

Statutory levy on wheat

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SA WHEAT INDUSTRY

2016

- **Wheat Forum application:**
Industry levy on wheat and barley
- **Industry group application:**
Breeding and Technology levy on wheat and barley

WHAT IS THE RATIONALE BEHIND THIS DECISION?

Wheat Forum & Wheat Forum Steering Committee Resolutions

- **PROBLEM STATEMENT**

- New seed companies do not enter SA market because of lack of returns on investment due to farm-saved seed.
- SA thus denied new seed technology [available to international competitors]
- It is a challenge in ALL open-pollinated crops, not just wheat & barley.

- **SOLUTION**

- 2012 Funding for seed breeding**

- Find a sustainable and effective research funding model
- Propose a breeding & technology levy based on end point royalty (EPR)

- 2014 Revitalisation of the Wheat industry**

- Find ways to turn around the decline of the wheat industry
- Participate in DAFF Value Chain Round Table for Wheat

Wheat Forum & Wheat Forum Steering Committee Process

– TIMELINE

- **WFSC – 2012 to 2014 - Research into various international EPR systems to compare how other countries approach the problem**
- **WFSC – 29 August 2014 – EPR feedback**
- **Wheat Forum – 9 October 2014 - Presentation to stakeholders**
- **WFSC – 12 November 2015 – Progress Report**
- **WFSC – 26 February 2015 – Progress Report**
- **WFSC – 17 April 2015 – Progress Report**
- **WFSC – 27 October 2015 – Approve start-up costs**
- **Wheat Forum – 9 October 2015 – Progress Report to stakeholders**

Consultations

- **2015 & 2016 Meetings re: Establish a separate body to collect royalties, draft background document and MOI:**
 - Industry experts
 - legal experts
 - financial/tax experts
- **Stakeholder meetings**
 - 12 February 2016 NCM
 - 17 February 2016 SACOTA / AFMA / NCM
 - 8 March 2016 SACB
- **10/2016 Establish SA Cultivar & Technology Agency (SACTA)**

Rationale for a Breeding & Technology levy

- **SACTA's distribution of separate B&T levy ensures more efficient application of funds.**
 - **Payments made from levies to seed companies will be according to ACTUAL performance as it is based on the market share achievement, which will be calculated every year.**
 - **Currently WCT pays upfront for breeding projects where the potential outcome, and consequently successful varieties, is NOT guaranteed.**
- ***Status quo***
 - **Difficult for new entrants to enter South Africa, since there is NO incentive at all for them to enter the market.**
 - **Reason why there is insufficient investment by seed companies for research on open-pollinated crops.**

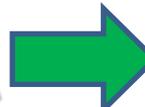
Rationale for SACTA

- **SACTA will address the need to improve the breeding of all self-pollinated / open pollinated grain and oilseed crops e.g. wheat, barley, soybeans etc.**
 - **Seeds from self-pollinated / open pollinated crops may be replanted by the farmer in the following season**
 - **Subsequent crops are then planted without the expense of buying seed and thus**
 - **Diminish the income due to the seed breeding company**
- **SACTA is a separate body / legitimate central institution to administer breeding for all open pollinated crops.**
- **SACTA is aligned with role players involved with plant breeding who are knowledgeable regarding breeding and technology.**
- **SACTA system will compensate breeding companies that perform.**
 - **In the past, breeding was funded on a per project basis and not necessarily on performance.**
 - **The new system aims to rectify the vicious circle caused by farm-saved seed and is in line with the new Plant Breeders Bill.**
- **SACTA is NOT a commodity trust nor a Government body**

Rationale for Wheat & Barley

- Until now, the breeding focus has been on quality only.
- Quality parameter overshadowed yield so much so that it is threatening the survival of the local wheat industry.
- Last 20 years: Cultivar release criteria did not include yield and thus denied the producers any incentive/benefits by producing higher yielding wheat crops.
- High quality SA wheat has been used to upgrade low quality imported wheat.
- Quality is an entry barrier for new entrants into breeding.
- SACTA believes that:
 - There should be a healthy balance between yield and quality. Driven by free market, dictated by demand.
 - Industry should not lose its competitive advantage in terms of quality.
 - There is clearly a demand and need for lower quality wheat, since the quality of imports do not match domestic quality parameters.
 - Greatest demand by millers & bakers is for lower protein levels (B2 / 11% protein).

General levy vs. Breeding & Technology levy

- Winter Cereal Trust  pre-breeding <:> SACTA  breeding.
- Revised General industry levy will cover WCT General expenses, Research expenses and Other expenses.
 - WCT funding for breeding projects falls away
 - General industry levy adjusted accordingly
 - All other funding is left intact to support industry research, & SAGL; SAGIS.
 - Pre-Breeding research will form part of the WCT industry levy.
- The Breeding & Technology levy is a NEW statutory levy
 - Support winter cereals industry; provides new energy and impetus into wheat cultivar development.
 - Focus on & speed up development of cultivars that perform well agronomically and possess appropriate value-adding, processing, milling, rheological and baking characteristics.

Transformation

- Amount allocated to transformation must be 20% of all statutory collected funds as per NAMC guidelines.
- Contribution of funds from statutory levy to transformation
WCT - 20% / SACTA - 20%
- The joint pool of money from both levies would thus increase and funds available for transformation and closing the knowledge gap of new entrants would increase for the benefit of the wheat and barley industry.
- The breeding industry will manage its own transformation projects.
- Transformation would be done in accordance with the guidelines set out by the NAMC. This means more money goes towards transformation and it will be accounted for in a transparent manner.

Effect on wheat price?

- **Wheat prices are determined by market forces on SAFEX**
 - Wheat costs make up about 20% of bread price.
 - An increase of R25 per ton or $\pm 0.6\%$ of average wheat price – is marginal.
- **Through breeding & technology development, this system will enable the local wheat and other agricultural industries to become more competitive.**
 - Focus on farmers and helping them to become more productive through higher yields
 - Improved yields will bring down the unit costs of local production.
- **Creating this system is part of a major turnaround strategy for the wheat industry**
 - It would increase local production and decrease our dependency on imports.
 - Import tariff will also then become less important.
 - This is a long-term strategy to assist SA as a whole and not just a few concerned parties.
- **Research by BFAP shows wheat-to-bread price transmission is very low**
 - Changes in bread prices are relatively inelastic to shifts in wheat prices.

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ORIGINAL INDUSTRY OPTIONS	LEVY AMOUNT & PERIOD	COLLECT	ADMIN	COMMENTS
A Two (2) statutory levy applications - Original proposal:				
1. General Industry levy	R12 – 4 yrs	WCT	WCT	Release criteria remain, but relaxed for yield; Not acceptable to NCM & SACB.
2. Breeding levy	R19 – 2 yrs	SACTA	SACTA	
B One (1) statutory levy application:				
Statutory levy INCLUSIVE of	R31			Release criteria remain, but relaxed for yield; WCT pays over ring-fenced funds for breeding to SACTA Breeding levy will be distributed based on results achieved and thus stimulate innovation.
General Industry levy	R12 – 4 yrs	WCT	WCT	
AND Breeding levy	R19 – 2 yrs	WCT	SACTA	
C One (1) statutory levy application:				
General Industry levy	R 3 – 4 yrs	WCT	WCT	No release criteria; Only SAGIS & SAGL funded; PLUS 20% for Transformation Grain SA (producers) propose levy only for research, breeding & 20% for Transformation. Breeding levy will be distributed based on results achieved and thus stimulate innovation.
PLUS Producer voluntary contribution	R ?			
D Status Quo:				
Current statutory levy	R17 – lapses in 2016	WCT	WCT	Not acceptable to the rest of the role players, except NCM and SACB since the portion allocated to breeding is insufficient and is allocated to projects of which outcomes are not guaranteed. Farmers that save seed still skip payment of seed royalties. Seed companies will disinvest in SA.

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Two alternative Breeding Levies proposed

- Preferred : R 19/t - 4 years on all wheat (local & imported) and
- Alternative Breeding Levy: R 25/t - 2 years only on locally produced wheat.

- Industry prepared to consider the one (1) single statutory levy application (Option B) as well:

ORIGINAL INDUSTRY OPTIONS	LEVY AMOUNT & PERIOD	COLLECT	ADMIN	COMMENT
Single statutory levy	R31			Release criteria remain, but relaxed for quality to improve yield;
INCLUSIVE of				
General Industry levy	R12 – 4 yrs	WCT	WCT	WCT pays over guaranteed ring-fenced funds for breeding to SACTA
AND				
Breeding levy	R19 – 2 yrs	WCT	SACTA	Breeding levy will be distributed based on results achieved and thus stimulate innovation.

NAMC-proposed alternatives

Possible recommendations to the Minister to Approve:

1. Alternative option (R25/t): Only on locally produced wheat and barley; or
2. Preferred option (R19/t): BUT that levies on locally produced wheat and barley be administered by SACTA while levies on imports be administered by the Trust (*status quo* on imported part); or
3. Preferred option (R19/t): BUT WCT administer both levies, one ring-fenced for breeding. Levy income from locally produced wheat and barley then paid over to SACTA; (this also implies the *status quo* on imported part) or
4. Status quo, i.e. WCT administers breeding levy on imports and locally produced wheat and barley, and decides on breeding projects, as in the past, for an interim period of two years, with the proviso that producers who can prove that they pay a VOLUNTARY levy to SACTA, are exempted from the statutory measures.

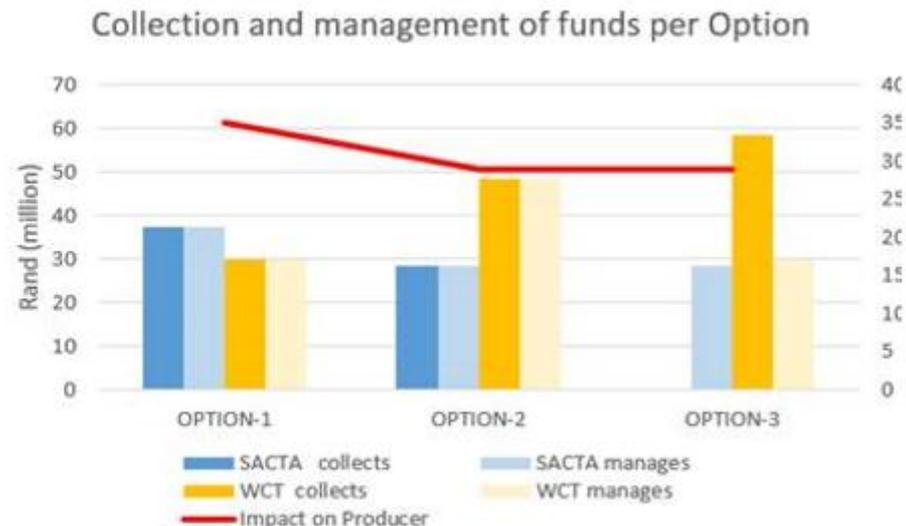
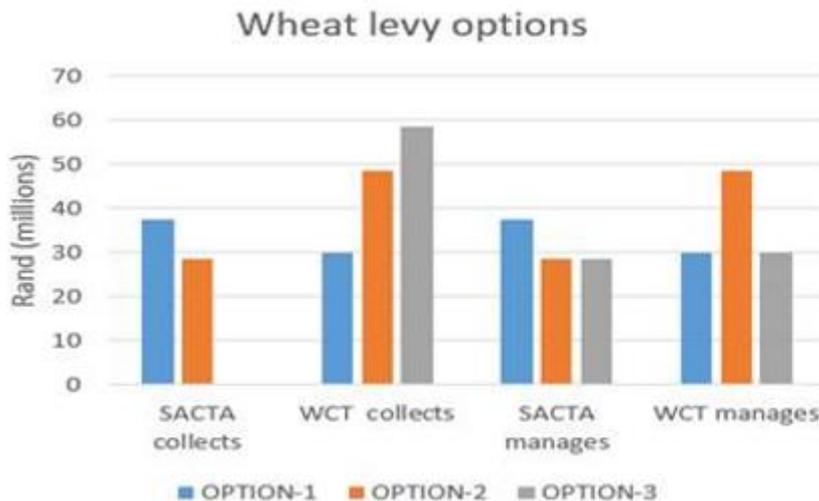
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Impact of NAMC-proposed alternatives

Option 4: Unacceptable since it is undeterminable.

Option 1 (R25) & 2 (R19): Both parties will have collection fees deducted from the figures indicated in the graph.

Option 3 (R19): Both parties rely on WCT performance. All funding income is dependent on WCT maintaining its success rate with levy collection, which is highly unlikely.



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Calculation of Industry Levy

WCT TOTAL EXPENSES	
1	General expenses
2	Research expenses (Incl. BREEDING)
3	Other expenses
4	WCT TOTAL Expenses (Excl. Transformation) [1 + 2 + 3 = 4]
5	Cost of BREEDING projects
6	WCT TOTAL expenses less BREEDING [4 – 5 = 6]

Final determination of Industry Levy to be collected by WCT = A + B

A = Actual funds needed to support WCT total expenses

B = Transformation

Calculation of Breeding & Technology Levy

Value of farm-saved wheat seed (BTLS factor) for the producer was calculated using:

• Hectares/province	• Seeding rate/ha	• Average yield
• Dry Land ha	• Tons seed planted	• Commercial sales/25 kg bag
• Cape ha	• 25 kg bags planted	• Irrigation share
• Irrigation ha		

Final determination of B&T levy to be collected by SACTA & calculated annually by NAMC based on: $A \times B$

**A = Daily JSE closing price, averaged over a 12-month period
(1 September - 31 August)**

B = BTLS factor [Calculation of value above]

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2016 Government Gazette, Friday 30 September

–Wheat Forum application: R10

Industry levy on wheat and barley

–Industry group application: R25

Breeding and Technology levy on wheat and barley

COMMODITY	PERIOD	AMOUNT (Excluding VAT)
Wheat	1/10/2016 to 30/09/2018	R 25.00 per metric ton
Barley	1/10/2016 to 30/09/2018	R 25.00 per metric ton



THANK YOU FOR YOUR ATTENTION

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