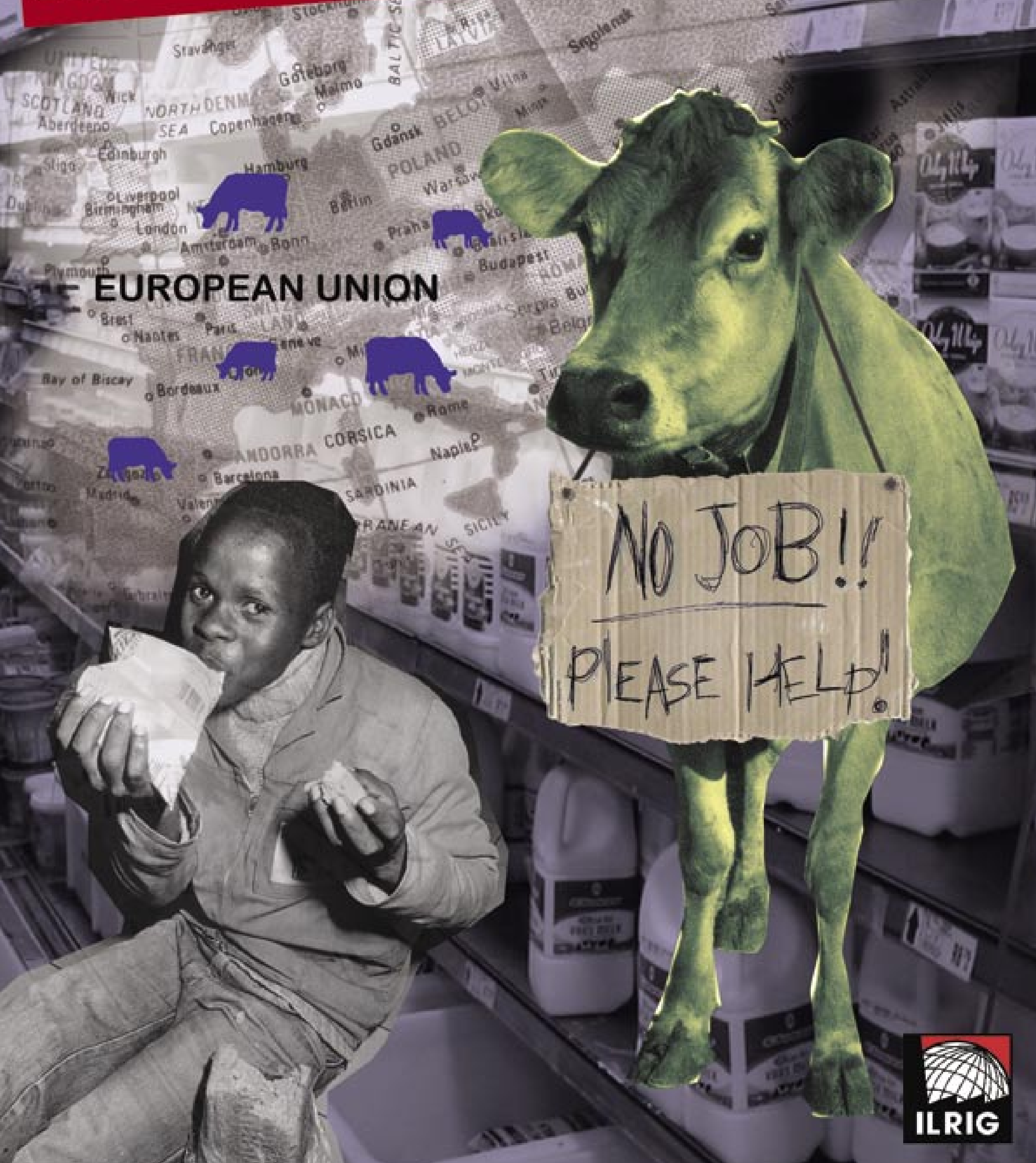
Restructuring the SA dairy industry: What impact?



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Restructuring of the dairy industry: What impact?

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Introduction

It is said that milk is the most wholesome basic food with natural nutritious value. From the time we are born we are fed with milk from our mother's breast. When we are little children, we are told to drink milk and that it will help our teeth to grow strong. As we grow up, milk becomes a source of enjoyment in the forms of milkshakes, cream on our dessert or ice cream. Milk is the basic ingredient to all dairy products like butter, yoghurt, cheese, etc.

We usually buy dairy products in the supermarket or local corner shop and have no other contact with the processes and people that produce these products. We often do not know the changes that have happened in the industry and how they impact or affect the lives of people producing these products or the consumers.

This booklet will look at some of the details of the product chain of dairy products in South Africa, from the farm to the shelf. The booklet will address some of the changes (from the late 1990s) in the dairy industry from a legislation point of view, dairy and international trade, dairy processing companies (specifically Parmalat) and end off with challenges facing the dairy sector trade unions.

Restructuring of the dairy industry: What impact?

Why is this booklet important?

The process of deregulation and restructuring the dairy industry, has had a profound impact on a number of aspects of our lives. these include:

- Milk and dairy products are an important food item for us all. In the restructuring process, the previous forms of price control of milk and other dairy products have been eliminated and price wars have created instability in the sector whereby prices can be changed to be high or low, depending on the needs of the one or the other group in the dairy chain.
- At another level, many of the milk farms have been closed down. This has reduced the number of jobs in the sector. Many of the processors have restructured the workplace and have outsourced, or contracted out functions, which has also reduced the amount of jobs in the sector. The current trend is to make use of labour brokers to supply "casual" labour to the processors. This creates job insecurity and lowers the quality of jobs by making jobs more and more informal.
- The removal and changing of regulations in the sector have had an impact on the quality of milk in terms of health standards. Because of the removal of the Milk and Dairy Boards, the ability to monitor and check health standards of milk has been compromised.
- The restructuring of the industry was done at the same time the international trade and investment regime was changing. The impact has been that South Africa has seen an increase in imports of dairy products, some of which are illegal imports. The changing legislation has created loopholes in the system. The result is that some products are fully imported that were previously produced locally.

How the booklet is structured:

- Section one will give an overview of the dairy industry in South Africa.
- Section two will look at the changes to the industry and will focus on the removal of and changing regulations.
- Section three will look at international trade and investment, and the dairy industry
- Section four will look at the impact of deregulation on the industry.
- Section five will address some of the challenges facing the labour movement with regard to the dairy industry.

Restructuring of the dairy industry: What impact?

Overview of the South African dairy industry

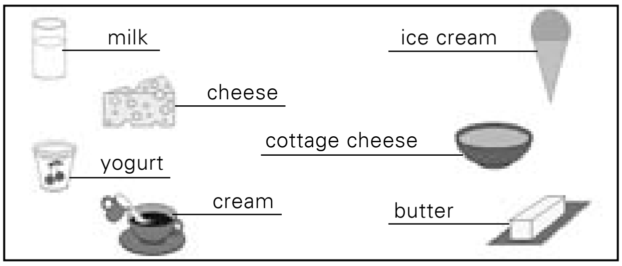
The dairy industry is the fourth largest in the agricultural sector in South Africa and accounts for about 7% of gross agricultural production. In 2002, there were about 4 900 (in 1997 there were about 7 900) commercial milk producers, about 415 producer-distributors and about 365 milk buyers in the country.

South Africa is the highest producer of dairy products in SADC, with Tanzania second. South Africa's production is about 300% higher than Tanzania, and exports dairy products to SADC.

Production of raw milk has steadily shifted to the coastal areas (Western Cape, KwaZulu/Natal, Eastern Cape), producing 61,9% of total production in 2002. this increased from 52,4% in 1995. It is said that coastal areas have better climates for milk production because inland areas have very cold, harsh winters.

Milk – the natural secretion of the mammary glands (breasts) of bovines (cows), goats or sheep

Dairy product – milk or a product obtained or manufactured exclusively or mainly from milk



Ultra High Temperature (UHT) milk otherwise known as long life milk – refers to the process of heating milk to very high temperatures and then sealing it in packaging to keep bacteria out that would normally cause milk to go sour very quickly. UHT milk has a much longer shelf life than milk and can therefore be stored before delivery. While the process of UHT was first developed by Parmalat, an Italian food company that is also a dairy processor, other processors (like Clover and DairyBelle) also have the capacity to produce UHT milk.

The dairy chain is made up of the following groups:

- **The producer** – a person or company who keeps cows, goats or sheep for the production of milk, in other words, the milk farmer
- **The producer distributor (PD)** – a producer who processes, sells or exports dairy products that are made from his own milk produce
- **The processor** – a person or company that transforms raw milk into another product like cheese or butter
- **The distributor** – a person or company who conveys or transports products on behalf of the producer or a secondary industry person
- **The buyer or trader** – a person or company that buys dairy products and sells it to other parties (supermarkets, cafés, restaurants, and so on)

- **The consumer** – a person who finally buys the dairy product from the supermarket, shop or restaurant, and consumes (eats or drinks) it

The primary and secondary industry

The **primary industry** refers to the start of the product chain where the raw milk is produced. In the product chain, the primary industry refers to milk production or farming.

The **secondary industry** refers to the second step in the product chain where raw milk is processed either into pasteurised drinking milk, or another dairy product like cheese, butter, milk powder, etc.

The Retailers

The most powerful group in the dairy chain consists of the retailers (the companies that own the hypermarkets and supermarkets). They have the power to control the price of milk at the point of production even though they do not come into contact with the farmer. The reason that these have so much power, is that out of 32,804 traders, supermarkets make up only 791, yet more than 50% of all dairy products pass through their shelves.

The "Big 4"

The second most powerful group are the large processing companies. These are referred to as the "big 4" and are Clover-Danone, Nestle, Parmalat and DairyBelle. These have power because of resources and the ability to process milk into other dairy products that can be stored for long periods of time. This is called "balancing". The smaller distributors of milk have little power because they have limited resources and are unable to balance their product between seasons.

"Balancing" refers to the ability to balance the product between supply and demand from one season to the next. Milk production is very high in summer, but production shortages occur during winter. During the season of over-supply, the "big 4" can process the excess milk into other products which can be stored. The smaller distributors, are forced to sell the milk cheaply to the supermarkets, and lose any milk not sold. They then sometimes make very little profit, because during winter the price of milk is higher than summer and the "big 4" can negotiate cheaper prices because they can buy in bulk.

In the industry, the least powerful are the producers or farmers who have the least control of the industry and have been most negatively affected by the changes to the industry.

The future of fresh milk?

At one level, the introduction of the UHT milk has impacted on the secondary industry insofar as milk with a long shelf live reduces transport cost. Fresh milk has a very short life span and needs to be transported more frequently.

Long life milk consumption increased from 18% to 28% of total consumption for the period of 1991 to 1999. While the consumption of non-UHT fresh milk is still dominant, the trend and the sentiment expressed is that the strategy is for the long life milk to steadily increase and even possibly eclipse fresh milk. Long life milk can be imported without the risk of it perishing before it reaches the supermarket shelf. This could have consequences in the domestic production of fresh milk.

South African annual production of UHT milk is 225 million litres, it imports 3,5 million litres and exports about 7,1 million litres to Southern Africa, while pasteurised milk production is at 860 million litres per annum. The one saving factor for fresh milk is that it perishes in a relatively short time span, and therefore it makes more sense to produce it closer to the point of consumption, rather than import it, while the UHT process overcomes this, thereby posing a threat to domestic production of drinking milk.

Bertus De Jongh (the CEO of MilKSA) said that:
"The industry is on the decline, there have higher levels of imports (of UHT milk), particularly from the EU. Long life milk, is slowly becoming a threat even though fresh milk is not yet dead."

Restructuring of the dairy industry: What impact?

2 Changes in the dairy industry

Up until 1997, the South African dairy industry supply chain was regulated. Two of the main regulations was the Dairy Industry Act of 1961 and the Agricultural Marketing Act of 1968. Two statutory bodies were set up to implement the regulations and control the dairy sector. These bodies were the Milk Board and the Dairy Board. The functions of these boards were to:

- Gather information/research about the industry
- Collect statutory levies
- Maintaining health and sanitary standards
- Provide financial assistance to the industry where needed (particularly for "balancing")
- Control prices of dairy products
- Train producers

Another important legislation related to import controls. Previously, the import controls were of a quantitative nature. This means that limits were placed on how much dairy produce could be imported. However, in September 1994, the import controls were changed from being quantitative to tariffs. This was done in conjunction with the agreements of the World Trade Organisation (WTO).

During the 1980s and 1990s, the industry went through a process of deregulation and some of the legislation were either removed or changed and the statutory boards were close down. The final act of deregulation was in 1997 when the Agricultural Marketing Act was repealed/removed. Since then, the industry is described as being in an environment of "unbridled competition".

Prior to the restructuring of the industry and deregulation, the industry operated in a relatively stable environment. The Milk and Dairy Boards played a significant role to ensure that the industry survived. This it did through the research, cross-subsidisation within the industry, provision of training and price control of milk.

Quantitative controls refer to restrictions on imports whereby the volume of goods are restricted to a certain amount (this is called a **quota**).

Tariffs refer to an **import tax** paid to the government of the importing country as a total percentage of the monetary value of the volume of goods imported.

Under the quota system, only a certain amount of goods can be imported whereas, under the tariff system, if you have enough money to pay the tax, the amount imported can be unlimited. So, if the producing country can reduce the production cost, it can export its products more cheaply than it is produced locally, thereby flooding the domestic market with cheaper imports.

The restructuring and deregulation process came at a time when the international economic regime was changing. The new buzzword under globalisation became the "free market" and benefits from foreign investment. This is meant to remove restrictions to international trade and create an environment that would be favourable to attract foreign investment.

These restrictions were designed to protect domestic production but under globalisation, were seen as barriers to trade because they favoured domestic companies which was deemed to be unfair.

New structures

Along with the removal of legislation controlling the dairy industry, the statutory bodies, like the Milk Board and the Dairy Board, were shut down. The function which these boards served was to ensure the implementation of the legislation, conduct research of the industry, provide training of farmers, ensuring control of amount of imports as well as phyto-sanitary requirements of both imports as well as domestic produce. Part of the legislation was to ensure price control in the dairy sector and the control of competition. The Milk Board was the distributor of milk and paid producers a standard price and regulated the selling price. Since 1998 these structures were closed down.

In an interview with the CEO of Milk SA, it was revealed that after the closing down of these boards, there was little control over imports – customs officials were not equipped to deal with the sanitary requirements – and there was a significant increase in the dumping of "illegal" dairy products into South Africa. This vacuum was filled with the emergence of a number of non-statutory bodies formed by the dairy industry.

SAMFED – the umbrella

The South African Milk Federation is the umbrella body of the dairy sector in the country. It is a voluntary federation of dairy industry organisations including the MPO and SAMPRO (see below). SAMFED is totally funded by industry on a voluntary basis and represents all sectors of the industry to government and its agencies. The Food and Allied Workers Union (FAWU), does have the right of representation in SAMFED, but has not participated for some time because of lack of capacity.

MPO – the producers

In 2001, the Milk Producers Organisation (MPO) was established as a section 21 Company, and is a voluntary organisation of milk producers. It is an organisation which is meant to act in the interests of milk producers and act as their mouthpiece. It also functions as a negotiating instrument with government and other institutions. It sees itself as a leading player in the South African Milk Federation (SAMFED) – which is the umbrella body for the dairy industry of the country. The MPO is a non-statutory body and does not have the powers that the Milk Board used to have. Currently 82% of all commercial milk farmers are members of the MPO. The MPO conducts research into the dairy industry and produces a journal, the Dairy Mail, which includes a section entitled, Lacto Data.

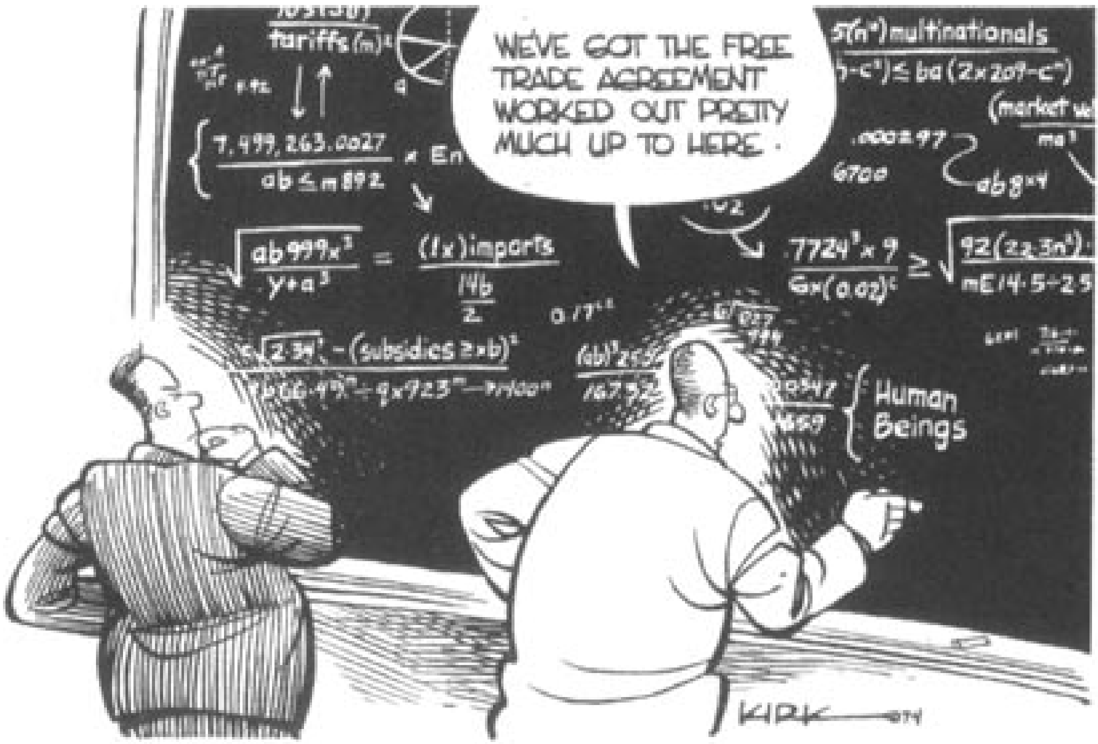
SAMPRO – the processors

The South African Milk Processors' Organisation (SAMPRO)is an amalgamation of the South African Milk Organisation (SAMO) and the National Milk Distributors Association (NMDA). SAMO was the organisation representing the interests of the milk processors and manufacturers of dairy products. It represents about 75% of commercial milk deliveries from producers.

MilkSA – the meeting forum

Milk South Africa, is an organisation established in 2002. It represents the interests of all dairy stakeholders and is comprised of SAMPRO and MPO. It serves as a meeting forum for the whole dairy industry and discusses policy for the industry. Its goals are:

- Co-operation in the industry
- Promotion of the product
- Ensure the profitability of the industry
- Provide training and development of new farmers – to help them become commercial farmers
- Food safety (in a sense of quality – as in phyto-sanitary requirements)
- Assist in developing the export market


WE'VE GOT THE FREE TRADE AGREEMENT WORKED OUT PRETTY MUCH UP TO HERE.
tariffs
multinationals
(1x)imports
subsidies
Human Beings
KIRK

3 International trade and the dairy industry

As part of the government's growth and development strategy (and in recognising the lowering levels of investment into the country), an aspect includes the promoting and attracting both domestic and foreign investment, promoting "free trade and making South Africa "internationally competitive".

The Integrated Manufacturing Strategy of the DTI SA, 2002 said the following:

"The promotion of domestic and foreign investment is critical given low savings and investment rates in the economy… investment promotion offerings will include marketing South Africa as an investment destination, conducting investment missions, investment facilitation services and investment incentives…Industrial Development Zones will also be harnessed in support of investment objectives."

The dairy sector has not been unaffected by this strategy. The lowering of tariffs and the removal of domestic agricultural (including dairy) subsidies and the entry of foreign dairy companies have impacted on the sector. One such company is Parmalat, an Italian food processing company, who invested in South Africa after the deregulation.

One of the biggest identified threats to the domestic dairy industry has been the changing international trade regime, more

specifically the General Agreement on Tariffs and Trade (GATT) which was first signed in 1947. At the final Round, the Uruguay Round of negotiaton (1986-1994), it was agreed to set up an international organisation called the World Trade Organisation (WTO) to replace GATT. The WTO has since 1995 implemented the previous GATT agreements and the new Uruguay Round agreements that provide rules and regulations for international trade in many sectors.

In 1946, 23 countries negotiated to both reduce tariffs and to make these reductions permanent ("binding"). These 23 countries were the founding members of the GATT in 1947. South Africa joined in June 1948. Between the years 1948 and 1994, the GATT provided the rules for some sectors of world trade and went through a number of trade negotiations called "rounds". While the GATT provided the rules for international trade, it remained a loose structure and members were able to choose which GATT agreements to sign up to, or not.

During the first 6 rounds the main focus was on the reduction of tariffs, but the last two rounds (Tokyo and Uruguay) included other areas. During the Tokyo round (1973-79), issues that came to be known as non-tariff barriers were put on the table, and these were known as the Tokyo Round Codes. They included issues like:

- Subsidies
- dumping
- government procurement
- technical barriers to trade
- customs valuation
- import licensing
- civil aircraft
- dairy products (terminated in 1997)
- bovine meat (beef)

Between concluding the Tokyo Round (1979) and the start of the Uruguay Round (1986), developed countries, and especially their multinationals, began to think that the trade system of negotiations needed to be widened even more. By this time, there were 102 countries participating. The key new issues which were controversial for developing countries were those related to:

- Services (supermarkets, transport, banks, health services, etc.)
- Intellectual property rights (copy rights, names of regions, etc.)
- Investment (as part of the WTO rules)

The initial GATT focus on the reduction or removal of import tariffs was inspired by the interest of allowing for the "free flow" of goods across borders. Now dairy products are included in the Agreement on Agriculture (AoA) within the WTO.

South Africa became a member of the WTO in January 1995 when it was formed. In April 2004, the WTO had a membership of 147 countries with 30 observers.

Since September 1994, South Africa changed its import regime from quantitative restrictions (quotas) to tariffs. Since then imports of certain dairy products increased significantly and because of loopholes, much of the imports were "illegal". For example, cheese was imported as curd which has a lower tariff rate than cheddar and gouda cheese. Milk powder, whey and buttermilk powder are almost 100% imported and most of the butter on our shelves is imported.

The EU – subsidies and CAP

While EU agricultural production costs are almost twice that of South Africa, yet the EU is able to account for a very significantly high percentage of world agricultural exports. In the case of dairy products, the EU accounts for an average of more than 55% of South Africa's imports. This becomes possible because of government subsidies to farmers and the Common Agricultural Policy (CAP) in which the EU gives a refund to exporters of the difference between their production cost and the world market price of dairy products.

ITAC – the instrument to administer international trade

On 1 June 2003, the International Trade Administration Commission (ITAC) of South Africa was established as per International Trade Administration Act, 71 of 2002, which was promulgated in January 2003. ITAC is a statutory body replacing the Board on Tariffs Act of 1986 and the Import and Export Act of 1963. The purpose of ITAC is to harmonise trade at a regional level as well as to protect South Africa from unfair competition. In keeping with the WTO agreements, the ITAC has been set up to implement anti-dumping measures, countervailing measures and safeguards.

Anti-dumping measures – against an action by a company

Dumping is considered to be an unfair trade practice where foreign producers export their products at prices lower than their domestic selling prices. Once a complaint is lodged to ITAC and dumping is determined, anti-dumping duties can be levied on the imported products.

Countervailing measures – against an action by a government (subsidy)

These are measures that protect the industry against products imported at prices that are subsidised by the government of the exporting country. Here as well, an anti-dumping duty can be levied on imported products.

Safeguard measures – against everyone

Safeguard measures are temporary emergency trade measures taken to provide relief to its domestic industry in a situation where it can be injured by increased imports. They are not against any specific company or country, but is an overall protection under extreme conditions.

NOTE: The general anti-dumping, countervailing and safeguard measures generally do apply to agricultural products, but there are specific special provisions in the Agreement on Agriculture (AoA). An example is: **Safeguard** – there is provision for a Special Safeguard Provision (SSP). Under the general safeguard provision, there must be proof of an injury or a serious threat of an injury. While under the special provision of the AoA, demonstration of an injury or threat of injury can be bypassed. Safeguard measures can be implemented for example, if the import price falls below a determined amount or the quantity of imports rises above a particular level.

The major difficulty raised with regard to the ITAC process, is the time it takes from the moment the claim is lodged to the time the measure is applied. According to ITAC the turnaround time is 12 to 18 months. One problem raised, is that if products are brought here at a cheaper rate, and is offered to the supermarkets at the lower rate, the supermarkets will demand the same rate from domestic producers, which may cause injury to local production. If the process of investigation takes eighteen months, many smaller producers may close down before the anti-dumping measure is in place.

Another difficulty raised is that it is difficult to link the primary to the secondary industry in respect of claims. For example, if a dairy farm suffers because of cheap butter which causes local processors to source less milk because it may stop making butter, can the farmer also lay the claim?

Lastly, there is the issue of whether penalties can be part of the claim. According to ITAC, the simple answer is no. Anti-dumping and countervailing measures can only be reactive and cannot be pro-active. There must be an injury or a continued threat of an injury. Only after a complaint is lodged will the process start.


Latte
parmalat

4 The impact of restructuring the dairy industry

The restructuring of the industry involved the following:

- **Deregulation**
  - Removal of levies/subsidies
  - Problems of information
  - Lowering of health, and sanitary standards
  - Increase of imports
  - Opening up the market for, and encouraging the entry of, foreign direct investment
- **Closure of dairy producers/farms**
- **Price manipulation**
- **Job losses/insecurity/quality**

Deregulation

The removal of statutory bodies and changes to regulations have impacted on the industry in many ways. The important ones are:

1. **information** – previously, information gathering in the industry was regulated and everybody in the industry was forced to give accurate information. However, since the deregulation, information gathering has become voluntary and often information is inadequate and sometimes misleading. This impacts on health and sanitary standards, on balancing in the industry and on statistics of the industry.
2. **health and sanitary standards** – because the industry is now less regulated and operates in an environment of intense competition, sometimes the smaller companies do not comply with health and sanitary standards. Sometimes they add water to the milk, sometimes they under-fill the packaging and sometimes the process of processing raw milk does not comply with standards. This is done to recover losses made during the winter months when the cost of milk is higher than in summer.

3. **import of dairy products** – since the import controls were changed to a tariff rather than a quota, imports of dairy products have increased significantly. Some of these imports were "illegal" because of the loopholes in the system. In some reported instances, cheese was imported as curd which had a lower import tariff than cheese.
4. **statutory levies** – previously, the Milk Board and the Dairy Board collected money through a statutory levy. This money could cross subsidise the industry in times of milk shortages. Today there are no statutory levies and the industry has to finance functions

like training, health standards, gathering information.

5. In keeping with the government's belief that attracting **foreign Direct investment (FDI)** the deregulation encouraged foreign investment in the dairy sector. The large Transnational companies, had capital to invest in large processing companies and in new methods of processing, leaving them in a position to overshadow local processors who struggled to compete.

Price manipulation

In a study done by the National Agricultural Marketing Council, in 2001, it was found that the major retail groups dominate and control the industry price. Due to immense bargaining power of these super-groups, individual dairy companies have limited power to establish wholesale prices of dairy products. Often suppliers have to offer discounts and promotions. These discounts are not always reflected in a reduction of the price to the consumer.

Smaller and medium-sized milk distributors have no mechanisms to balance the fluctuating milk supply and demand. They try to "balance" by way of price manipulation either at the retailer or at the farm gate. During periods of over supply (particularly in summer), they are forced to dump their supply of milk in the retail shops at very low prices, creating price fluctuation and instability.

They also compensate for their losses by dropping quality standards. However, the large companies – including the foreign ones, have the ability to manage these periods with ease and wait for the periods of shortage when the producer price of milk is higher. They have facilities to produce milk powder, butter, cheese or long life milk, which can be stored for extended periods and therefore are able to "balance" their market.

During the season of milk shortages, the smaller distributors pay much higher prices for milk than the larger processors who are able to buy in large quantities. It is during these periods that the smaller distributors sustain the most losses. The larger processors are able to offer milk to the retailers at a lower price than the smaller ones, thus creating a volatile price environment in the dairy industry. Ultimately it is the large retailers who have total control of the price of dairy products.

It is not only the retailers that have manipulated prices. When Parmalat entered the South African market in 1998, it started a price war and offered products to retailers at reduced prices. They then put pressure on producers to reduce their prices which had the effect of a milk producer price reduction by about 28%. This caused many of the smaller producers to close down.

Closure of dairy producers/farms

One major impact on the industry was the closure of many milk producers. It is estimated that during the 1980s there were about 30 000 producers (many of which were very small (producing less than 500 litres per day). In 1997 there were 7 916 registered producers, and by June 2003, there were only 4 856 producers. The reasons for this include:

- The removal of levies and by so doing ending government cross-subsidisation of the industry particularly for the purpose of "balancing".
- The increase of cheaper imports from Europe because of the subsidies that EU governments give to farmers and the refund they give to exporters.
- The removal of price control which opened the space for price manipulation.
- The entry and operation of large foreign milk processing companies which invested in South Africa or bought up existing milk processors

Job insecurity

The study of the NAMC found that there has been a steady decrease in employment in the dairy industry. The number of regular workers declined by 14% in the primary industry. The estimate is that about 17 000 jobs were lost in the industry between 1996 and 2001.

The second problem is that the form of work is changing significantly. Often companies outsource and contract out some of the functions (that are regarded as non-core functions) like merchandising and distribution. In the supermarket, the supplier has to buy shelf space and has to provide their own merchandiser, the person who will arrange the shelves and pricing labels. Previously these were full-time employees of the dairy processing company. Now, they are independent contractors to that company. Initially, the core functions were maintained as permanent workers. Now, even some of the processing work is performed by non-formal workers. The processing companies make use of labour brokers to supply them with a workforce. These workers are not employed by the processor but by the labour broker and they do not enjoy any of the benefits that permanent workers receive. In some cases when the non-permanent workers joined the trade union, they were removed from that workplace and someone else put in their place.

According to the National Agricultural Marketing Council (NAMC), there has been a steady decrease in employment in the dairy industry since 1994 as a result of the decline in profitability of milk production. Numbers of regular workers declined significantly (by 14%) by the year 1999 in the primary sector. The MPO estimates that about 17 000 jobs were lost in the primary industry between 1996 and 2001.

Parmalat – a case study

After the completion of deregulation in 1997, Parmalat entered the South African market in 1998, and bought over Towerkop and Bonnita thereby capturing about 32% of the market share of dairy products and becoming one of the "big 4" companies in the dairy sector. Parmalat was one of the world's leading international food companies with annual sales having reached about US$6 billion. It employs about 40 000 people worldwide and operates in 31 countries. In Southern Africa, Parmalat operates in Zambia, Mozambique and Swaziland.

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drivers and crew of Parmalat were retrenched. This has happened over a period of time and not implemented at once.

In November 2003, Parmalat announced its acquisition of two cheese processing companies, Melrose and Simonsberg Cheese. These are small dedicated cheese processors but were owned by Unilever, an Anglo/Dutch TNC.

When Parmalat took over Towerkop and Bonnita, their combined number employees was about 5 000, today, Parmalat only employs 1 600 people. This was brought about through a process of retrenchments, outsourcing and contracting out.

"One year after Parmalat came to South Africa, we had a strike which lasted two and a half months because management tried to change their style. There was no retrenchment policy, but management wanted to retrench. We wanted to discuss the retrenchment procedure first, but management said that those on the list to be retrenched must be out by 31 September. We went on strike. While workers were on strike management sent notices that they are retrenched and they will get their money in the bank and must not come back onto the premises. The retrenchments happened at the Parow, Ladismith and East London workplaces."

The distribution is outsourced. This means that a private company provides the transport for the products. This has happened across the country and the

What the Parmalat shopstewards had to say

"First the management handed the merchandising over to Coopers and Lybrand who then gave contracts to former Parmalat merchandisers. These workers were now called contractors and worked for themselves. They are based at the supermarkets and have to pack the shelves and put prices on the items."

"Next they outsourced was the distribution. Before there were three crew with each driver. First they retrenched two of the crew. Later they closed some of the distribution centres, and retrenched the driver and the crew.

This was happening all the time. Later they started getting private companies to do the distribution".

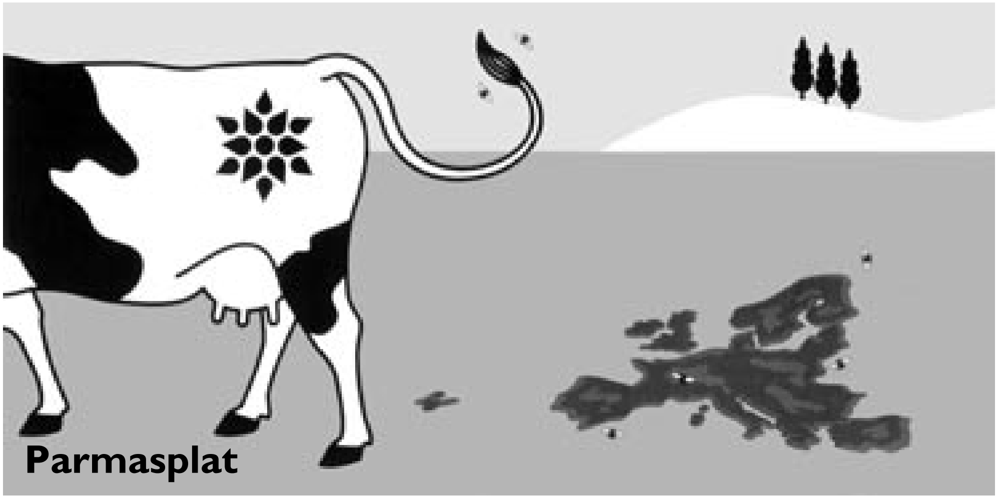
"Now, even work at the production plant is done by casuals from the labour brokers. They come in to work when production is high and stay away when there is no need for them. These workers are treated very badly because they are casuals and if management complains to the labour broker, they have no rights to defend themselves. When we organised them into our union, management contacted the labour broker and requested that these workers be removed and new ones supplied."

The Parmalat scandal – South Africa

At the end of 2003, the Parmalat fraud scandal was big news in the local media. It was revealed that billions of euros of investors' money were unaccounted for and nobody knew where the money was. The immediate response of the South African chief executive was to say that "Parmalat SA is safe as houses" and that despite the problems with the parent company, nothing has changed locally and the company will keep on working.

In meetings with the Food and Allied Workers Union (FAWU), local executives gave assurances that Parmalat SA is not for sale, despite rumours to the fact. The union requested the meeting to raise its concerns about the future of the company and the safety of jobs. The union was reassured that there would be no restructuring of the workforce and that the South African operation is profitable and operates independently
from Italy.

The latest report back (after a meeting between FAWU and Parmalat in May 2004) revealed that, Parmalat (internationally) has a plan, which included South Africa. The plan included the reduction of the size of the company internationally and changing its core products, moving away from pasteurised milk to value-added nutritious milk based and beverage products (these included products like yoghurt, juice and biscuits). Parmalat claims that pasteurised milk is no longer a profitable commodity. It will however, continue to focus on and promote UHT milk. It plans to dispose of subsidiaries in 23 countries and remain in 12 countries. Most subsidiaries in Latin America and Africa will be sold off. Brands will also be rationalised and be reduced from more than 80 to 10 brands internationally. In Africa, the South African operation will be continued as will operations in Argentina and Venezuela in Latin America. Management declined to comment when asked if the proposed plan will impact on the sale of parts of the company or may result in job losses.



Restructuring of the dairy industry: What impact?

5 Challenges for labour

Job losses

In relation to jobs, foreign investment in the dairy sector has directly and indirectly led to the shedding of jobs in the formal sector – both in the primary and secondary industries. At the same time instability and volatility has been created through the significant rise of jobs in the informal sector. The quality of jobs created through the informal channels does little to assist in the reduction of poverty, particularly while food prices seem to have steadily risen to levels beyond the poor.

Deregulation

International restructuring of the world economy, particularly the new trade regime under the WTO, is reflected in the way the South African dairy sector has been restructured. By 1998, all legislation was repealed and the industry operated in an environment of intense competition which saw the demise of many players in the game. Only the fittest survived.

Foreign investment

In the absence of domestic regulation and possible protections of domestic industry, foreign investment has in some ways brought about a sense of insecurity and volatility to the sector. Large transnational corporations (TNCs) like Parmalat have the resources to conduct the competition on a plain that many of the smaller domestic companies are unable to. The example of the price war when Parmalat entered the domestic terrain, is indicative of the power that financial resources can wield.

Workplace restructuring

The restructuring of the workplace has led to many job losses and has caused insecurity and added to the problems of casualisation and informalisation of work. Many of the processors source their workforce from labour brokers and the amount of permanent workers in the companies is steadily on the decline. Unions individually and through their federation, should explore creative ways of organising workers that do not fall into the traditional categorisation of union constitutions. The significant increase of casual labour along with the decrease of permanent workers, necessitates a look at this as a strategy.

Bargaining

The union has identified one of the weaknesses as the absence of a central bargaining council in the sector, and has begun to take forward a campaign to get such councils established. For FAWU, such a council will encourage more solidarity in the process of wage negotiations and may assist in bringing about more parity in the sector.

Union unity

Because the primary sector and the secondary sector are so closely integrated, the planned merger between FAWU and SAAPAWU will prove useful for the unions to find ways of working together and strategise for the sector as a whole.

New structures

In the battle for survival, the industry has begun to reorganise itself and has formed a number of organisations that acts in their interest, conducts research and negotiates with other stakeholders. The CEO of MilkSA believes that on certain issues, industry and labour have common interests, and should be working together on these issues. His request was for labour to take their place in SAMFED, a structure where they have legitimate rights as members.

Future policies

The union should discuss the existing foreign investment policy of the government and question whether the objectives have been reached like cheaper prices for milk for consumer, creation of jobs, increasing local production. Investment policy discussions should also include what kind of investment agreements South Africa is already part of, like the investment measures in the WTO or in the EU-SA trade agreement. Additionally, a process of monitoring of future processes that could include trade and investment agreements.

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