

Our Ref : J NAINKIN Your Ref: 2022APR0051

**THE COMPETITION COMMISSION
DTI CAMPUS
MULAYO (BLOCK C)
77 MEINTJIES STREET, SUNNYSIDE
PRETORIA**

8 August 2023

ATTENTION: DERRICK BOWLES / RUAN MARE

**Per email: DerrickB2@compcom.co.za
RuanM@compcom.co.za**

Dear Sirs

**REQUEST FOR INFORMATION RELATING TO FRESH PRODUCE MARKET ENQUIRY: CASE
NUMBER - 2022APR0051**

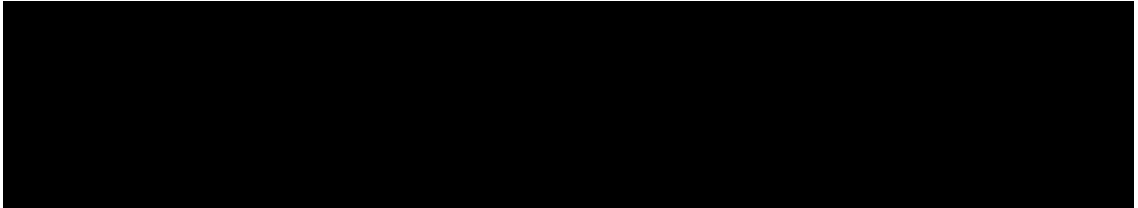
We refer to your request for information and submit herewith the information as required:

1. Question 1:

NEXUS^{AG} sells plant and soil health products, as well as a variety of crop protection products to appointed distributors and customers. **NEXUS^{AG}** also provides technical know-how and advice by assisting distributors in preparing and developing customised crop spraying and crop management solutions for customers. **NEXUS^{AG}** has a specialised technical committee which ensures that all products which are purchased by **NEXUS^{AG}** and resold receives the necessary stewardship from **NEXUS^{AG}** and/or the registration holder given the deciding impact the use of the product can have on crop success or failure.

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2. Question 2:



3. Question 3:

NEXUS^{AG} and its related companies are not owned or controlled by historically disadvantaged persons.

4. Question 4:

4.1 We attach hereto as **Exhibit "2A"** a list of products sold by **NEXUS^{AG}** in respect of agrichemicals and **Exhibit "2B"** a list of soil health products sold by **NEXUS^{AG}**.

4.2 **NEXUS^{AG}** distributes the products attached as **Exhibits "2A"** and **"2B"** in the Western, Northern and Eastern Cape.

5. Question 5:

We attach the annual financial statements for the 2022 financial year as **Exhibit "3"** and the Management Accounts for the March 2023 financial year as **Exhibit "4"**.

6. Question 6:

The annual financial statements do provide a detailed breakdown of the revenue sources and operational costs of the firm for the most recent financial year.

3.

7. Question 7:

We enclose herewith the Management Accounts as **Exhibit "5"** for the month of March 2023.

8. Question 8:

No investor or other presentations exists describing the **NEXUS^{AG}** business model. We enclose a slide the CEO uses to explain where Nexus fits in within the value chain as **Exhibit "6"**

9. Question 9:

No internal or external commissioned research for studies exists as requested.

10. Question 10:

We enclose herewith some of **NEXUS^{AG}** marketing materials as **Exhibits "7"**, **"8"** and **"9"**.

11. Question 11:

See answer to question 10.

12. Question 12:

We provide herewith the top 10 products sold for the financial period January 2019 to March 2022 together with the most recent price list for each of these products for the agrochemical business as **Exhibit "10A"** and in respect of the soil health/nutrition products as **Exhibit "10B"**.

13. Question 13:

NEXUS^{AG} follows a dual distribution model. It sells products to appointed distributors and/or sells products via sales agents to end-users/producers directly. The customers included in this list are therefore a mixture of distributors, as well as producers (end-users):

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13.1 The ten largest customers by sales in the past financial year:

<u>Name of Distributor/Customer</u>	<u>Contact Person</u>	<u>Email address</u>

13.2 The ten smallest customers by sales in the last financial year:

<u>Name of Distributor/Customer</u>	<u>Email address</u>

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13.3 Most recent customers who engaged with **NEXUS^{AG}** but did not purchase any products from **NEXUS^{AG}** :

<u>Name of Distributor/Customer</u>	<u>Contact Person</u>	<u>Contact Number</u>
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

14. Question 14:

The various inputs in the agricultural value chain are complex and diverse. **NEXUS^{AG}** provides crop protection and soil health products and advice to distributors and customers. **NEXUS^{AG}** is not in a position to comment or advise on other inputs given the very diverse and complex nature of the agricultural value chain. **NEXUS^{AG}** can, however, provide input on its input costs and does so in this response.

15. Question 15:

- 15.1 **NEXUS^{AG}** unfortunately does not have this information at its disposal. There is currently no objective industry informatics available insofar as **NEXUS^{AG}** is aware to enable **NEXUS^{AG}** to calculate a market share. Overall the crop protection industry in South Africa is valued at eighteen billion ZAR ex-warehouse. **NEXUS^{AG}** is only active in the Northern Cape, Western Cape and Eastern Cape.
- 15.2 Certain industries, for example, the South African Table Grape Industry will publish statistics but it is not possible to practically break these

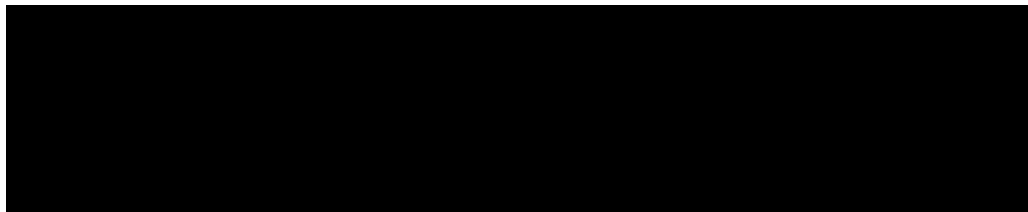
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statistics down into specific areas and farms to allow for any meaningful market share calculations.

16. Question 16:

The cost of the raw materials and manufacturing of products and the exchange rate at which it is acquired (given that most products sold here are either imported from India or China), together with the logistics and/or shipping costs form the key input costs for agrochemicals. The scarcity of active ingredients (raw materials) plays a role in global demand and price-setting. Manufacturing firms decide on the supply of product and resource allocation according to where they will find the best demand and price for their product. Other factors which influence price is the war in Ukraine and Russia which saw energy prices in Europe increase by 30% which influenced the pricing of products. The price of fertilizer has seen an increase of 100% which can be directly attributed to the conflict in Ukraine and Russia.

16.1



16.2 International prices dictate to which jurisdictions international suppliers prefer to supply product to given price and demand factors which does indirectly influence their selling price of product to South Africa. **NEXUS^{AG}**, however, does not use import or export parity pricing to price its sale price of products to customers.

16.3 The main drivers of input costs are the actual price of the product, cost of logistics, shipping costs and the exchange rate. Shipping costs have reduced somewhat over the last 12 months but the exchange rate has weakened substantially. The active ingredients in 95% of all

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agrochemicals used in South Africa are imported from either China or India.

16.4 **NEXUS^{AG}** does not sell seeds and therefore cannot comment on the question raised in 16.4.

15. Question 17:

We attach hereto the information requested as **Exhibit "11"**.

16. Question 18:

Exhibit "12". None of the distributors are historically disadvantaged persons insofar as **NEXUS^{AG}** is aware.

17. Question 19:

19.1 **"Exhibit "13"**. None of the distributors are historically disadvantaged persons insofar as **NEXUS^{AG}** is aware.

19.2 With regards to rebates, we wish to point out to the Commission that this is not calculated per product per customer. Depending on the manufacturer rebates can differ substantially. Some manufacturers will, for example, pay a rebate based on a specific sales target. This rebate is paid to **NEXUS^{AG}** and **NEXUS^{AG}** in turn will pass the rebate on to distributors pro-rata to their contribution to that specific sales target.

19.3 Other manufacturers use their own very complex actuarial models to determine rebates.

18. Question 20:

We provide the information requested for the calendar year commencing 1 January 2022 and ending 31 December 2022 as **Exhibit "14"**.

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19. Question 21:

21.1 Distribution Agreements:

UPL SOUTH AFRICA (PTY) LTD	No Agreement
FARMKEM CC	No Agreement
BAYER PTY LTD - (GENERAL)	Exhibit "15"
ROLFES AGRI (PTY) LTD	Exhibit "16"
PHILAGRO SOUTH AFRICA (PTY) LTD	Exhibit "17"
CONSTANTIA KUNSMIS	No Agreement
BASF SOUTH AFRICA (PTY) LTD	Exhibit "18"
CORTEVA CROP SOLUTIONS SA PTY LTD	No Agreement
FMC CHEMICALS (PTY) LTD	Exhibit "19"
MICROBIAL BIOLOGICAL FERTILIZERS	No Agreement

20. Question 22:

NEXUS^{AG} does not participate in this online sales platform.

21. Question 23:

23.1 Distributors of agrochemicals do not have to make any significant capital or infrastructure acquisitions to commence business. It is, however, a requirement that the storage of agrochemicals takes place in conformance with applicable legislation relating to, for example, the Hazardous Goods Act or the Occupational Health and Safety Act. **NEXUS^{AG}** requires its distributors to maintain a CropLife registration as well as certification to ensure that they have the appropriate knowledge in relation to the sale of agrochemicals and the appropriate application thereof.

23.2 The investment cost is simply the cost of purchasing the products and this can be recouped quite quickly once the products have been sold. Agrochemicals are of seasonal application and therefore probably a

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maximum of 12 months is the time period it would take to recoup the cost of the investment.

23.3 There are no other costs as far as we are aware.

23.4 There are economy of sale advantages in terms of the purchase and sale of agrochemicals. The larger the volume purchased, the greater the discount from the manufacturer.

22. Question 24:

Laeveld Agrochem, Agri-Hive and Rainbow Chemicals.

23. Question 25:

There are no firms that **NEXUS^{AG}** are aware of that have exited the market in the past three to five years.

24. Question 26:

As stated in the answer to question 13, **NEXUS^{AG}** follows a dual distribution model and therefore producers/growers are for the most part not direct customers of **NEXUS^{AG}** but products are sold to them via **NEXUS^{AG}** distributors. The Distributors play a very important role in advising growers/ end-producers on the application of soil health and agrochemicals and in most instances not only sell a product to the customer but also deliver a value-added service to producers by developing bespoke crop spraying programs that are crop-specific and area specific. Distributors will also advise the grower on soil health and other soil and crop health matters.

26.1 With regards to agrochemicals, if there is any increase in price, this has to be passed on through the supply chain. As can be seen from the answer in question 16.1 **NEXUS^{AG}** mark-up leaves very little scope for it to absorb these price increases.

26.2 **NEXUS^{AG}** does procure from local (i.e. South African) suppliers. However, no local supplier can supply products necessary for the full

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crop protection cycle of all crops. **NEXUS^{AG}** therefore is extremely dependent on international manufacturing companies that have local branches in most cases. The active ingredients (raw materials) for most products are manufactured overseas and the final product is consolidated in South Africa from these active ingredients by the local branches. Therefore, raw materials of most products sold in South Africa have been synthesized overseas and are formulated to form an end product in South Africa, or is fully imported as an end product.

26.3 Yes, volume purchases for products do result in a substantial saving when purchased in bulk. It is, however, not always possible to purchase products in bulk volume as there is a cost to carry the inventory and to have enough storage space available.

26.4 Cooperatives provide end-producers/growers with funding. Cooperatives do compete for the sale of certain products and cooperatives generally are able to sell these products cheaper since they mostly do not provide necessary technical support and/or value adding services. The advantage of **NEXUS^{AG}** and its distributors lies in the substantial technical know-how and advice with regards to the application and use of agrochemicals and therefore the substantial value to end-producers in terms of the use of such products. In some instances, **NEXUS^{AG}** distributors may sell to the cooperatives to allow end-producers to fund the products through such cooperatives but this is entirely up to the distributor.

25. Question 27:

Given that **NEXUS^{AG}** does not sell products to any cooperatives, it cannot really comment on the questions raised in question 27 save it has already advised that cooperatives do play an important role in providing funding to end-producers/growers.

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26. Question 28:

28.1 Climate change has not had a direct impact on the market for agrochemicals per se. However, consumer behavior has increasingly required the use of biological products as opposed to chemical products on crops. Consumer groups and retailers are placing pressure on end-producers/growers to rather use biological products to ensure crop health. Chemical products are inclined to create or leave a so-called residue on products and therefore the timing and use of such products are important prior to moving products to market to be within the legal limits of the product registration. Products sprayed with chemical agents cannot be sold to end-users within a certain period of time to prevent the legal residue levels from being exceeded. The label or instructions of the particular product will determine when products can be brought to market after the use of chemical products. This is the reason why biological products are being favored by retailers and consumers. An example of the effective use of a new biological product is the problem experienced with false coddling moth with regards to infestation in citrus. For example a biological product which disrupts the mating of the moth has been very effective in preventing infestation.

28.2 Certain products are also rain dependent and may stay on plants for a longer period of time depending on the amount of rainfall. **NEXUS^{AG}** sells natural predators through its distributors to end-producers/growers which is a form of a biological product. Therefore to conclude, there is no direct impact as far as **NEXUS^{AG}** has been able to observe on the inputs into the agriculture market as regard to climatic conditions. The change is rather with regards to the type of products being used which is changing from chemical-based to biologically based products.

12.

27. Question 29:

We refer the Commission to **NEXUS^{AG}** 's answer in question 16.

28. Question 30:

Yes, all customers have the same terms and conditions.

29. Question 31:

Not applicable.

30. Question 32:

Please see the answer given in question 16.

31. Question 33:

NEXUS^{AG} does not determine discounts or rebates. This is determined by suppliers. Suppliers use diverse methods of determining rebates.

32. Question 34:

Please see the answer to question 16.

33. Question 35:

We refer the Commission to the answer to question 16.

34. Question 36:

NEXUS^{AG} has an internship program through which it develops individuals, including historically disadvantaged individuals. **NEXUS^{AG}** sells products through distributors. Distributors who operate completely independent entities are referred to by **NEXUS^{AG}** as Option 2 Distributors and are in the estimation of **NEXUS^{AG}** all small and medium enterprises as defined in the Act. **NEXUS^{AG}** assists new entrants to the distribution market by allowing them to initially work

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as sales agents or as Option 1 Distributors which means that **NEXUS^{AG}** takes the risk in purchasing and holding the stock and the sales agents and Option 1 Distributors earn commission on products sold. The intention is that the Sales agents and Option 1 Distributors should become Option 2 Distributors in time (approximately 4 years).

35. Questions 37 – 40:

NEXUS^{AG} does not have any other submission which it wishes to make to the commission at this stage.

36. We enclose herewith Confidentiality Form CC7 together with annexure thereto claiming confidentiality over the documents submitted.

37. Kindly acknowledge receipt hereof.

Yours sincerely
JANINE NAINKIN INC

Per:
JANINE NAINKIN
DIRECTOR