

BACKGROUND AND BUSINESS ACTIVITIES

1. Briefly describe the business activities of Starke Ayres and how it is positioned relative to other businesses that provide key inputs for growers in the fresh produce sector.

Starke Ayres is a vegetable seed supplier with sales to both the commercial market (farmers) and retail market (hobby seed packets). We sell various crops with the following legal rights:

- **Proprietary seed:** the seed that Starke Ayres or our holding company, Plennegy, has the Plant Breeders Right (PBR).
- **Exclusive seed:** the seed that a third-party company has the PBR, but Starke Ayres has the right of sale in a defined territory.
- **Open-Pollinated seed:** the seed is not subject to PBR and is available for any company to sell.

Starke Ayres' strategic focus is on the development of vegetable seed varieties that meet and exceed growers' current vegetable production needs.

We endeavour to anticipate future needs through strategic alliances with various groups, including direct interaction with commercial vegetable growers, processors, and vegetable buyers. Our dedicated breeders, research scientists and vegetable researchers located at our various research facilities guarantee that our capabilities and research focus areas continue to expand.

We are the largest vegetable seed company with dedicated breeding programs in South Africa. These breeding programmes, focused primarily on the needs of the South African market, include onions, tomatoes, pumpkins, green beans, sweetcorn, and squash.

This investment in R&D, and the fact that most of our Proprietary seed productions are within South Africa, leads to greater employment and expansion within the agricultural sector. We actively promote the export of vegetable seeds through our international agents.

The route to market for our products is by way of a dedicated sales team selling directly to farmers, or through retail outlets across South Africa. These retail outlets include most cooperatives, independent Garden Centres, Shoprite/Checkers, Pick 'n Pay, and Builders Warehouse.

Refer to www.starkeayres.com for further information on our company if required.

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

Starke Ayres is a wholly owned subsidiary of Plennegy (Pty) Ltd. Kombat (Pty) Ltd is a wholly owned subsidiary of Starke Ayres (Pty) Ltd. Refer to www.plennegy.co.za for a complete list of the group companies.

3. Indicate if Starke Ayres or related operating companies are owned and controlled by Historically Disadvantaged Persons ("HDPs").

Starke Ayres is not owned by Historically Disadvantaged Persons.

4. Provide a list of products sold by Starke Ayres in South Africa.

Refer to the product list in the tab “4. List of Products” in the attached Excel file.

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

Starke Ayres is a privately-owned company and as such we do not believe our audited financial statements should be made available.

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

Starke Ayres is a privately-owned company and as such we do not believe our Annual Financial Statements would be relevant to the Fresh Produce Market Inquiry.

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

Starke Ayres is a privately-owned company and as such we do not believe our monthly management accounts would be relevant to the Fresh Produce Market Inquiry.

Internally we track the performance of our business through 3 key metrics:

- **Turnover growth from the prior financial year – this monitors our overall growth.**
- **Proprietary seed Gross Profit as a percentage of total Gross Profit – this monitors the growth of proprietary products that we have invested our R&D into, compared to exclusive products.**
- **Return on Average Capital Employed.**

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

Refer to the attached document called “Starke Ayres Strategy_All staff_2022”.

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

Refer to the attached SANSOR Horticulture stats for the prior two calendar years (“SANSOR_horticulture 2021 report_24 may 2022” and “SANSOR_horticulture 2020 report_14 may 2021”).

10. Provide copies of Starke Ayres’ latest marketing materials and presentations used in engagements

with different types of potential customers.

Refer to the attached Starke Ayres Seed News Summer 2023 newsletter.

11. Provide copies of Starke Ayres 's latest marketing materials targeted at consumers.

Refer to the attached Starke Ayres Seed News Summer 2023 newsletter. Please also refer to our social media pages on Instagram and Facebook.

12. Provide the historic prices for your top 10 relevant products sold within the fresh produce industry from January 2019 till March 2022.

- 12.1. Provide the most recent price lists issued by Starke Ayres for each of these products.

Refer to the price list in the tab "12.1 Top 10 Historic Price" in the attached Excel file.

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

- 13.1. The 10 largest customers by sales in the last financial year.

Refer to the list in the tab "13.1 Top 10 Customers by Sales" in the attached Excel file.

- 13.2. The 10 smallest customers by sales in the last financial year.

Refer to the list in the tab "13.2 Bottom 10 Cust by Sales" in the attached Excel file.

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

Refer to the list in the tab "13.3 Recent Pot Customers" in the attached Excel file.

MARKET DYNAMICS OF KEY INPUTS AND THEIR IMPACT ON PRODUCERS

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

We estimate that vegetable seeds are between 6.8% and 12% (depending on the crop) of the total input costs for farmers producing vegetables. Other inputs would include fertilizers, pesticides, herbicides, water, electricity, labour, packaging, and transport.

In terms of the vegetable seed industry, Proprietary seeds, given their enhanced genetics, are more expensive for farmers. This is to compensate the holder of the Plant Breeders' Rights for the high investment in R&D and the higher cost of producing Proprietary seed.

Starke Ayres maintains a product portfolio that includes Open-Pollinated seeds which are more affordable for small-scale farmers. We believe we are only one of three companies that provides Open-Pollinated seeds on a large scale within South Africa.

Other vegetable seed suppliers that we are aware of include:

- **Sakata**
- **Syngenta South Africa**
- **Enza Zaden South Africa**
- **Nuvance**
- **Rijk Zwaan**
- **Seminis**
- **Alliance Seed**
- **InteliSeed**
- **Mirmar**
- **Shalom Seeds**
- **Seeds Unlimited**
- **Hygrotech**
- **Easi Seeds**
- **Vegetable Seed Genetix**
- **Hazera Seeds South Africa**

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

Refer to the attached document called “Starke Ayres Strategy_All staff_2022”. Page 9 for the total assessment of the vegetable seed market, including the export market as well as the retail (“hobby”) market. Refer to page 24 of the document for the assessment of the commercial (farmer) vegetable seed market within South Africa, and Starke Ayres’ estimated market share of it, by crop.

16. Explain the price-setting mechanisms which pertain to agricultural inputs (seeds, fertilizers, agrochemicals (herbicides, fungicides, and pesticides)). In your response refer to:

- 16.1. The methodology and factors considered when determining price;

Our methodology in pricing is to ensure we are competitive for farmers, but at the same time maintaining an acceptable return on our investment, particularly for Proprietary seed. Pricing is determined on a variety level as vegetable varieties offer differing value-added benefits to farmers (disease resistance etc).

We consider CPI, R&D costs (for proprietary seeds), costs of production, supplier prices (of exclusive varieties), and exchange rates.

- 16.2. The use of international bases for price including the use of import and export parity pricing in the determination of local pricing; and

Not applicable.

- 16.3. The main drivers of cost; and

The main drivers of cost include labour, electricity, water, R&D, and capital purchases to import specialized equipment for our industry that is not available locally (especially in our cleaning and packing, and research functions).

- 16.4. Certification costs in relation to seeds.

To ensure only quality seeds are sold, Starke Ayres invested heavily in an International Seed Testing Association (ISTA) accredited laboratory. This facilitates the export of seeds through the issuing of Orange International Certificates as required. This investment is mainly required because of the failure of DALRDD to provide the requisite services on the seed industry's behalf.

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

Refer to the list in the tab “17. Last 5 years Sales” in the attached Excel file.

- 17.1. Total volume sold,
17.2. Average selling prices,
17.3. Rand and percentage markups,
17.4. Rand and percentage gross profit margins, and
17.5. Rand and percentage nett profit margins.

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

Refer to the lists in the tabs “18.a. Onion Top 10 Customers / 18.b. Cabbage Top 10 Customers / 18.c. Tomato Top 10 Customers / 18.d. Carrot Top 10 Customers / 18.e. Spinach Top 10 Customers” in the attached Excel file.

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

Refer to the lists in the tabs “19.a. Onion Bottom 10 Customers / 19.b Cabbage Bottom 10 Cust.

/ 19.c. Tomato Bottom 10 Cust. / 19.d. Carrot Bottom 10 Cust. / 19.e. Spinach Bottom 10 Cust.”
in the attached Excel file.

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

We do not make use of distributors within South Africa. We make use of distributors in other countries (for example Zimbabwe, Malawi, Australia).

21. Provide distribution Agreements that Starke Ayres has entered into with (i) top 10 distributors and (ii) bottom 10 distributors.

Not applicable.

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

We do not make use of any online sales platform for farmers.

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

- 23.1. Capital and infrastructure costs;

Cleaning and packing of vegetable seed on a large scale require investment in specialised machinery and equipment. As vegetable seed production is not a well-established industry within South Africa, these specialised machinery and equipment are often only available from international suppliers.

- 23.2. Time required to recoup the costs of investment;

One distinctive characteristic of the seed industry is its R&D intensity. R&D spending varies widely between companies, from low single-digit % of sales to around 30%. This variability shows how R&D is an important strategic differentiator between companies. At an average of around 15%, this makes the seed industry one of the most R&D-intensive industries in the world, on par with pharmaceuticals.

- 23.3. Other sunk costs; and

Discussed elsewhere.

- 23.4. Scale economy advantages.

Scale economy advantages in vegetable seed come from having access to a wide range of genetic sources to breed varieties for the specific needs of farmers. These genetic sources are acquired over a long period of R&D. It is estimated to take

between 10 and 15 years to sell a single variety commercially.

24. Kindly identify and list any new entrant that has entered the market for the manufacturing of any of the agricultural inputs that you manufacture in the past 3 - 5 years in competition with Starke Ayres.

- **Enza Zaden South Africa**
- **Syngenta South Africa**
- **Mirnar Seeds**
- **Vegetable Seed Genetix**

25. Kindly identify and list any firm that has exited the market for the manufacturing of any of the agricultural inputs that you manufacture in the past 3 - 5 years.

- **Seedcor**

26. In relation to producers/growers as customers of agricultural inputs, provide a breakdown of the costs of agricultural inputs (disaggregated please) expressed as a percentage of your total costs. In your response indicate:

26.1. Whether any increase in these costs is absorbed by the growers or if they are capable of being passed down the value chain.

26.2. To what extent Starke Ayres is able to procure from local suppliers or manufacturers and the price and quality of locally produced agricultural inputs compared to imports.

We outsource production for our Proprietary seed and some Open-Pollinated seed varieties to third-party growers. We contract them on a yield per Ha basis. These contracts are negotiated separately with each grower on an annual basis.

We do make use of international growers for risk management purposes (mainly for counter-season productions). These contracts are negotiated and compared to local growers' costs to ensure cost-effectiveness.

We purchase Exclusive seed varieties directly from the holder of the Plant Breeders' Rights, who are often large, multinational companies.

26.3. The extent which volume purchases have on the pricing of agricultural inputs.

Limited impact on vegetable seed.

26.4. The role (or lack thereof) of cooperatives and public sector agricultural support in the provision of competing inputs.

Cooperatives provide a wide range of competing inputs for farmers, including many of our opposition products.

27. Provide a broad overview of the role cooperatives play in markets for fresh produce. In your response kindly refer to:

27.1. The ability of cooperatives to lower costs for producers/ growers (especially in the small-

scale/emerging producers/growers segment);

Unknown.

- 27.2. The ability of cooperatives to create access to input markets for growers/producers (small-scale/emerging segment);

The location of cooperatives in towns across South Africa creates access for growers/producers in those areas to access inputs such as vegetable seed.

- 27.3. The ability of cooperatives to ensure better pricing and service outcomes for growers/producers.

Unknown.

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

Refer to the list in the tab “27.4 Top 10 Co-ops” in the attached Excel file.

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

Refer to the list in the tab “27.5 Bottom 10 Co-Ops” in the attached Excel file

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

- 28.1. The need to source more complex agricultural inputs;

There is a need to access vegetable seed varieties that have characteristics that best suit the needs of farmers in their area. This includes disease-resistant seed for diseases that could be prevalent in a particular area. Varieties are also bred for climatic conditions.

Increases in prices occur when droughts in production areas impact a specific variety (e.g.: All Sweet Watermelon availability was negatively impacted due to water shortages in California).

- 28.2. The increase in costs of agricultural inputs, particularly for small holder farmers;

Same as commercial farmers. Fertiliser and fuel costs impact heavily on farmers of all sizes. This is particularly concerning in South Africa with the effects of load-shedding.

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

and

The lack of South African (or African) companies with established research and breeding capabilities to meet the needs of local farmers is a concern. This creates a reliance on international seed companies that provide disease-resistant varieties at higher prices.

Starke Ayres prides itself on being a South African company that breeds and sells vegetable seeds predominantly for the South African and African market in competition with large multinational vegetable seed companies.

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

Answered in the above.

DISCRIMINATION ON INPUTS

29. Explain the factors that are considered in determining the pricing of the major key inputs?

Factors impacting the pricing of the major key inputs are predominantly market forces. For example, the increase in fertilizer prices in the last year was a result of the Russian invasion of Ukraine. Fuel cost increases, both in the price of electricity and the need to purchase diesel to compensate for load-shedding have had a significant impact on input prices.

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

Yes. As discussed above, most of our products are available to farmers, either directly, or through cooperatives and retail outlets across South Africa.

By maintaining both Proprietary and Open-Pollinated seed varieties we cater to the needs of all farmers.

Our trading terms are established with our customers based on their individual credit risk, which is determined predominantly by the customers' credit score – obtained from *Experian*.

31. What are commercial terms offered by Starke Ayres to large-scale farmers that may not be accessible to small-scale farmers?

As discussed under point 30 above, large-scale farmers could obtain different terms based on commercial considerations, primarily their individual credit risk. These different terms could include extended payment terms and/or higher credit limits.

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

Discussed above.

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

Standard discounts apply to all customers.

Discounts are applied to individual products where we have excess inventory levels. This is to ensure the products are sold before obsolescence.

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

Discussed under point 29 above.

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

The high cost of inputs is a barrier for new entrants, however these are predominantly controlled by external market forces as discussed above.

ACCESS TO FINANCIAL SUPPORT

36. Does Starke Ayres have policies/support mechanisms to assist SMEs and/or firms owned and controlled by historically disadvantaged persons? If yes, provide documentation which details the support provided. If no such documentation exists, please describe the nature of the support provided.

Starke Ayres does not have policies/support mechanisms to assist SMEs and/or firms owned and controlled by HDPs. Unfortunately, the economic outlook, and deterioration in government entities (DALRDD and Eskom) to support our growth (including the export of our seeds) do not provide us the opportunity to expose our company to additional risk that is not imposed on multinational seed companies that we compete with in the South African market.

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

We do not have formal policies/support mechanisms in this regard. Refer to page 29 of the attached document called “Starke Ayres Strategy_All staff_2022” where we provide an overview of our international sales. We have opened Group subsidiaries in Kenya, Namibia, and Zambia in order to grow these markets for our products.

INQUIRY SCOPE AND ISSUES

38. Are there any additional areas of inquiry into the market for fresh produce not contained in the Terms of Reference that you believe are important for the Inquiry to cover as part of its work. If so, identify

the specific area of inquiry or issue and the reasons why the Inquiry should include it in the scope.

No.

39. Are there any other features of the market for fresh produce and the participation therein in South Africa of relevance to the Inquiry and which has not been traversed in the questions above? If so, please provide details as to the feature and the relevance for the Inquiry.

No.

40. Are there any other submissions Starke Ayres would like to make of a general nature?

The government's failings are impacting heavily on our ability to compete internationally. Increased operating costs as a direct result of the failures of DALRDD and Eskom have resulted in the curtailment of our growth forecasts which has delayed our capital investment.

41. Should you have any queries with regard to this request for information, do not hesitate to contact Ian Mrozek at ianm@compcom.co.za or Ruan Maré at ruanm@compcom.co.za.

Yours Faithfully,

Ruan Maré

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(Not signed due to electronic transmission)