



**The Competition Commission of South Africa**

DTI Campus, Mulayo (Block C)  
77 Meintjies Street, Sunnyside, Pretoria

<b>Per Email:</b> <a href="mailto:freshproduceinq@compcom.co.za">freshproduceinq@compcom.co.za</a>	<b>Your Reference:</b> 2022APR0051	<b>Our Reference:</b> Pioneer Foods (Pty) Ltd	<b>Date:</b> 09 May 2023
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**Introduction**

We acknowledge receipt of your correspondence dated 31 March 2023 addressed to our Ms Jay-Ann Jacobs in relation to the Competition Commission of South Africa (“**the Commission**”) request for information (“**RFI**”) under the market inquiry into the South African Fresh Produce Market Inquiry (“**FPMI**”) and the subsequent email exchange with your Mr Derrick Bowles under which it was clarified that Pioneer Foods (Pty) Ltd (“**Pioneer**”) is expected to respond to the RFI notwithstanding the fact that Pioneer, bar one exception as detailed below, do not procure *fresh fruit* for processing and can therefore only provide limited information in its capacity as a customer that procure processed raw materials from processors derived from the specific commodities as further detailed below.

An extension was granted for Pioneer to submit its responses by **09 May 2023**.

It therefore follows that the scope of Pioneer’s submission under the FPMI and relevant to the specific commodities included thereunder is limited to the following commercial activities:

- Procurement of apple, pear, citrus, grape and tomato concentrate (collectively “**Concentrate**”) used in the manufacturing of its fruit juice products (hereinafter “**Juice Products**”) and procurement of tomato paste (“**Tomato Paste**”) used in the manufacturing of tomato sauce, chutney, sweet-chilli sauce as condiments (hereinafter “**Condiments**”).
- Procurement of processed grapes (hereinafter referred to as “**Dried Vine Fruit**”) and processed apples and pears (hereinafter referred to as “**Dried Tree Fruit**”) used for bulk sale to local and international customers, processed as industrial mixes for use predominantly in the baking industry and packaged as consumer food products for sale to Pioneer’s customers. Dried Vine Fruit and Dried Tree Fruit shall hereinafter collectively be referred to as “**Dried Fruit Products**”.
- Pioneer buy direct from growers limited volumes of fresh citrus fruit (“**Fresh Citrus Fruit**”) uses in the contract manufacturing of fruit jams for sale to consumers under retailer private label (hereinafter referred to as the “**Fruit Jams**”).
- Concentrate, Tomato Paste, Dried Fruit Products and Fresh Citrus Fruit shall hereinafter collectively be referred to as “**Commodity Input Material**”.

**Part A. Background and Business Activities**

1. Pioneer manufactures, markets, distributes and sells a wide range of food, baked goods, snacks, condiment and beverage products to customers in South Africa and export to markets in Africa and, predominantly its juice products under its CERES™ brand and bulk sales of Dried Vine Fruit under the SAFARI™, to other international markets.

2. [REDACTED]

3. Pioneer and its related operating companies are not owned or controlled by HDPs.





4. [REDACTED]

5. [REDACTED]

6. Requested information contained to the AFS included in response to question 5 above.
7. Key Performance Metrics tracked in Pioneer relates to finished goods sold to customers and is therefore not directly related to the procurement of Commodity Input Material, as contemplated under the FPMI.
8. Pioneer is of the view that basis the vast gap between the fresh agricultural products articulated under the RFI, the Commodity Input Material and ultimately the final consumer product marketed, any such Pioneer commissioned research and/or studies conducted on the consumer side of the business, hold no bearing on the fresh products being the focus of the FPMI. However, Pioneer remain available should the Commission post consideration of this submission have a particular interest to pursue further from a branded, consumer product point of view.
9. Enclosed herewith the most recent marketing material relating to Pioneer's Juice Products and Dried Fruit Products (SAFARI™ Half-Marathon) included under Annexure D hereto.
10. **Concentrate and Tomato Paste.** Procurement of Concentrate and Tomato Paste is managed in Pioneer by its global procurement enabling function ("GP"), in close collaboration with the supply chain and financial planning teams to enable availability of the referenced input material. GP will approximately one (1) month before the commencement of harvest submit a request for information to suppliers who have the capabilities to supply the Concentrate and Tomato Paste in compliance with Pioneer's specifications. These suppliers will then provide Pioneer with their pricing, to include delivery to Pioneer's designated manufacturing plants, if the supplier is local, or CFR or CIF (INCOTERMS 2020) to port of destination (Durban or Cape Town), if the supplier is located outside South Africa, for consideration by Pioneer. Pioneer will then finalise the pricing and anticipated volume requirements under contract, subject to issuing by Pioneer of a purchase order at which time the commitment to procure is established with the supplier.
- Dried Vine Fruit.** Pioneer maintain a list of suppliers that have the requisite certification issued by RAISINS SA for the drying of Dried Vine Fruit as a requirement for export thereof. Pioneer will annually consider international pricing dynamics, local anticipated harvest volume to satisfy local and international demand signals and forex in order to formalise an offer to procure Dried Vine Fruit at a price per ton for each grade. This offer to purchase is then submitted to the foregoing list of suppliers. These suppliers will then confirm their acceptance of the pricing as offered, not respond, or reject the pricing offer. If accepted, then the supplier will sign a simplified commercial document which seeks to formalise the supplier's commitment to deliver the volume at the price per grade as included thereunder. In practise the supplier maintain flexibility to deliver to others, notwithstanding the commitment made to Pioneer.
- Dried Tree Fruit.** Due to limited volume requirements for procurement of Dried Tree Fruit, Pioneer procure once a year from local suppliers against it anticipated volume requirements. No formalised legal agreement is sign, but the supplier's commitment to supply against a specific price per grade, as negotiated by the





parties, is formalised under a simplified 1-page commercial schedule, following which Pioneer will issue a purchase order to establish the commitment to procure.

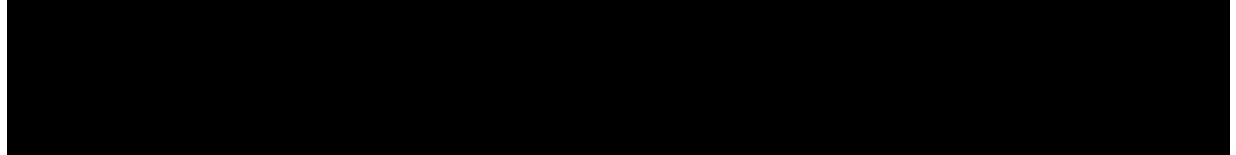
**Fresh Citrus Fruit.** Due to low volume requirements, Pioneer currently rely on one (1) grower to supply Fresh Citrus Fruit once or twice per year located within close proximity to its manufacturing plant in Malmesbury.

- 10.1 In addition to what has been included under question 10 above, Pioneer will consider a supplier's ability to comply with PepsiCo's Supplier Approval and Compliance Programmes and the PepsiCo Raw Materials Food Safety Policy as a prerequisite for supply. For procurement of Concentrate and Tomato Paste and more consistent across the last 2-years, suppliers are required to sign a supply agreement which will include a contractual right for Pioneer to audit the relevant supplier facilities, in its sole discretion. In more recent years Pioneer also consider a supplier's commitment to enhance environmental sustainability and contribute to the global PepsiCo sustainability goals, called "PepsiCo Positive". This is a journey and in no way precludes a supplier from participation in the Pioneer supply chain network.
- 10.2 Neither marketing agents, nor wholesalers play any role in Pioneer's procurement of the Commodity Input Material.
- 10.3 Pioneer does not currently procure any Commodity Input Material on any online trading platforms.
- 10.4 No supplier to Pioneer is barred from supplying to third parties to include Pioneer's competitors within the relevant categories.

**Concentrate.** In additional to information supplied under question 10 above, Pioneer will typically sign a 24-month agreement with a supplier to formalise the legal terms relevant to the commercial relationship and then issue commercial annexures thereto to finalise pricing (Pioneer acceptance of supplier's reply to its Request for Information and expected volume requirements) for delivery typically across a period of less than 12-months.

**Dried Fruit and Fresh Citrus Fruit.** Kindy consider Pioneer's response under question 10 above.

10.5

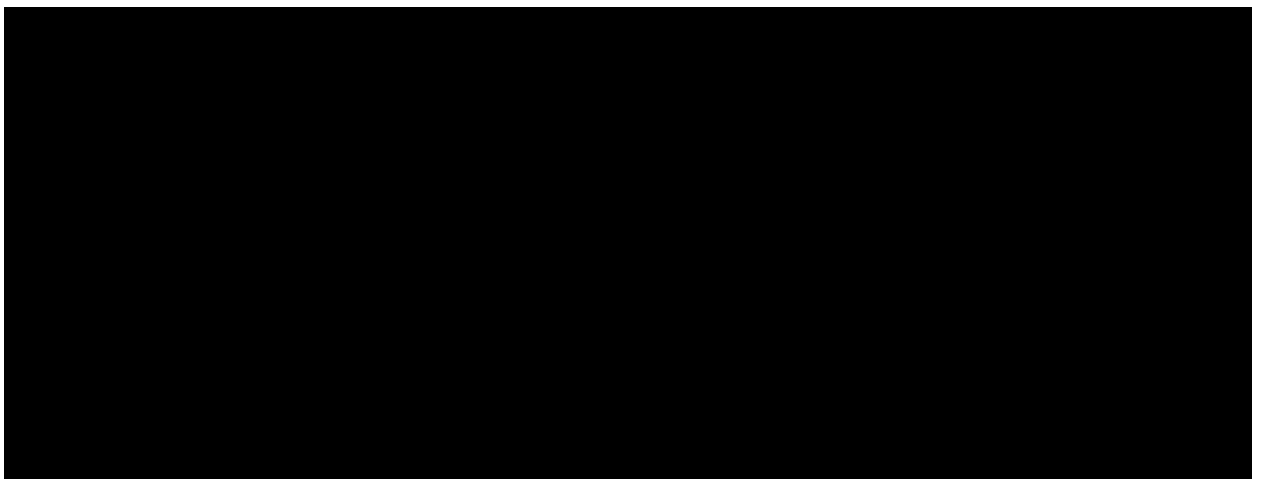


10.6

10.7 Kindly consider Pioneer's response under question 10.1 above.

10.8 The Commodity Input Materia is used by Pioneer as raw material and is thereafter processed for manufacturing of various products as detailed under the Introduction section above for sale to Pioneer customers. The packaging and other value add is therefore processing related and can therefore not be classified as a *value add* specific to the Commodity Input Material.

10.9

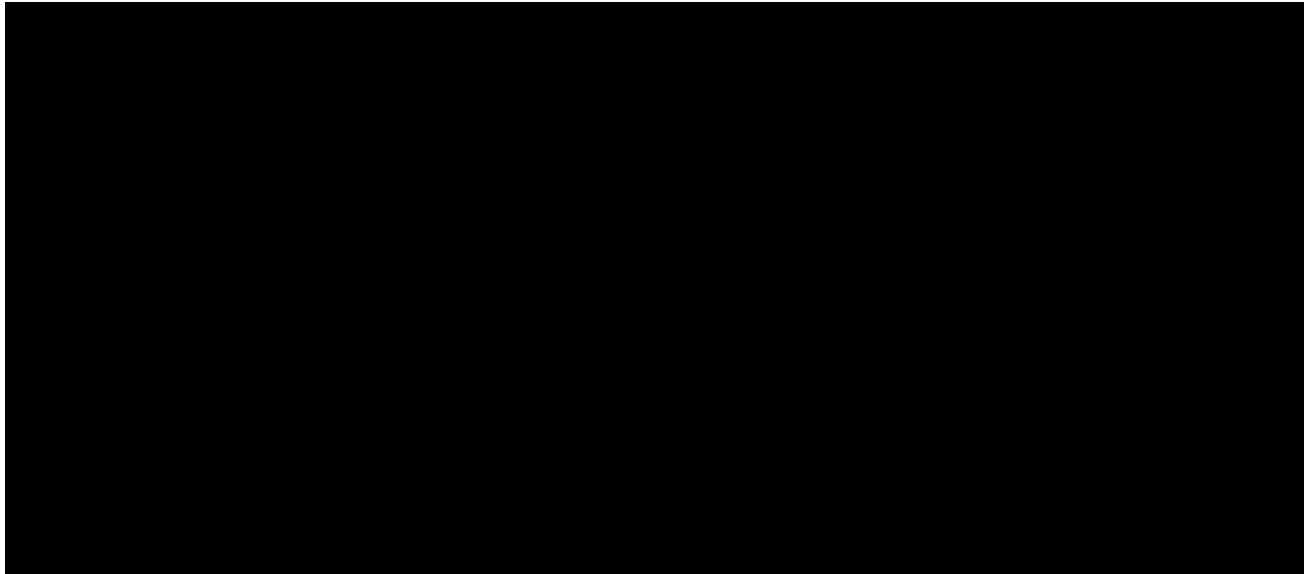




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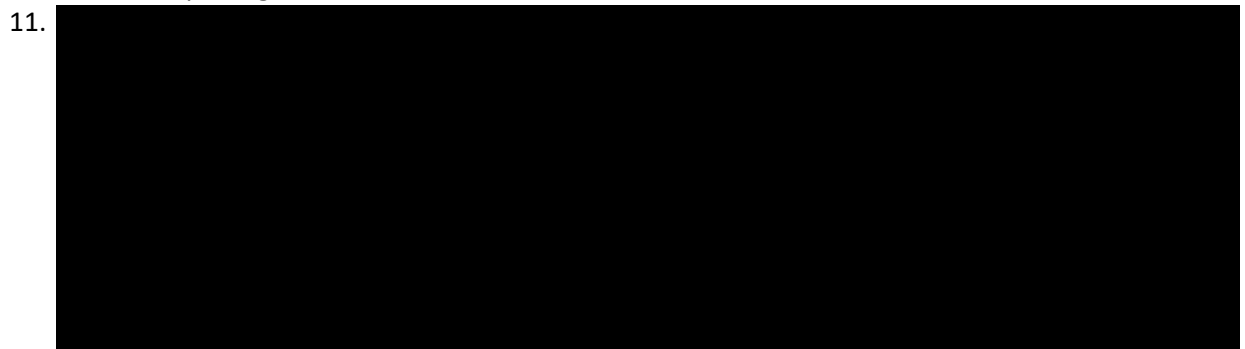
10.10 Kindly consider Pioneer's response included under question 18 below.

11. Please consider Pioneer's response under question 10.5 above, relevant to suppliers from whom Pioneer procure processed Commodity Input Material and not fresh fruit or vegetables as contemplated under the FPMI.

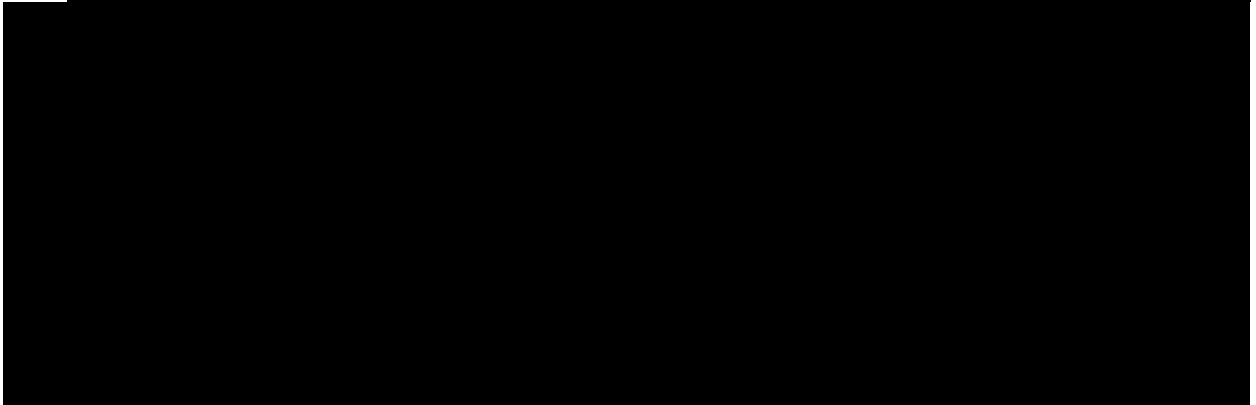
11.1 Please consider data included under question 10.5 above.

11.2 Please consider data included under question 10.5 above.

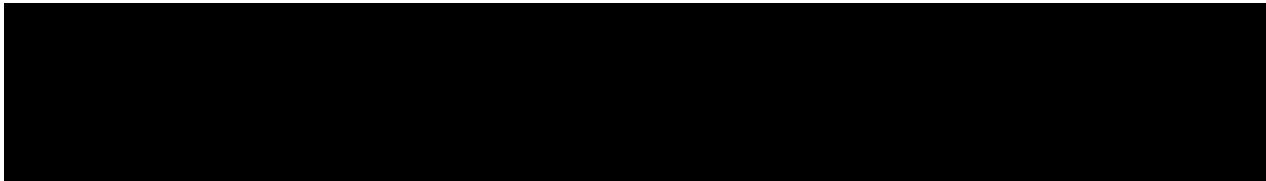
11.3 Pioneer is not aware of any potential direct contract growers who engaged with Pioneer but did not end up using Pioneer.



12.



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**Part B. NFPMS as a route to market**

13. Pioneer’s understanding of the fresh product value chain is limited to procurement of Commodity Input Material only. Pioneer do abide by the Foodstuffs, Cosmetics and Disinfectant Act , No. 54 of 1972 (FCD Act), the Agricultural Products Standards Act, No. 119 of 1990 (APS Act) and the Consumer Protection Act, No. 68 of 2008 (CPA) and its implementation regulations that govern the quality and safety of food products for human consumption and will therefore require third parties to supply the Commodity Input Material against specifications that, amongst other reasons, enable Pioneer to comply with laws and regulations.

**Dried Vine Fruit.** SA Raisins as an industry body certify drying facilities in satisfaction of export requirements and collect a levy under the Marketing of Agricultural Products Act, 1996 (Act No 47 of 1996), payable by Pioneer but recovered from the relevant suppliers under regulations. In addition, FruitFly Africa (Pty) Ltd, in its capacity as an industry service entity and against delivery of its integrated area wide fruit fly control program in a specific area (Lower Orange River region) will collect under the APS Act a levy from Pioneer, expressed as a fixed price per kg raisins received and then recoverable from the applicable supplier who received the benefit of the program, as identified by FruitFly Africa (Pty) Ltd.

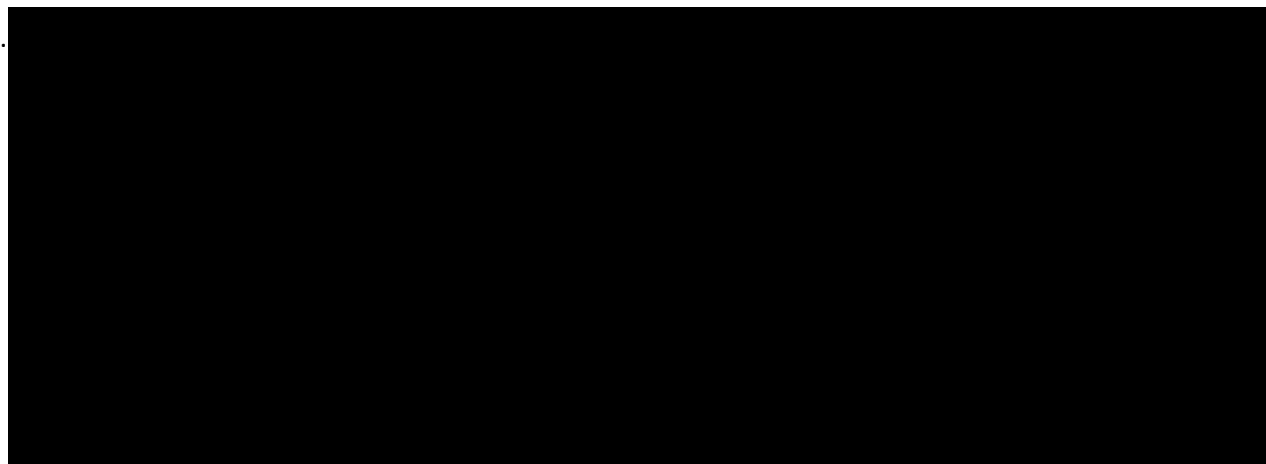
**Dried Tree Fruit.** Hortgro (Pty) Ltd as an industry body certify drying and packing facilities in satisfaction of export requirements and collect a levy under the Marketing of Agricultural Products Act, 1996 (Act No 47 of 1996), payable by Pioneer but recovered from the relevant suppliers under regulation.

14. Pioneer does not procure any products from the National Fresh Produce Market (“**NFPM**”).

15. Pioneer does not procure any fresh products from the NFPM.

16. Pioneer does not procure fresh products from any wholesaler.

17.



18.





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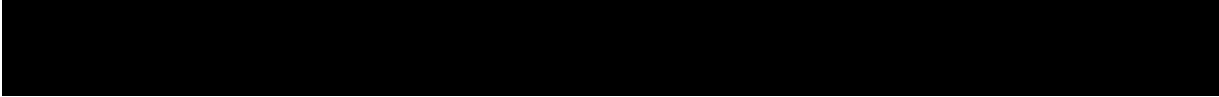
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19. Pioneer does not require a mandatory cold chain certification requirement.
20. Not applicable to the Pioneer operating model.
21. Not applicable to the Pioneer operating model.
22. Not applicable to the Pioneer operating model.
23. The requested information is not within Pioneer's knowledge as unrelated to its current operating model.
24. The requested information is not within Pioneer's knowledge as unrelate to its current operating model.
25. The requested information is not within Pioneer's knowledge as unrelates to its current operating model.
26. The requested information is not within Pioneer's knowledge as unrelates to its current operating model.
27. The requested information is not within Pioneer's knowledge as unrelates to its current operating model.

**Part C. Other platforms as a route to market**

28. Kindly refer to Pioneer's response under question 10 above.
  - 28.1 
  - 28.2 Kindly refer to Pioneer's response submitted under question 10.1 above.
  - 28.3 In addition to the information submitted under questions 10.1 and 10.5 above, Pioneer does not require a commitment of exclusive supply or a requisite minimum volume commitment for a supplier to supply the Commodity Input Material to Pioneer as detailed hereunder. Pioneer's clear preference is to procure all Commodity Input Material from the local market and where possible, within proximity to its manufacturing plants to reduce total cost of supply. Pioneer's agreements with Concentrate suppliers are currently finalised for an effective 24-month term from a legal perspective but commercial commitments to supply Concentrate or Tomato Paste at an agreed price across an agreed supply period is typical much shorter, lasting less than 12 months and finalised under a separate Deal Sheet as an annexure to the supply agreement. Suppliers are therefore not locked into any long-term agreements and is in any event free to transact with others, while such supply agreements with Pioneer are effective.
  - 28.4 In addition to information submitted under question 10 above, pricing for Commodity Input Material is directly linked to the grower's input cost, anticipated output potential, quality and size of harvest



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both in South Africa and abroad, forex and global pricing dynamics, where Pioneer either have to rely on imported Commodity Input Material (i.e. Concentrates) or where the fresh fruit product or Dried Fruit Product are also typically exported and sold in global markets.

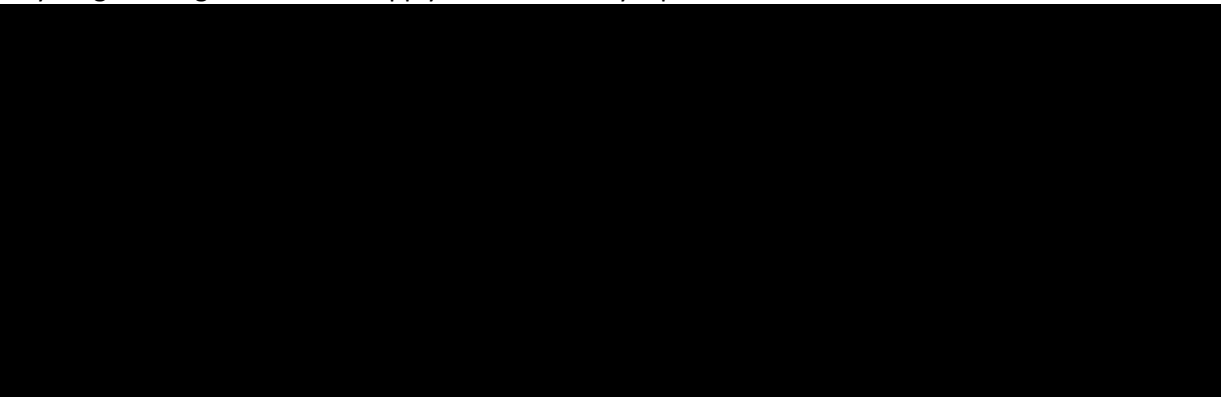
28.5 Pioneer's procurement of Commodity Input Material is solely as a raw material for processing and therefore do not include or calculate a mark-up, gross or nett margin relevant to respective Commodity Input Material.

28.6 The Commodity Input Material represent key raw materials and, therefore, an input cost in the manufacturing of the finished goods. To the extent that Pioneer is not able to offset any increase in the cost of the Commodity Input Material through its extensive productivity initiatives aimed to eliminate or reduce the impact of inflationary cost -push dynamics, the increased cost of Commodity Input Material may contribute to an increase in the cost of finished goods to Pioneer's customers.

28.7 As indicated, the pricing at which Pioneer procure the Commodity Input Material is agreed with suppliers under contract. There is no direct or quantifiable nexus between a retailer's price increase and the price paid to suppliers for Commodity Input Material. The price which Pioneer negotiates with suppliers takes various cost increases into account for purposes of strategic planning.

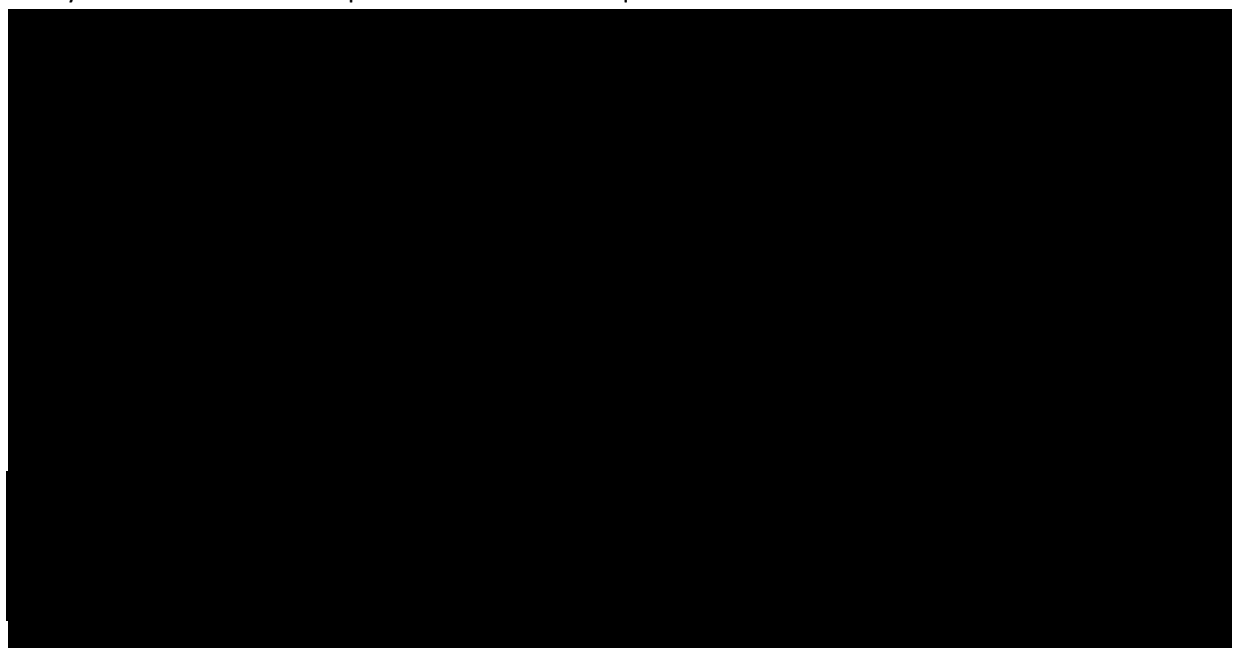
28.8 As mentioned above, Pioneer's supply arrangements with suppliers are short-term- lasting less than 12-months or the duration of a particular growing season. Accordingly, suppliers are not locked into any long-term agreements to supply the Commodity Input Material to Pioneer.

28.9



28.10 Kindly consider Pioneer's response included under question 10.9 above.

28.11



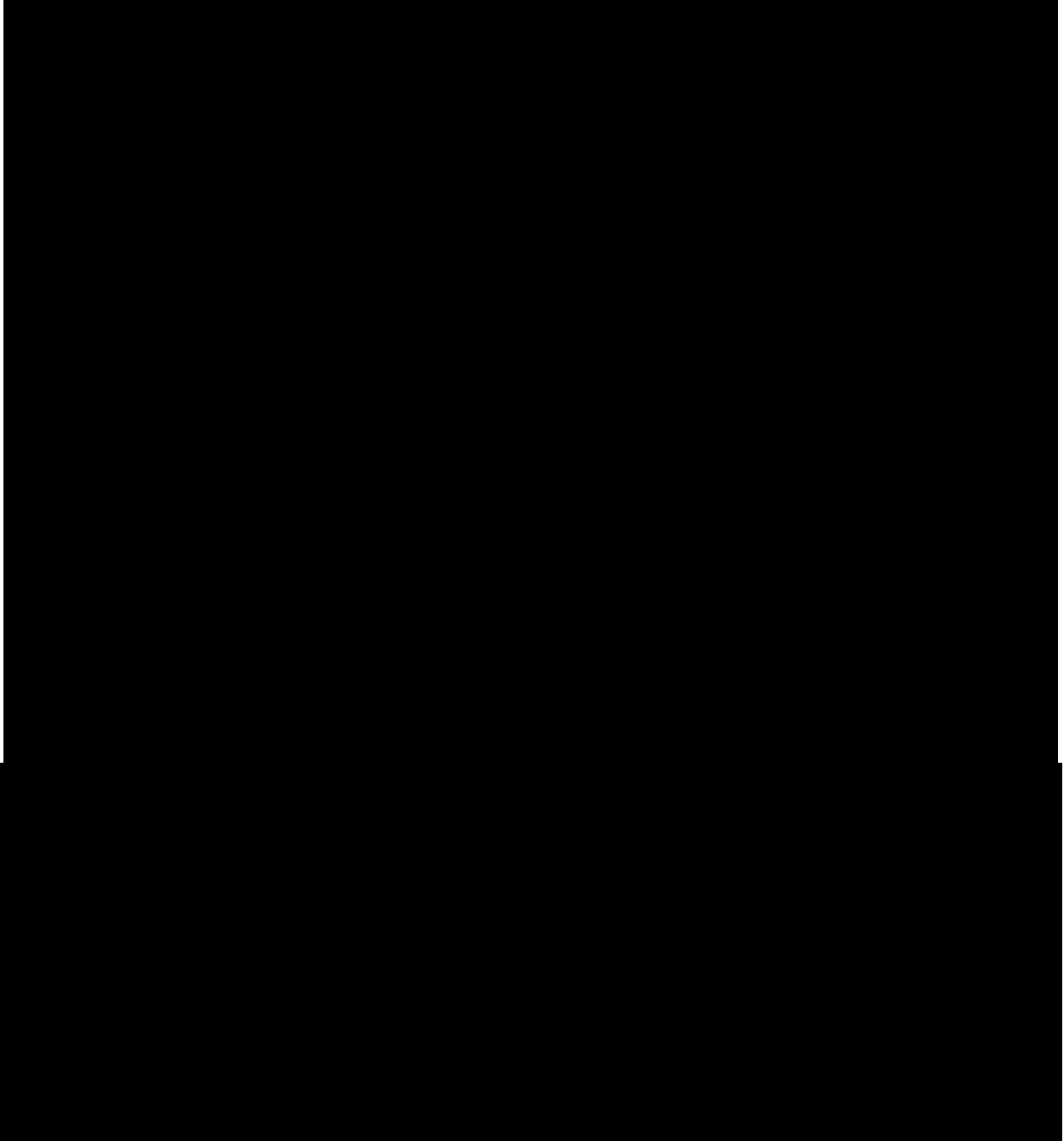
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- 28.12 Kindly consider Pioneer's response included under questions 28.11. Pioneer is not aware of third-party logistics service provider who provide logistics services to producers.
- 28.13 Kindly consider Pioneer's submissions under questions 18 above.
- 28.14 Kindly consider Pioneer's response included under question 28.11 above.

29. Not relevant for purposes of the Pioneer operating model and Pioneer is therefore not able to respond to the relevant questions hereunder.

**Part D. Market Dynamics of Key Inputs and their impact of producers.**

30. The barriers to entry are largely dependent on the size and scale the potential entrant wishes to operate at. There is no material regulatory or licensing barriers to entry. Capital investment, developing efficient



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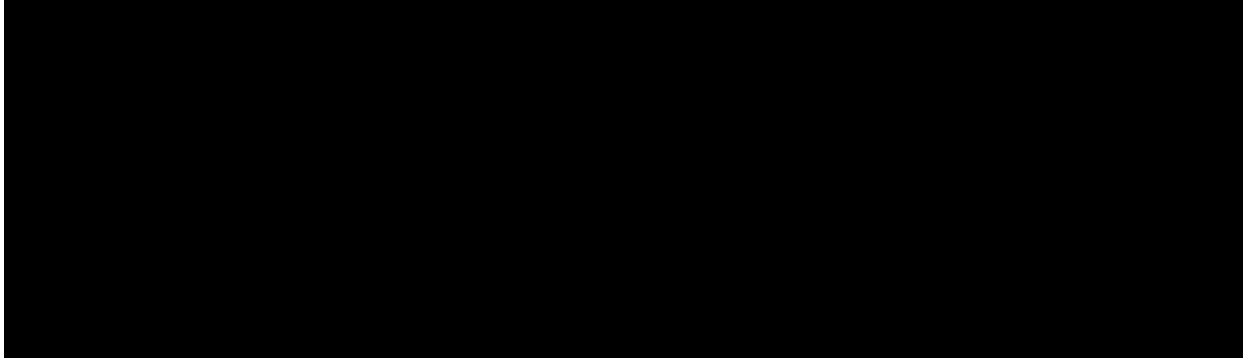


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and stable supply chains and a brand are generally some of the key barriers to entry. This of course depends on whether the processing is intended to produce a final product for consumers. There are many intermediary types of processing (i.e. toll processing) which has lower barriers to entry. Operating a business, the size and scale of Pioneer on the other hand requires substantial investment. In more recent years the ability to self-generate power at manufacturing plant level has been critical to sustain the business' ability to satisfy customer demand, materially increasing investment required and operating cost.



- 30.2 At a high-level, ongoing, and easily accessible access to financing and funding is of critical importance to sustain a food and beverage manufacturing model due to the high cost of initial infrastructure, production capability investment, ongoing certification and maintenance thereof and the procurement of required goods, services, labour and raw materials. Any importation of goods increase complexity due to inefficient port services in South Africa, shipping requirements, extended lead times, difficulties in enforcing legal rights in foreign territories and FOREX exposure due to the weakening ZAR. Investment in systems, policies and internal expertise to enable demand planning, financial transaction capabilities and reporting requirements contribute materially to the high fixed cost of manufacturing food products in South Africa. The deteriorating rural road infrastructure in South Africa further increase the logistics cost in transport of Commodity Input Material in rural areas further amplified by loadshedding and inability to self-generate energy.
- 30.3 Pioneer is not able to opine on the time to recoup total cost of investment in establishing a new manufacturing plant in South Africa. However, in investigating viability of installation of the above-mentioned blow moulding equipment and the high-speed packaging line, the expected nominal payback periods were respectively calculated as 3.9 and 4 years (land, buildings and utility investment excluded).
- 30.4 No further data to be disclosed in relation to other sunken cost, as in Pioneer's view already articulated hereunder but Pioneer will gladly answer any other pertinent questions by the Commission on point.
- 30.5 While the production of food and beverage consumer food products at scale is beneficial due to the investment required, it is not essential to be able to enter and participate in the market as there is space for small efficient producers to participate in the market as well.

#### **Part E. Market Access for SMME and HDI Producers**

31. Agriculture at a commercial level require material access to financial support for new entrants to enter and remain in the sector. In addition, inability to secure land, access to water and/or property rights is further likely to impede a new entrant's ability to sustainability succeed in the sector.



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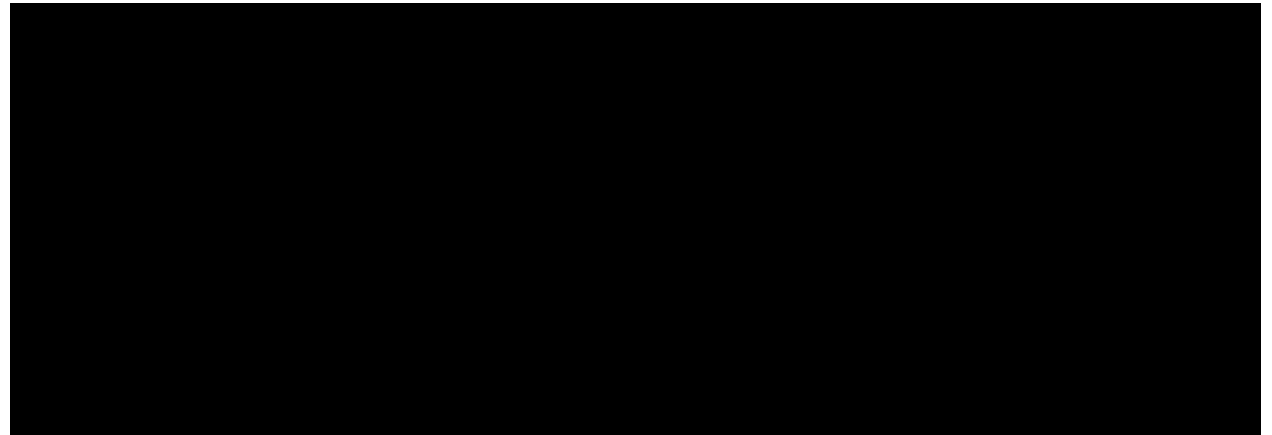
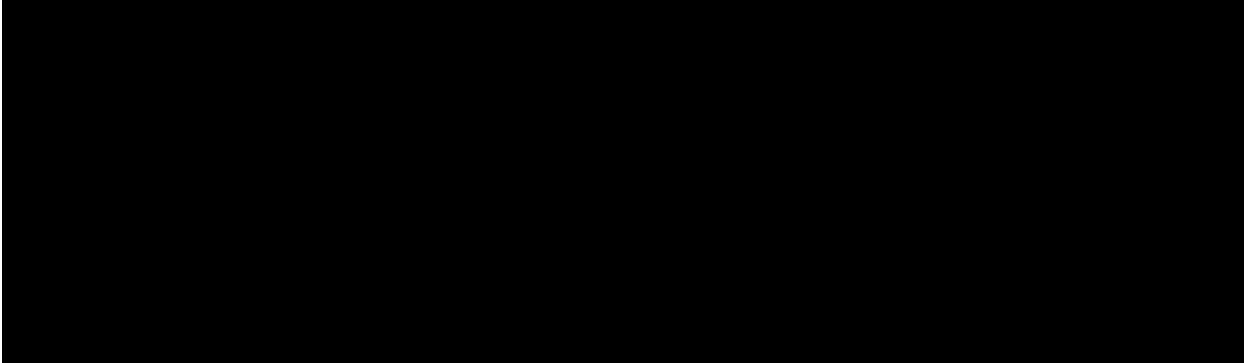
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32. In addition to Pioneer's response included under question 28.9 above, the ability for small-scale growers to contract with processors provide the former with surety of payment against well-articulated demand forecasted volumes requirements. Small-scale growers may also tender agreements with processors to

33.



34. Agriculture at a commercial level requires material access to financial support for new entrants to enter and remain in the sector. In addition, inability to secure land, access to water and/or property rights is further likely to impede a new entrant's ability to sustainability succeed in the sector. Rising costs (i.e. fuel, fertiliser, equipment) also disproportionately impacts small-scale farmers.

35. With the exception of certification to enable export of Dried Fruit Products as detailed under question 13 above, Pioneer's procurement of Commodity Input Material is not impacted by standards set by industry associations. Pioneer do abide by the Foodstuffs, Cosmetics and Disinfectant Act , No. 54 of 1972 (FCD Act), the Agricultural Products Standards Act, No. 119 of 1990 (APS Act) and the Consumer Protection Act, No. 68 of 2008 (CPA) and its implementation regulations that govern the quality and safety of food products for human consumption and will therefore require third parties to supply the Commodity Input Material against specifications that, amongst other reasons, enable Pioneer to comply with laws and regulations. Pioneer's response is, however, provided within the context of its role within the specific Commodity Input Material value chain as detailed hereunder.

36. Pioneer will typically grade Dried Fruit Product on receipt at its manufacturing plant against which the price per grade is payable to the supplier. Grading is conducted against an objective industry criterion.

37. Pioneer's internal grading process provides for the grading inspector to have no access to the details of the supplier whose Dried Fruit Product is being graded to intentionally mitigate any risk of unintended



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biases that may impact any supplier, and not only small-scale farmer's, effective participation in the Pioneer value chain.

38. Contract terms offered by Pioneer to its Dried Fruit Product suppliers are standard irrespective whether the supplier is a small-scale supplier or well-established commercial supplier and therefore do not disadvantage small-scale suppliers.
39. Pioneer is not aware of any contractual terms currently offered to Dried Fruit Product suppliers that could be considered to disadvantage small-scale suppliers.
40. Kindly consider Pioneer's detailed responses submitted under questions 10 and 28 above.
41. Pricing for the Commodity Input Material by Pioneer is agreed under contract, voluntary acceptance by both parties.
42. Kindly consider Pioneer's response in relation to levies imposed by industry associations as detailed under question 13 above.
43. Kindly consider Pioneer's response included under question 33 above.
44. Please consider Pioneer's response included under question 38 above.
45. Pioneer contract with suppliers at a rate per KG/Ton basis for the total volume procured under the contract, irrespective whether the supplier is a large - or small-scale supplier.
46. In general growers are impacted by international pricing dynamics from an input cost perspective due to importation of key products like fertilizer, chemicals, crude oil and equipment.
47. Not within Pioneer's knowledge to respond to this question.
48. Not within Pioneer's knowledge to respond to this question.
49. Pioneer is not aware of any unfair pricing dynamics or other trading conditions relevant to the procurement of Commodity Input Material in South Africa.
50. Not within Pioneer's knowledge to respond to this question.
51. Kindly consider Pioneer's response submitted under question 28 above.
52. Not within Pioneer's knowledge to respond to this question.

#### **Part F. Access to Financial Support**

53. Kindly consider Pioneer's response submitted under question 33 above. In addition, Pioneer proactively developed over time Dried Vine Fruit suppliers that qualify as HDPs through expert advice, support and financial advances, as detailed under question 28.9 and during 2022 procured Dried Vine Fruit from 93 suppliers that qualify as HDPs.
54. Pioneer do not operate businesses internationally that manufacture distribute and sell Juice Products, Tomato Sauce, Dried Fruit Products or Fruit Jam, as relevant to its procurement of Commodity Input Material for purposes of the FPMI. Pioneer has a clear preference to procure Commodity Input Material locally, to the extent that is able to source supply.
55. Pioneer is not able to provide a response to this question as not within its knowledge.
56. Pioneer is no able to provide a response to this question as not within its knowledge.
57. Pioneer is similarly not able to respond to this question as not within its knowledge.
58. Kindly consider Pioneer's response under question 33 above detailing workstreams by the Kgodiso Development Fund in establishing an incubator model.
59. In addition to lack of access to capital and rights to land/property, ongoing loadshedding, high interest rates, double-digit year-on-year increase in cost of energy and degeneration of infrastructure, worse in rural areas, to name a few, will further impair small-farmers from effective participation in the agricultural sector. However, enhanced focus on environmental sustainability and regenerative agricultural practises provides a unique opportunity for new entrants or small-scale farmers to positively





contribute to buyer's sustainability goals where established commercial farmers maybe slower to adopt given complacency and/or resistance to change.

**Part G. Scope of the Inquiry and Issues.**

- 60. Pioneer hasn't identified any other areas of inquiry into the market for fresh produce not contained in the Terms of Reference. Pioneer's response is, however, provided within the context of its role as a customer that procure the Commodity Input Material for processing as detailed hereunder.
- 61. Pioneer is not aware of any other features of the market for fresh produce and the participation therein in South Africa that can be considered relevant to the FPMI. Pioneer's response is, however, provided within the context of its role as a customer that procure the Commodity Input Material for processing as detailed hereunder.
- 62. No further submissions are required by Pioneer at this time.

Kind regards

**PIONEER FOODS (PTY) LTD**

By: Almari Meyer

Name: Almari Meyer

Title: Legal Director - PepsiCo SA

Date: \_\_\_\_\_