay procure any fresh produce from a Wholesaler? To what extent are the post harvesting services provided by third-party service providers (including but not limited to: storage, breaks in the cold chain, grading and selection, packaging, and transportation)? In your response indicate how these services are priced, whether these costs are absorbed by the growers or passed on to the wholesalers?”

66.



“15. Provide a list of third-party logistics service providers who provide logistics services (including but not limited to storage, breaks in the cold chain, grading and selection, packaging, and transportation) to yourselves and producers.”

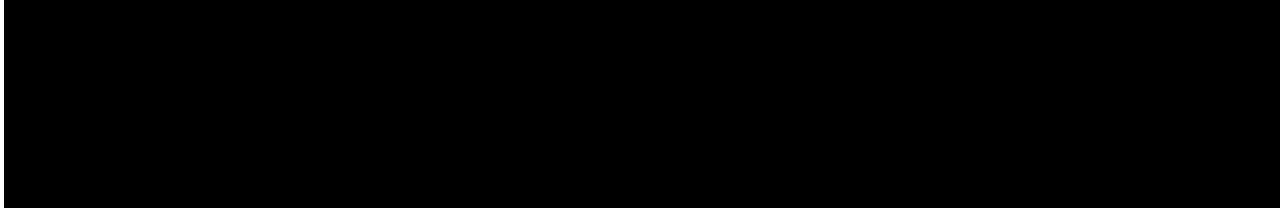
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68. Pick n Pay cannot provide information in relation to the third-party logistics providers used by producers. This information will need to be obtained from the producers themselves.

“16.Does Pick n Pay require a mandatory cold chain certification process for the domestic market, similar to the process followed by the Perishable Produce Export Certification Board (PPECB) in the export markets?”

69.



“17.Is there a direct correlation between the quality of the cold chain used and the quality of the fresh produce supplied? In your response also refer to wastage and how the quality of the cold chain impacts on wastage and spoilage.”

70. Fresh produce can be categorized into ambient and cold chain products.

71. The maintenance of the cold chain in relation to products that are required to be refrigerated is imperative to ensure that the product’s quality, safety and shelf life is maintained. If the cold chain is not maintained, it will have an impact on shelf life and will increase wastage and spoilage.

72. When fresh produce is exposed to certain temperature parameters and the temperature fluctuates, there is a direct effect on the quality of the product. Temperature fluctuations result in structural changes to the produce that stimulate the growth of micro-organisms that can cause product to deteriorate resulting in a reduction in shelf life, thus resulting in higher wastage due to spoilage.

73. There is a direct correlation between the quality of the cold chain and the quality of fresh produce supplied.

“18. Indicate the relative importance of NFPMs as a route to market for producers compared to other direct market platforms (online trading platforms such as khula!, direct contracting with retailers, wholesalers, and processors)?”

74. This question appears to be relevant to producers and is not something which Pick n Pay is able to respond to.

“19. Identify the leading NFPMs operating in each province, including their relative size based on buyers, value of sales and revenues (overall and for the individual producers selling at the NFPM).”

75. Pick n Pay does not have this information.

“20. Indicate whether there is a history of entry and exit by other fresh produce markets (other than the NFPMs) operating in South Africa?”

76. Pick n Pay does not have this information.

“21. Have any other fresh produce markets (other than the NFPMs) expanded to such an extent that they increasingly represent an alternative to the NFPMs?”

77. Pick n Pay does not have this information.

“22. Explain the price setting mechanisms which pertain to the NFPMs and the role of agents in determining the daily spot price for fresh produce? In your response refer to:

22.1 Real time tracking of daily volumes and prices at the NFPM;

22.2 Availability of historic pricing and volume data at the NFPM;

22.3 Real time tracking of daily volumes and prices across each NFPM;

22.4 Availability of historic pricing and volume data across each NFPM;

22.5 Determination of agent’s Commission;

22.6 To what extent do these factors listed in 22.1 – 22.6 above contribute to buyers and producers preferring to use larger regional NFPMs over their smaller local NFPMs? In your response identify any other factors that may contribute to this form of preferencing?

22.7 Rules governing the conduct of producers, agents, and buyers at the NFPM;

22.8 Grading systems and rules governing grading of fresh produce at NFPMs;

22.9 Allocation of floor space across the trading floor of the NFPMs; and

22.10 The role of intermediaries operational at the NFPMs in relation to grading and quality assurance checks, packaging, weighing, health and safety requirements and certifications, offloading and transportation services, and onward logistics services. In your response also refer to the way in which the price of these particular services is determined.”

78. Pick n Pay does not have this information.

“23. Indicate to what extent wholesalers are operational at the NFPMs? In your response kindly refer to:

23.1 Whether wholesalers are permitted to operate at the NFPMs and if so on what terms?

23.2 Whether wholesalers are also mandated to purchase fresh produce from agents or whether they are permitted to buy directly from the producers?”

79. Pick n Pay does not have this information.

“OTHER PLATFORMS AS A ROUTE TO MARKET

24. Indicate to what extent large scale buyers such as Pick n Pay are contracting directly with selected growers for their supply of fresh produce for each of the relevant commodities identified in para 6 above. In your response refer to:

24.1 The identity of these buyers and growers;

24.2 The selection criteria and appointment process followed in entering into these agreements;

24.3 The nature and terms of these agreements including exclusivity and or volume commitments;

24.4 The pricing mechanisms used in determining the selling price of the fresh produce including the determination of price increases over time;

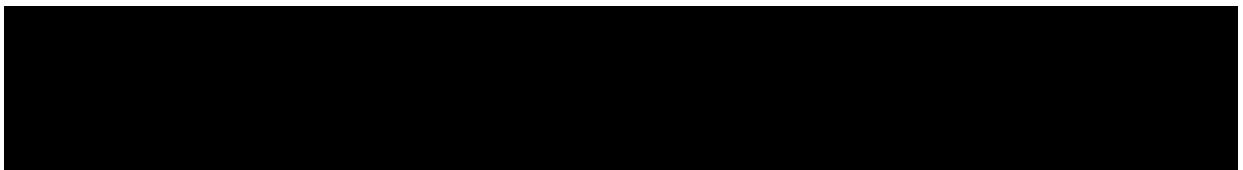
24.5 The pricing mechanisms including mark-ups and gross and nett margins of retailers, processors, and wholesalers;

- 24.6 In relation to pricing, indicate whether there is a link between the price for the fresh produce produced by the growers and the final retail price obtained;*
- 24.7 To what extent are the benefits of major increases in the retail price as a result of increased costs being passed down to the growers;*
- 24.8 The duration of these agreements including renewal periods and terms;*
- 24.9 Levels of investment funding by the buyers and the terms attached thereto;*
- 24.10 Who is responsible for the logistics costs (including but not limited to: storage, breaks in the cold chain, grading and selection, packaging, and transportation) incurred in getting the produce from farm gate to the agreed destination (e.g., Distribution Centres);*
- 24.11 To what extent are the post harvesting services provided by third-party service providers (including but not limited to: storage, breaks in the cold chain, grading and selection, packaging, and transportation)? In your response indicate how these services are priced, whether these costs are absorbed by the growers or passed on to the wholesalers?*
- 24.12 Provide a list of third-party logistics service providers who provide logistics services (including but not limited to storage, breaks in the cold chain, grading and selection, packaging, and transportation) to producers.*
- 24.13 Provide a breakdown of these costs (disaggregated please) expressed as a percentage of total cost; and*
- 24.14 Quality control, health and safety requirements and verifications, including the costs associated with meeting these standards and requirements.”*

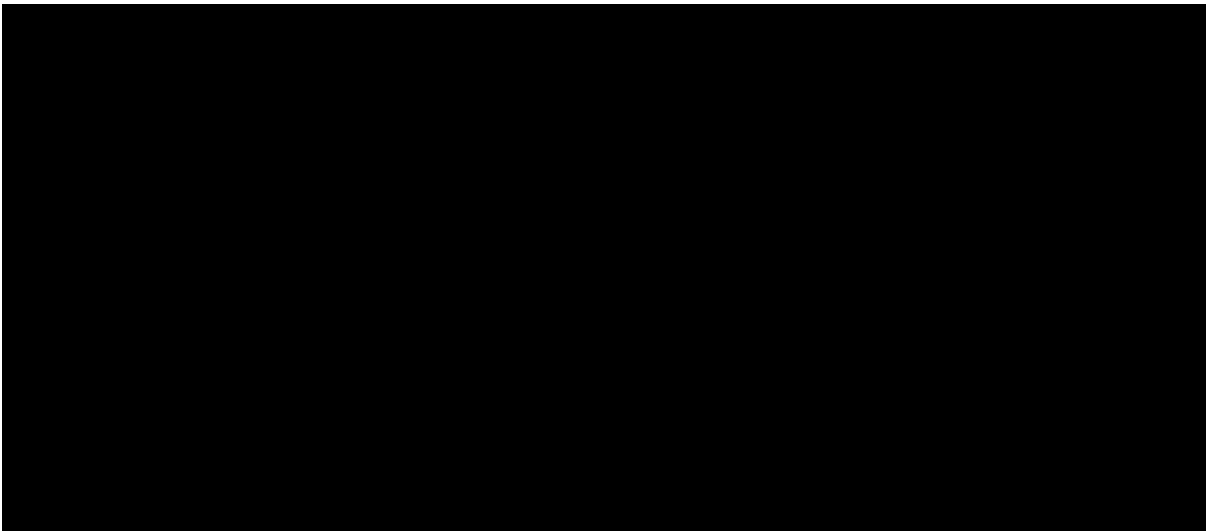
80. Pick n Pay buys from large as well as small producers, and seeks to source fresh produce from a large array of suppliers. Pick n Pay has a specific small business development programme in place, which is designed to assist small suppliers to grow their businesses by accelerating them into the supply chain. (See the response to question 37 below for more information in this regard.)

81. Pick n Pay's selection criteria and appointment process in relation to fresh produce suppliers would be similar to any other. Where there is a need for a particular product, a potential grower/supplier will be identified (from the sources described in response to question 8.1, namely, word of mouth, industry websites, and identification of growers in the trade). The appointment process involves making initial contact with the potential supplier to determine if there is a mutual willingness to engage in relation to the potential supply of produce to Pick n Pay, following which the standard supplier agreement and Pick n Pay specific requirements would apply (as described elsewhere in this response).

82.



82.1.

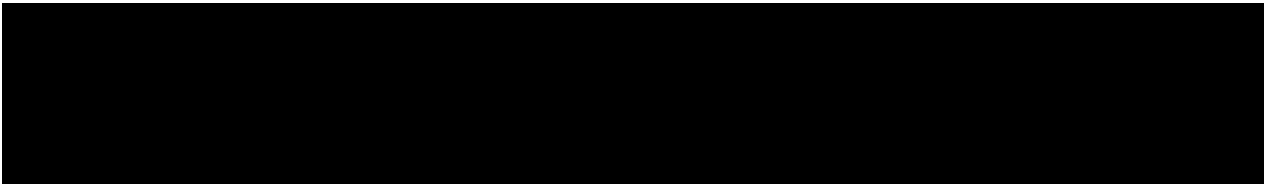


82.2.

82.3.

83. Insofar as volume commitments are concerned – this is covered by the growing programme process which is described more fully in response to question 8.4. In some instances, Pick n Pay buys the entire crop produced by a producer, but this is ordinarily where the volumes are quite small.

84.



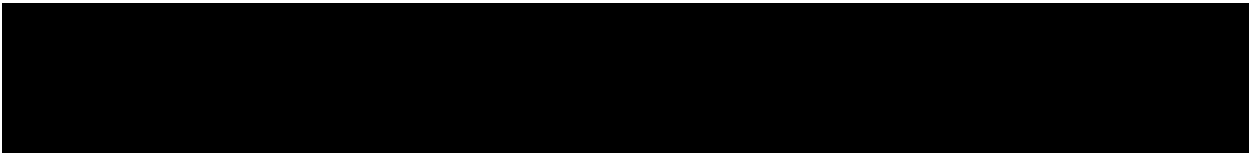


85. In addition to the above, we are advised that, depending on the product and how it finds its way onto a Pick n Pay shelf, there are often several costs which are added to the farm gate price. The retail price of a product is determined with reference to a number of factors which include the following:

- 85.1. the farm price (mostly on a delivered basis);
- 85.2. margins earned by consolidators (intermediaries who aggregate purchases from various farms and on-sell to Pick n Pay);
- 85.3. distribution centre costs (i.e., warehousing, staff costs, equipment costs such as pallets, crates, cold chain, forklifts, diesel and generators, waste disposal etc);
- 85.4. labelling and packaging costs;
- 85.5. transport costs (trans-shipment from one part of the country to another as well as transport from the distribution centre to the retailer);
- 85.6. store costs, including staff costs, cold chain and energy costs (i.e., electricity, generators and diesel which primarily service fresh and cold chain products));
- 85.7. funding costs; and
- 85.8. head office costs.

86. These costs typically inform the difference between what is often referred to as the farm gate and the retail price.

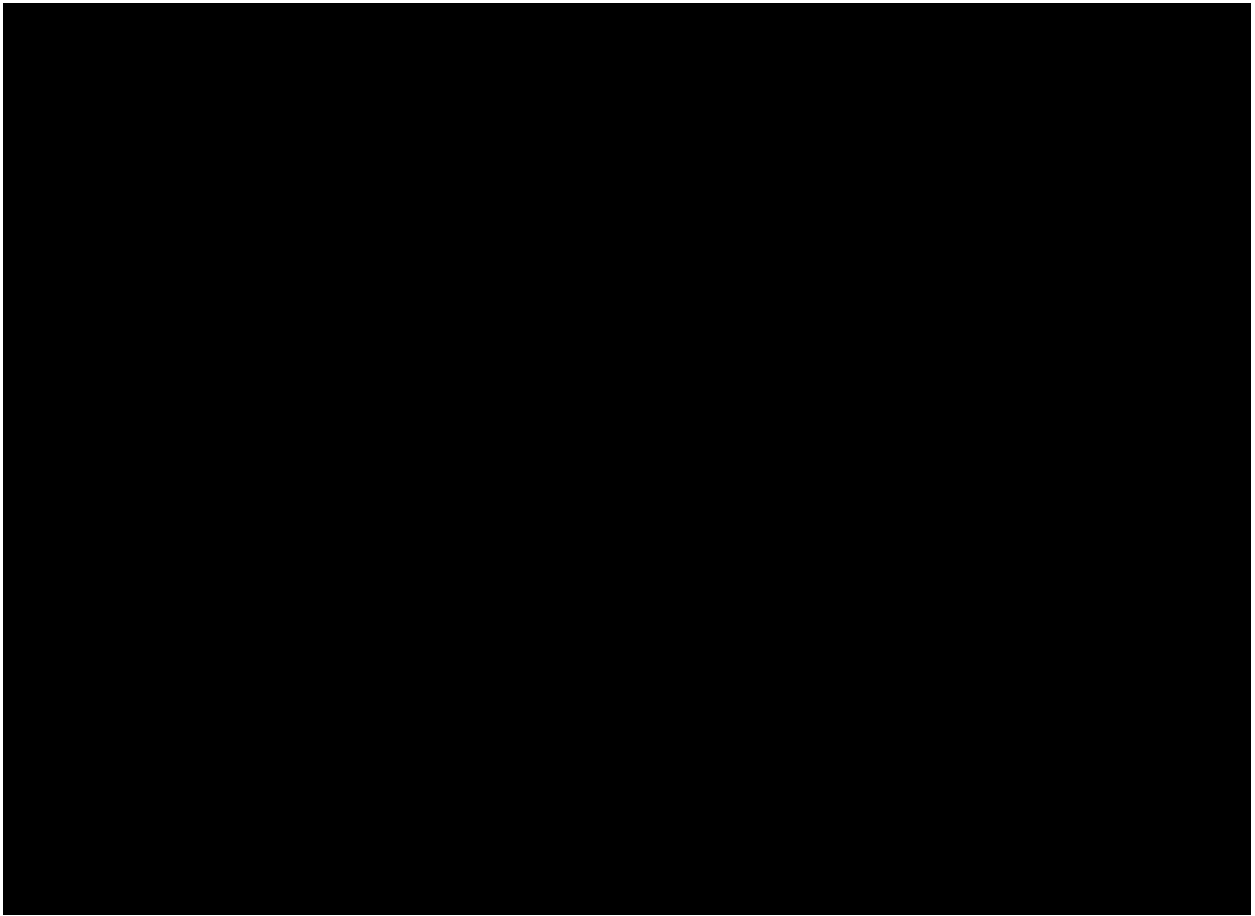
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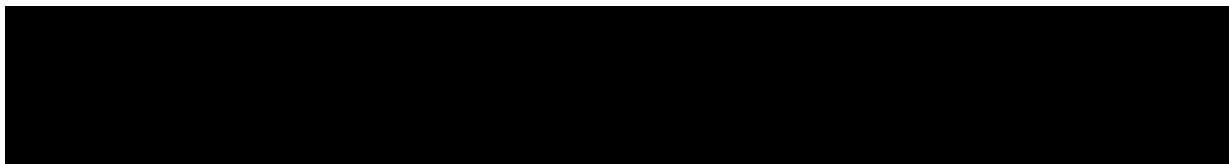


88. It is also worth noting that load shedding has played a significant role in exacerbating the potential negative net margins which Pick n Pay appears to have incurred in relation to a large proportion of fresh produce. In particular, as load shedding has worsened in recent years, this has necessitated an increased investment in generators and diesel expenditure by Pick n Pay in order to ensure that its fresh produce is not negatively impacted both at a distribution centre level as well as in stores. As noted in its most recent set of financial results, Pick n Pay incurred expenses in the region of approximately R522 million as a direct result of load shedding.
89. This, however, has not entirely mitigated the costs of load shedding as, in many instances, Pick n Pay also suffers from capital equipment failure where fridges are damaged as a consequence of load shedding (in particular when there are power surges), as well as a significant increase in waste of fresh produce as the product shelf life is negatively affected when cold chain equipment is not operational. The following diagram shows the correlation between the increase in load-shedding and the increase in wastage costs incurred by the Pick n Pay fresh division.

³ While Pick n Pay does not record net margins on a per product basis in the ordinary course of its operations, it has sought to calculate indicative net profit margins for the products under consideration.



90.



91. Indeed, one recent example from the food sector is that Astral, one of the largest poultry suppliers in South Africa has recently indicated that load shedding has had a significant negative effect on its operations, with the cost of load shedding having been reported at approximately R741 million in its half year results. This amounts to an additional load shedding cost of approximately R123.5 million per month⁴.

4

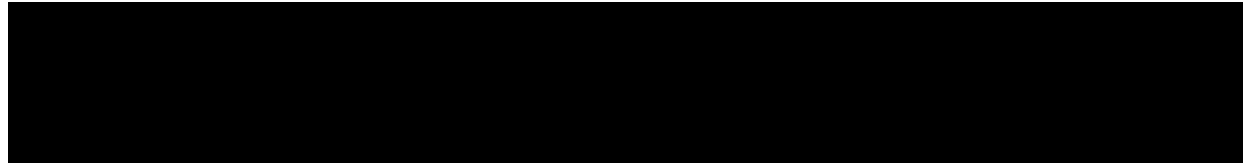
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92.



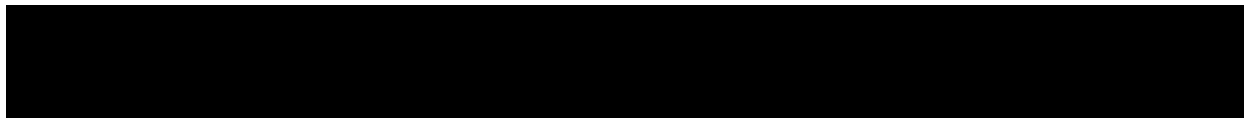
93. For a response to question 24.10, see the answer to question 40.

94.



95. Pick n Pay cannot respond to questions 24.12 to 24.14 as these appear to relate to third party logistics providers and other costs borne by the producers. This information should be obtained from the producers themselves.

96.



97. Growers specializing in specific crops are ideally identified based on the best suitable region to grow and produce particular fresh products. The use of growing systems and protective cover by producers are a significant advantage as they contribute to crop security and sustainability which is key for Pick n Pay in order to be in a position to supply stores 365 days of the year.

“25. Provide a detailed explanation of the benefits and disadvantages of direct contracting over the use of the NFPMs platform from both the perspective of the Buyer and the Producers. In your response indicate:

25.1 To what extent contracted buyers still purchase from NFPMs and under what conditions?

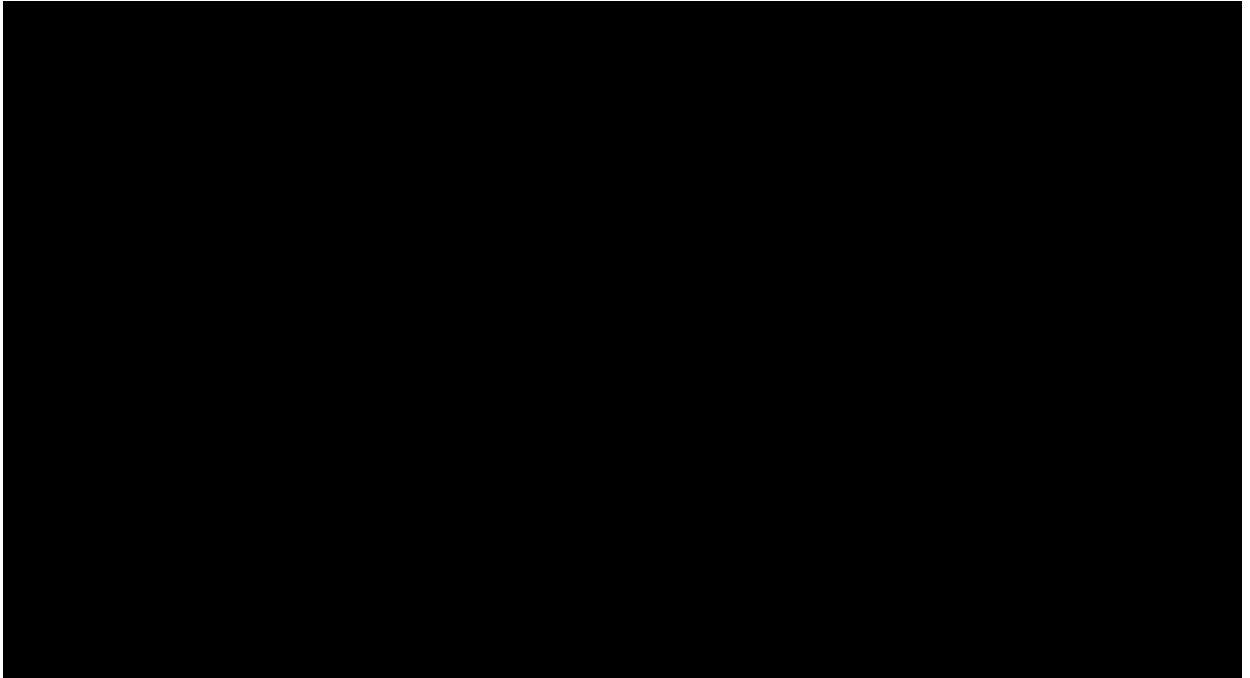
25.2 To what extent contracted producers still sell fresh produce at the NFPMs?

25.3 The reasons why these buyers and growers have opted to no longer use the NFPMs platforms;

25.4 What it will take for these contracted buyers and producers to consider using the NFPMs platforms for the buying and selling of fresh produce.”

98. As mentioned above, Pick n Pay does not buy from NFPMs and is therefore unable to give a comprehensive response in relation to the benefits versus the disadvantages of direct contracting over the use of NFPM platforms.

99.



100.

“MARKET ACCESS FOR SMME AND HDI PRODUCERS

26. Explain in detail the factors that contribute to the lack of small-scale farmer participation in contract farming?”

101. Pick n Pay procures fresh produce from larger commercial growers, as well as smaller suppliers (including HDP owned businesses). While Pick n Pay endeavours to assist smaller suppliers through its small business development programme (as more fully described in response to question 37 below), it should be acknowledged that critical mass does play a role in deciding which suppliers to procure from.

102. Some products are highly seasonal, and difficult to source at specific times of the year, as a result of unfavourable weather conditions. The consistent supply of required volumes all through the supply/harvest window is one of the most significant factors influencing the ability to supply. Other contributing factors include, but are not limited to the following:

- 102.1. scale (to be commercially viable to ensure consistent supply);
- 102.2. technology and infrastructure solutions for the post-harvest management of fresh produce – such as packhouses, protection growing, etc.;
- 102.3. transport solutions to deliver to the distribution centre (if backhauling is not an option); and
- 102.4. food safety accreditation.

“27. What impact, if any, does the ability to contract with retailers have on small-scale farmers’ ability to expand in the market?”

- 103. While it would appear that small-scale farmers would probably have the best insights in this regard, and therefore be best placed to respond to this question, in Pick n Pay’s view, the main advantage to any grower of being involved in a growing program or offtake commitment from any retailer, would be to enable them to secure funding (from the PIC, government or commercial banks), allowing them to invest where needed in order to secure crops and develop or expand their own growing and packing facilities.

“28. Provide suggestions which in your view can assist in increasing the participation of small-scale farmers.”

- 104. Pick n Pay is of the view that agronomy support⁵ would be an advantage to small scale farmers as it may potentially assist in maintaining consistent supply, with the best available quality and yields per crop.
- 105. It would also be of assistance to small scale farmers if they had access to fresh produce markets which would assist them to manage the yields not procured by the retail market.

“29. What can be done to alter the trend in contract farming, if anything? Please fully explain your response.”

- 106. From time to time, Pick n Pay embarks upon various *ad hoc* initiatives, which are intended to assist, *inter alia*, the smaller farmers and SMEs through various regulatory and other processes

⁵ Agronomy is an aspect of farming which focuses on crop production and soil management. It is highly specialised and very beneficial, particularly in relation to yields and sustainable management of the land.

to ensure that they are better able to comply with the requisite requirements. The suppliers are guided through the audits and product specification requirements and are issued the same contractual growing programmes as larger suppliers to help secure the crops for both the supplier and for Pick n Pay.

107. It is important to Pick n Pay that food safety is not compromised due to the size of the supplier, and all suppliers therefore need to pass a food safety audit. Pick n Pay has put mechanisms in place through the SME initiatives to upskill small suppliers in relation to these aspects.

“30. In Pick n Pay’s view are the standards imposed by regulators and industry associations fair and non-discriminatory to small-scale farmers? Briefly explain and provide evidence where applicable.”

108. The Regulations pertaining to the sale of fruit and vegetables have been set out in detail in response to question 11.

109. As is evident from the regulations (copies of which have been provided together with this response), some of the requirements are quite onerous and may potentially disproportionately affect the smaller farmers. However, many of these requirements are important especially insofar as they relate to food safety. As explained above, Pick n Pay seeks, through its SME Programme, to assist the participants in the programme to comply with these requirements.

“31. Explain the extent to which the subjectivity of inspectors in the grading process affect small-scale farmers’ effective participation in the fresh produce market value chain?”

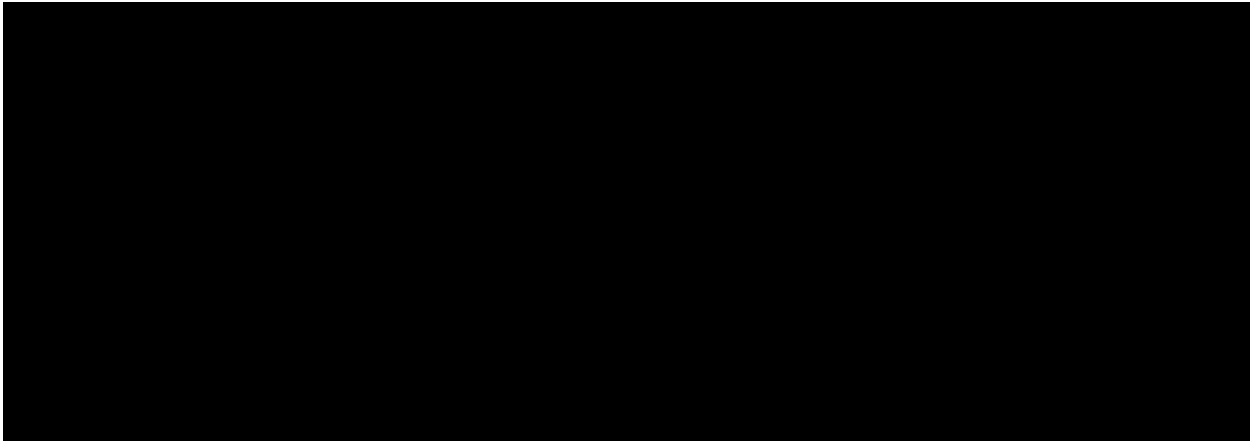
110. Pick n Pay is not able to comment on this.

“32. Explain the extent to which contract terms disadvantage small-scale farmers’ effective participation in the fresh produce value chain?”

111. While Pick n Pay remains committed through its supplier development programme to assisting small-scale farmers and suppliers in growing their businesses and increasing their level of supply to Pick n Pay, there are a number of aspects of the contract terms which could conceivably affect small-scale farmers and have an impact on their participation in the fresh produce value chain. In particular, the primary factor is compliance with the plethora of

legislation and regulations with which producers must comply, particularly in relation to food safety requirements. Retailers are required to ensure that produce which they procure adhere to these requirements in the interests of consumers, and therefore require suppliers to comply with audit and certification processes.

112.

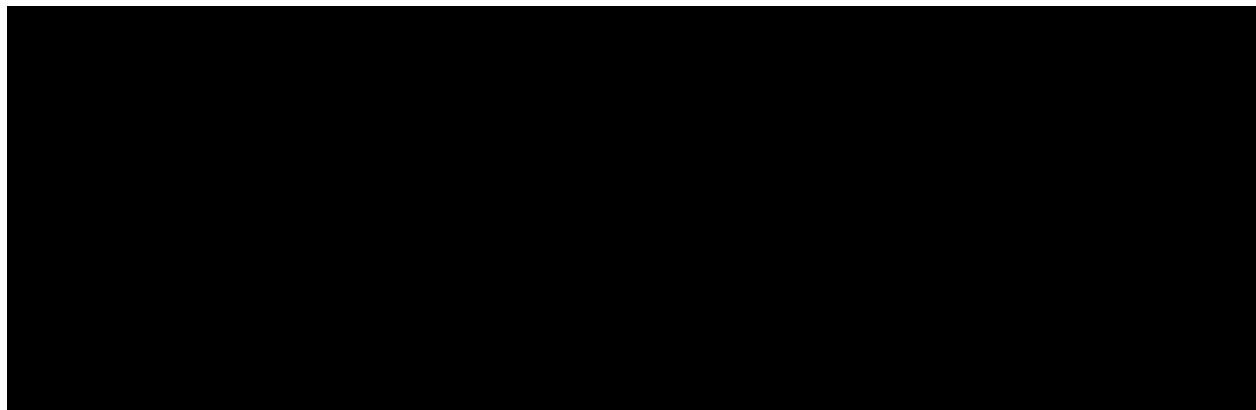


113. While legislated food safety standards could be considered to be onerous, Pick n Pay does endeavour to assist small empowered suppliers with dealing with these requirements as is more fully explained in response to question 37 below.

“33.Explain how contracting requirements (e.g. quality control standards, packaging, grading, cold chain requirements, volume and security of supply, transportation to the Distribution Centres) affect small-scale farmers?”

114. As mentioned above, Pick n Pay requires all fresh produce suppliers to comply with national legislation in relation to food safety, as well as the regulations pertaining to the quality, grading, packing and marking of fresh produce, which we have listed in response to question 11.

115.

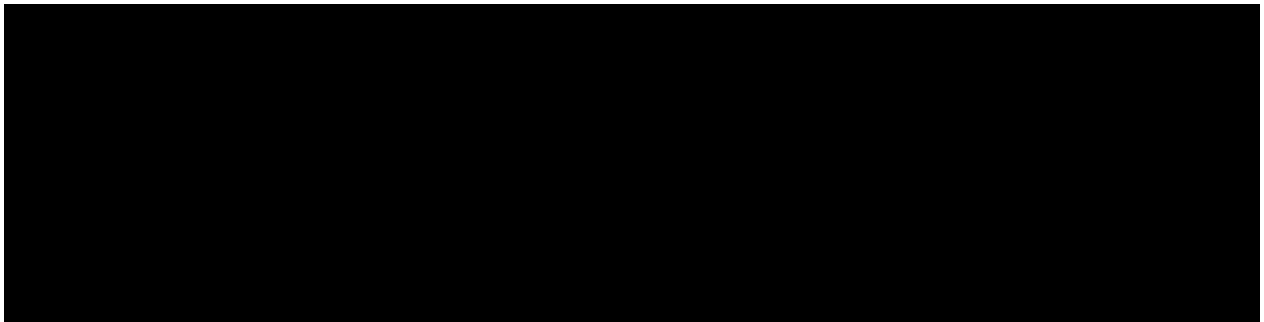




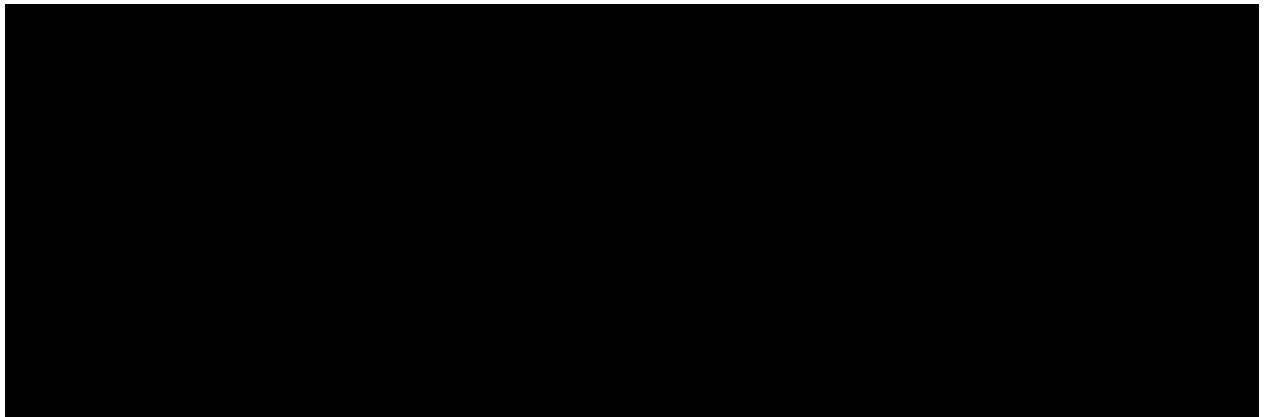
116. Lastly, Pick n Pay also requires compliance with the GFSI standards (Global Food Safety Initiative) and requires that every product must have a food safety audit certificate signed off internally. Pick n Pay assists its small suppliers by granting them additional time to complete their safety audit and has, in a couple of limited cases, subsidized the food safety audit fee.

“34. What are the standard contracting processes followed, duration of the contracts, renewal periods and terms, exclusivity and investment funding linked to the contracts?”

117.



118.



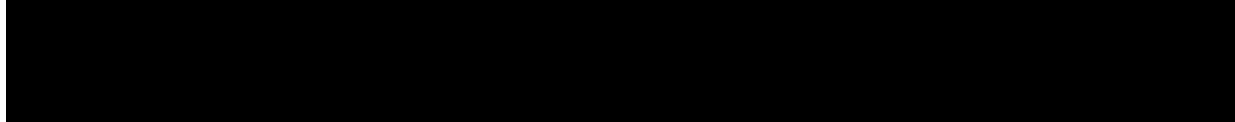
119.

Pay and have been developed by the relevant supplier and Pick n Pay for sale in Pick n Pay’s retail outlets. Specific provisions relating to the supply of these products is set out in annexure 14 to the supplier agreement. However, as noted in response to question 24, no such agreements have been concluded between Pick n Pay and small-scale farmers.

120. The standard supplier agreement does not contain any provisions relating to investment funding.

“35. To what extent do farmers have a say in the setting of the price of the contracted product?”

121.



“36. What is the significance of the use of levies and rebates imposed by industry associations for small- scale farmers’ effective participation in the fresh produce value chain?”

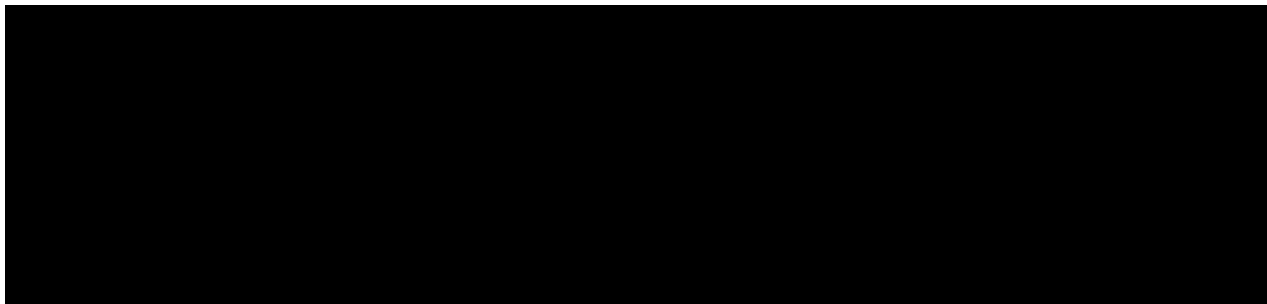
122. Pick n Pay is not able to comment on this.

“37. Has there been explicit efforts to lower barriers to entry and expansion and economic participation for SMMEs and HDIs?”

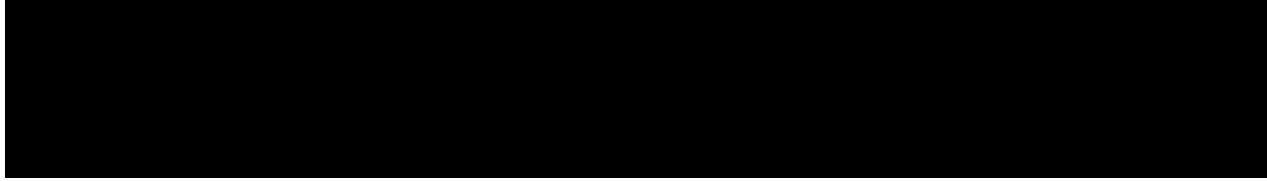
123. From Pick n Pay’s perspective, it has embarked upon various initiatives, which are intended to assist, *inter alia*, the smaller farmers and SMEs through various regulatory and other requirements, thus enabling them to become suppliers to Pick and Pay. In doing so, Pick n Pay has focused exclusively on black-owned businesses, and it is now a prerequisite for suppliers wishing to become a part of the program that they be more than 51% black-owned.

124. The purpose of the program is to support local producers by increasing local procurement, to provide them with a national platform by facilitating access to Pick n Pay’s distribution centre which supplies the store network nationwide, and to seek to ensure their sustainability by improving and developing the quality and range of local products at competitive prices.

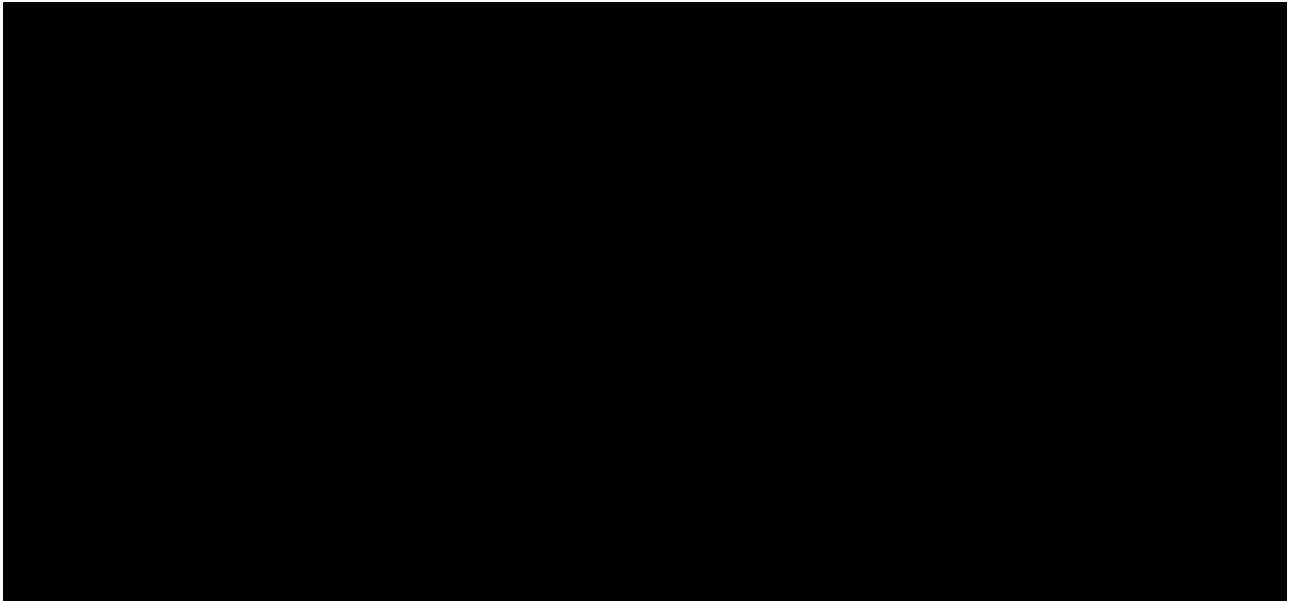
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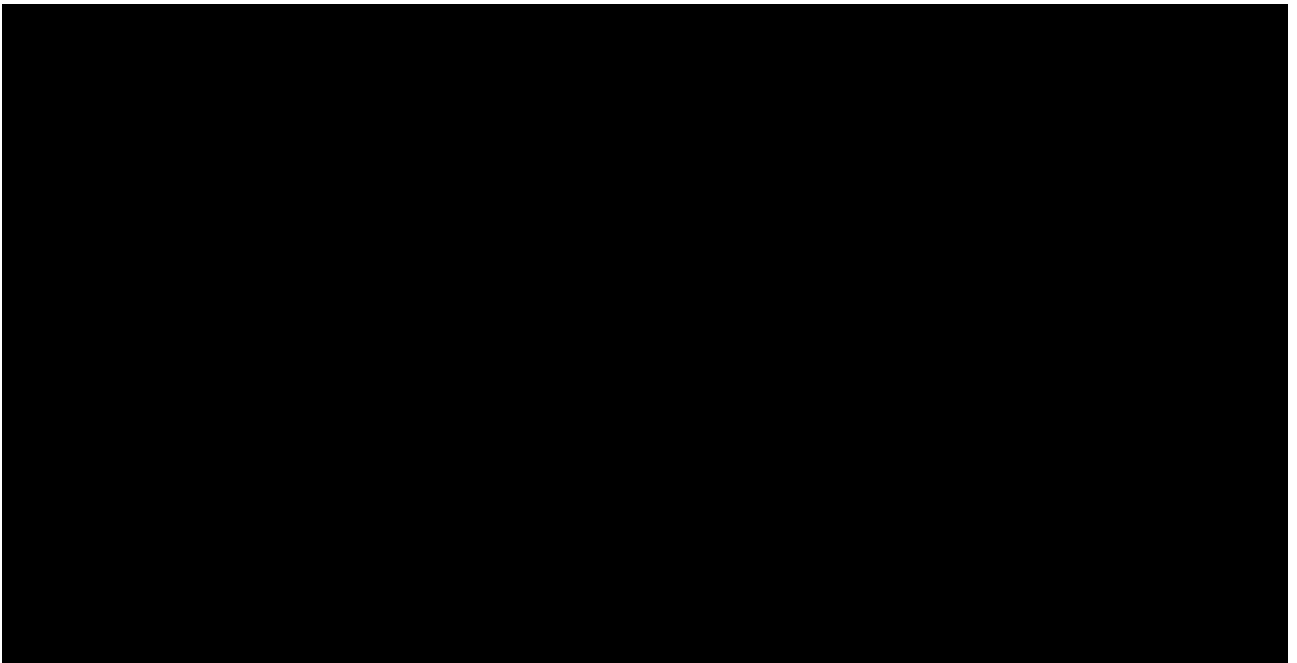


12



128. As mentioned above, one of the ways that Pick n Pay seeks to assist SME suppliers is to facilitate access to its distribution centre. This has a number of advantages for a small supplier including expanding their reach nationally (given that the distribution centre supplies Pick n Pay stores nationally), as well as overcoming the challenges faced by small suppliers of supplying products directly to stores, thereby also reducing their costs.

129.



130.

131.

132. Pick n Pay has a dedicated team of buyers who focus specifically on small-scale suppliers, and whose KPIs are aligned to increasing the number of small vendors doing business with Pick n Pay.
133. Lastly, the Ackerman Pick n Pay Foundation actively undertakes community projects which involve the mentorship of small farmers to invest in on-farm cold storage and food safety compliance with a view to Pick n Pay partnering them with nearby stores to which they supply their produce.

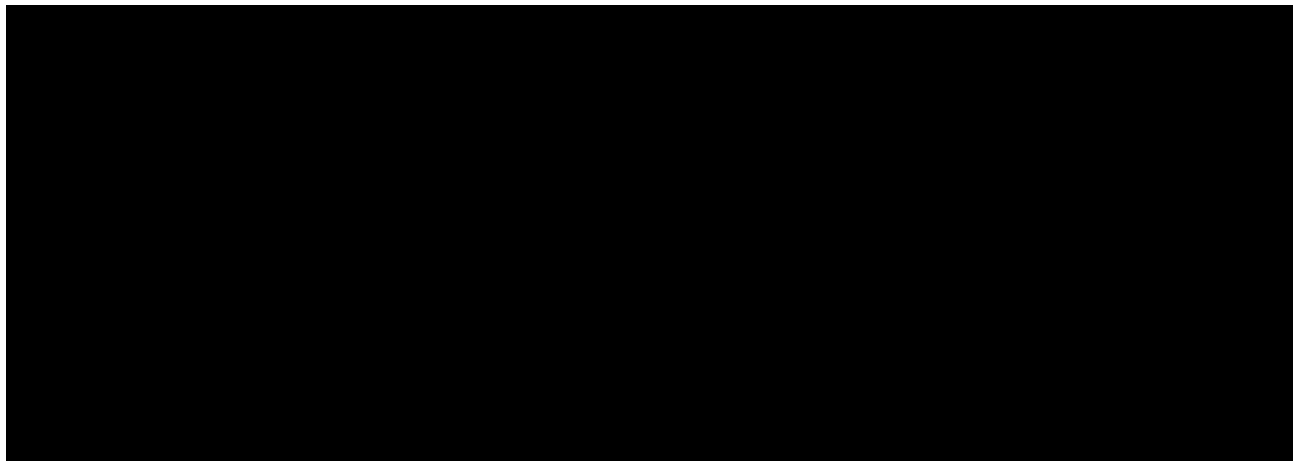
“DISCRIMINATION ON OUTPUTS

38. What are the alternative routes to market available to small-scale farmers to market or sell their fresh produce? Briefly explain these channels, your answer must specify the pros and cons of each channel.”

134. Pick n Pay is not in a position to comment meaningfully on this topic.

“39. Describe the nature of the negotiation process between Pick n Pay and suppliers of fresh produce?”

135.



“40. What could be the reasons for the significant price differentials between fresh produce at NFPMs and retailers?”

136. There are a number of factors which may have a bearing on price differentials in relation to fresh produce at NFPMs and retailers. These include the following:
- 136.1. quality regulations;

- 136.2. differing costs of transportation and logistics; and
- 136.3. packaging requirements.

“ACCESS TO FINANCIAL SUP PORT

41. Does Pick n Pay offer any and financial support to fresh produce small-scale farmers? Provide a full description.”

137. This has been dealt with in the response to question 37.

“42. From Pick n Pay’s viewpoint does the current design of funding (funding markets and financial support) models promote entry and economic participation of small-scale farmers? Briefly explain and provide evidence where applicable.

43. There is information asymmetry which exists regarding the funding criteria used in some funding initiatives. The criteria are not clear and easily understood by emerging farmers. What is Pick n Pay’s view on this statement?

44. What are the factors considered and the rationale for considering those factors when financial institutions design the funding criteria for fresh produce farming operations?

45. Are there barriers to entry created for small growers by unfair or discriminatory application requirements and selection criteria? Briefly discuss and provide evidence where applicable.

46. In terms of development funding/finance, what is the uptake rate of small-scale farmers?

47. In Pick n Pay’s view is the cost of finance/funding prohibitive or discriminatory to small-scale farmers in any way? Briefly elaborate on your answer and provide evidence where applicable.

48. What is Pick n Pay’s standpoint on the use of the blended finance model?

49. What is the role and success of the incubator model for SMMEs in ensuring effective small-scale farmer participation in the fresh produce value chain?

50. Are there any situations where funding is not released in time to meet the urgent financial relief sought by small-scale or emerging farmers to the extent that small-scale farmers have unfairly been prejudiced or disadvantaged?

51. What are other key market features or financial institutions and government conduct that increase barriers to entry or expansion of small-scale farmers in the fresh produce market?

52. What are Pick n Pay's views on small-scale farmer treatment by Funding and financing institutions? Kindly provide evidence, if any."

138. Pick n Pay is not able to respond meaningfully to questions 42 to 52 at this stage given that it does not have sufficient information and/or visibility in relation to these particular issues, but is happy to engage with the Commission in due course if it would like to engage further on these issues.

"INQUIRY SCOPE AND ISSUES

"53. What are your views on small-scale farmer treatment by Funding and financing institutions? Kindly provide evidence, if any."

139. This is a repeat of the question above.

"54. 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."

140. From a Pick n Pay perspective, it is important to emphasise that the ability to source fresh produce on a consistent and reliable basis 365 days a year (including on public holidays, et cetera) is critical to ensuring that consumers are able to access fresh produce in every Pick n Pay store nationally. In other words, it is critical to have reliable, long-term supply chains in place both from a grower and logistics perspective in order to maintain the current levels of high quality fresh produce that is supplied in Pick n Pay stores throughout the country. For these reasons, the business needs to strike a balance between having stable , long-term supply

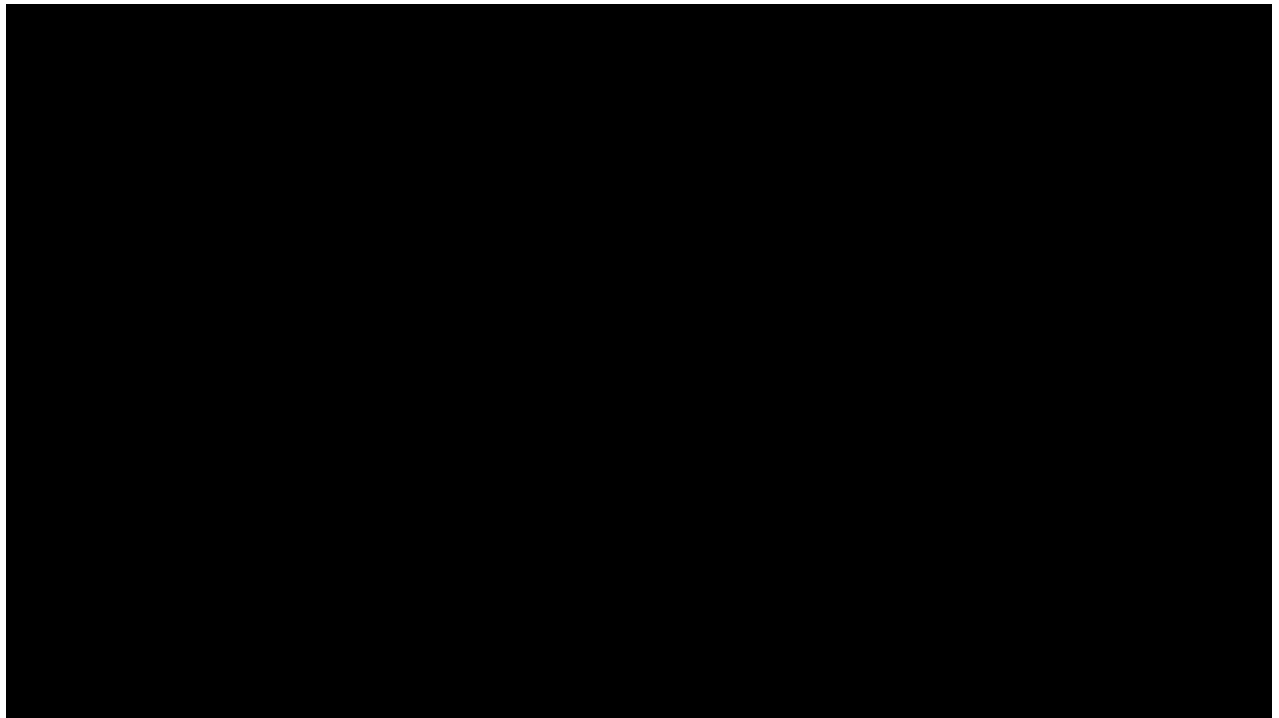
contracts in place with large suppliers, but at the same time, develop and expand the opportunities available to small suppliers to increase the extent of their participation in the value chain, and in particular to supplying Pick n Pay. As set out above, in response to question 37, Pick n Pay has a specific small business development programme in place to assist small suppliers in this regard.

“55. 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.”

141. Please see the response above.

“56. Are there any other submissions the stakeholder would like to make of a general nature?”

142.





Yours sincerely

[Unsigned due to electronic transmission]

Anthony Norton / Michelle Rawlinson / Avias Ngwenya
NORTONS INC.