

# Agricultural Employers' Position Paper for Wage Negotiations in the Agro Sub Sector, 2014

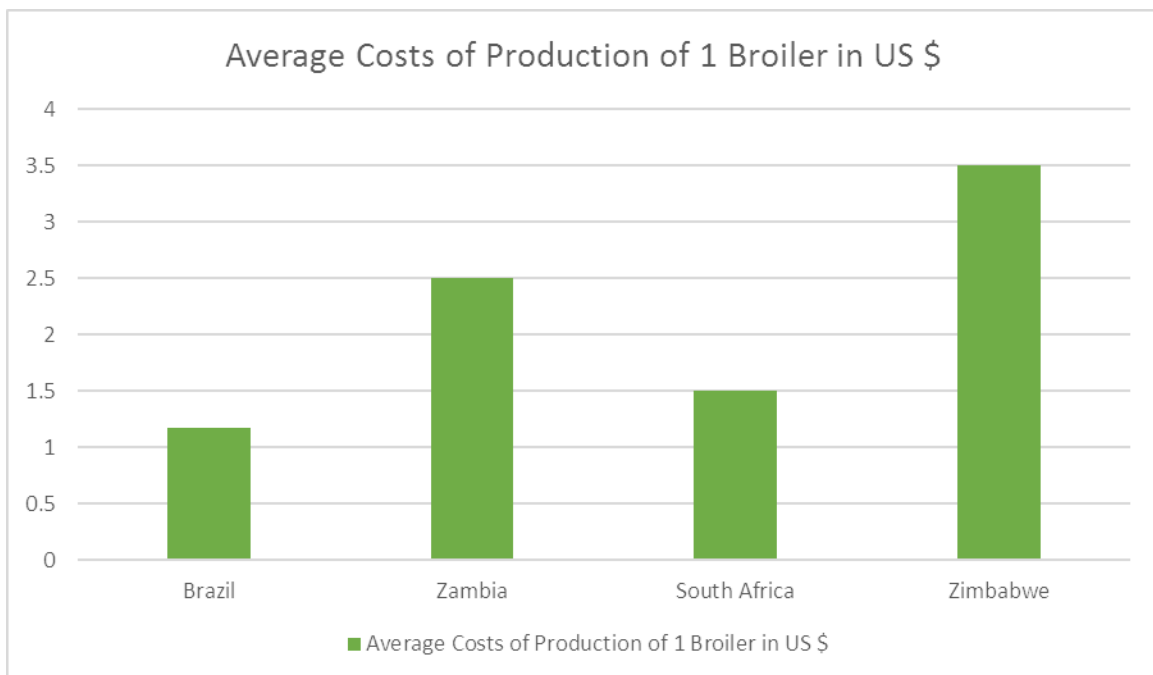
## **Introduction and scope**

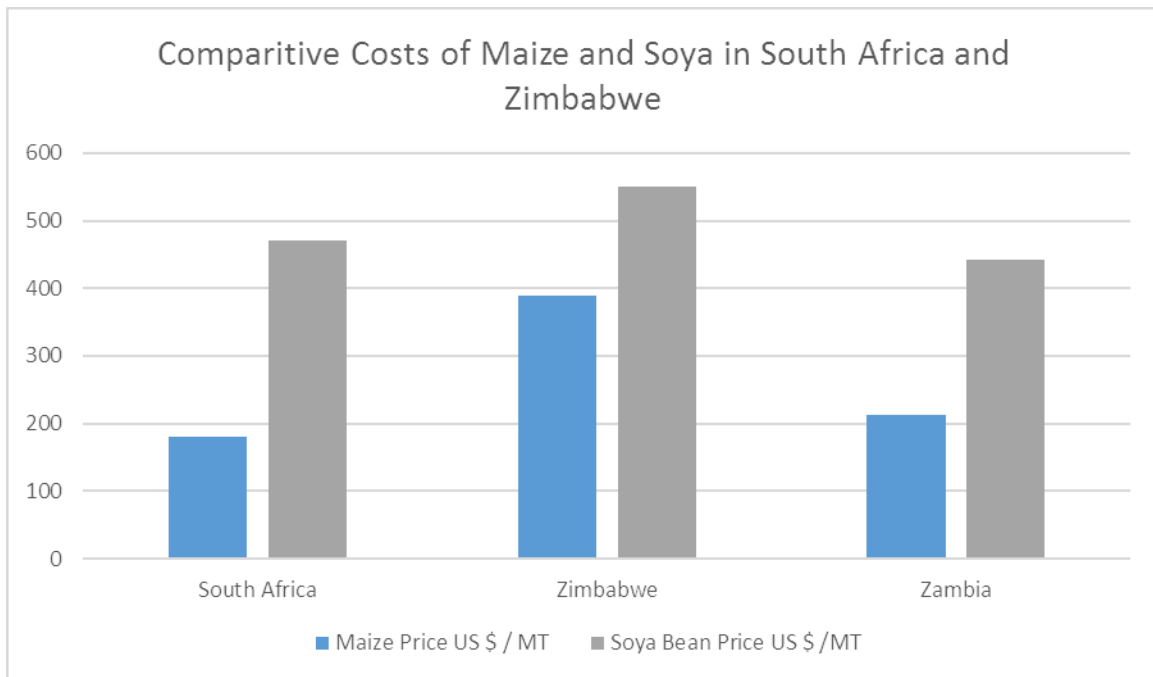
1. This paper is prepared as a response for calls by the National Employment Council for the Agricultural Industry in Zimbabwe ("NEC") for wage negotiations in the Agro subsector. It sets out the position of those employers who fall within the Agro Sub sector.
2. It should be noted that Agro sub sector employers are those who engage in "substantial transformation" of a primary agricultural product on a farm. In practice this has been applied principally to producers of eggs, day old chicks and chicken. However, it should be stressed that on farm processing cuts across a number of value chains including dairy processing, the manufacturing of jams and the extraction of essential oils. Thus on farm processing involves several value chains and not simply the most competitive or richest value chain. It is submitted that a holistic look at the agricultural industry must be taken and that the minimum wage should be negotiated with reference to what the poorest employer can afford as opposed to what the richest employer can afford.

## **Background and Reasons for the Employers' Position**

3. For over 12 months the macroeconomic environment has been characterized by unbalanced payments (expenditure on imports being in excess of double export earnings), an acute liquidity shortage, economic recession and deflation. Through no fault of its own the formal sector is totally uncompetitive and in most cases not viable. The environment in which business must operate is one characterized by very high costs of capital and consequently production, a dual economy with a rapidly expanding informal economy and, because of the lack of liquidity, a dramatic reduction in the sales of all commodities.
4. In truth, the majority of employers in the Agro sub sector have run their businesses at losses for well over 6 months and in some cases priority expenditures such as wages have been paid late or not at all because there have been insufficient funds or lines of credit available. The current unsustainable trend indicates that measures to avoid retrenchment and even retrenchments will be an inevitability.
5. Conversely until relatively recently the economic deflation has seen a fall in prices of many basic commodities. The consumer price index for 2013 and 2014 is attached hereto in support of this. This means that the buying power of the farm worker since the last wage increment has actually marginally improved until the fairly recently.

6. It is noted that an increase in taxation levels by Government has seen an increase in the price of various goods. However whilst it is understood that this will impact on the employee's buying power it should also be understood that the increase in taxation has also impacted very negatively on formal sector employers to whom both taxation and minimum wages apply exclusively. Increases in tax has seen an increase in the costs of production and overheads. These increases have further compounded the dire situation in which business finds itself.
7. Citing the poultry sector as a specific example is useful in illustrating how dire this situation is. Since dollarization in 2009 there has been a steady increase in production of chickens up to 2013. However, in December 2013 into January all producers noted a sharp decline in sales and a gradual down turn until present day. Stock piles of chicken were building up in producers' freezers and some stocks have recently had to be destroyed because it had been kept too long.
8. Compounding this decline in sales is the increase in the costs of production caused by the controlled price of Maize. In light of the high costs of production of Maize and the poor viability of Maize farmers Government published Statutory Instrument 122 of 2014 which amongst other things set a controlled price of Maize at US \$ 390 per MT versus an import parity of less than US \$ 280 per MT. The impact has been an increase in the costs of stock feed. In previous years market force fluctuations in the price of Maize allowed for a lower average price of Maize meaning that the cost of feed was on average much lower than it is today. The now controlled price of Maize has meant that this has fallen away. The Charts below illustrates the lack of Competitiveness of Zimbabwean Poultry Producers versus their counterparts in various other countries whose products find their way onto the Zimbabwean market:





Source SAGIS 31<sup>st</sup> October 2014

9. The use of GMO (“Roundup ready” and “BT”) maize and soya bean varieties in South Africa and Brazil reduces their costs of production significantly. In Zimbabwe and Zambia normal hybrid Maize varieties are produced at greater cost. Due to the very high cost of capital in Zimbabwe, the cost of fertilizer in Zimbabwe is one of the highest in the region which makes the cost of Maize production uncompetitive with even fellow hybrid Maize variety producing countries like Zambia and Malawi. This means that the commodities are significantly cheaper in those countries as compared to Zimbabwe. Soya and Maize are the key ingredients and by far the highest portion of the overall costs of production of chicken.
10. Accordingly, Zimbabwean producers are vulnerable to competition with cheaper imported products from mainly South Africa and Brazil. It is widely known that these cheap imports are making their way freely into the country by way of lax border controls, corruption and smuggling.

### **Employers Position**

11. In light of the above mentioned overwhelming challenges which employers are facing, It is proposed that the current minimum wages in the Agro sub sector remain at the levels that they are for all employees who are in place at the moment and in addition it is proposed that for all new employees taken on after the conclusion of these negotiations be reduced to the same level of the current General Agriculture sub sector minimum wages.
12. Employers implore their social partners, in the interest of preserving the employment of their constituency, to seriously consider and accept this proposal.