

***The challenges of the fruit supply chain following the deregulation
of the South African fruit industry in 1997***

Submitted by

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Assignment presented in partial fulfilment of the requirements for the degree of
Masters of Philosophy in Maritime Studies
at the

University of Stellenbosch

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March 2000

DECLARATION

I, the undersigned, hereby declare that the work contained in this assignment is my own original work and that I have not previously, in its entirety or in part, submitted it to any other university for a degree.

Signature.

Date.

ABSTRACT

The implementation of the Marketing of Agricultural Products Act of 1996 resulted in the deregulation of the South African fruit industry in October 1997. This led to independent decision-making regarding the marketing of export products by a host of deciduous fruit producers and exporters. No longer were the producers controlled by a monopoly. The deregulation challenged the inflexible single-channel fruit pooling marketing structure of the past and exposed domestic producers and exporters to the competitive global fruit market. By implication this translated into a need to become globally competitive in the interest of growing market share. The focus of this new marketing system is to give the producer the opportunity to export high quality fruit and earn an associated premium for his products, and to strengthen his brand and reputation through these efforts. The deregulation also provided the opportunity for independent fruit growers to influence the optimisation of the value chain, in the interest of lower costs and improved customer service. The market has since changed from supply (stock “push”) to demand driven (stock “pull”). It is now imperative that the various producers and exporters provide an efficient supply chain in order to satisfy the end user demands. A consequence of this would be the increase in deciduous fruit quality as a determinant of deciduous fruit demand. Market research was conducted to determine the impact that deregulation has had on South Africa’s deciduous fruit industry and to establish the degree to which Portnet should transform to accommodate this changing and deregulated environment.

In summary, deregulation has created many opportunities for South African fruit producers and exporters in the domestic and international markets. The only impediment is whether the new logistical structures will be able to reduce costs and improve profit margins, particularly now that economies of scale have been dissipated. Customer service may improve, but at what cost?

OPSOMMING

Die implementering van die Bemarkingswet van Landbouprodukte in 1996 het gelei tot die deregulering van die Suid-Afrikaanse vrugtebedryf in Oktober 1997. Die gevolg hiervan was die onafhanklike besluitneming ten opsigte van die bemarking van uitvoerprodukte deur 'n groep sagtevrugteprodusente en -uitvoerders. Die produsente is nie langer deur 'n monopolie beheer nie. Die deregulering het die onbuigbare een-kanaal vrugtebemarkingstruktuur van die verlede opsy geskuif en binnelandse produsente en uitvoerders die geleentheid gebied om deel te word van die kompeterende internasionale vrugtemark. Dit het by implikasie aanleiding gegee tot 'n behoefte om internasionaal mededingend te wees in die belang van 'n groeiende marktaandeel. Die fokus van hierdie nuwe bemarkingstelsel is om die produsent die geleentheid te gee om hoë kwaliteit vrugte uit te voer en die meegaande hoë premie vir sy produkte te verdien, asook om sy handelsmerk en reputasie sodoende te vestig. Die deregulasie het ook die onafhanklike vrugteprodusente die geleentheid gegee om seggenskap in die optimisering van die waardeketting te kry wat tot laer koste en verbeterde kliëntediens gelei het. Sedertdien het die mark verander vanaf 'n aanbodmark na 'n vraaggedrewe mark. Dit is nou uiters belangrik dat die verskillende produsente en uitvoerders 'n effektiewe voorsieningsnetwerk skep om in die eindverbruikers se behoeftes te voorsien. Die gevolg sou 'n toename in die gehalte van sagtevrugte wees, wat weer belangrike determinant van die sagtevrugte vraag is. Marknavorsing is gedoen om die impak van die deregulasie op die Suid-Afrikaanse sagtevrugtebedryf vas te stel. Wat ook vasgestel moes word, was die mate waartoe Portnet moet transformeer om in die veranderde en gedereguleerde omgewing te funksioneer.

Om op te som, deregulering het verskeie geleenthede vir Suid-Afrika se vrugteprodusente en uitvoerders in die binnelandse en internasionale markte geskep. Die enigste vraag is of die nuwe logistieke strukture wel koste sal verminder en winsmarges sal verhoog, veral noudat skaalvoordele nie meer van toepassing is nie. Kliëntediens sal verbeter, maar teen watter koste?

ACKNOWLEDGEMENTS

I would like to express my gratitude to my study leader, Dr Henriëtte C. van Niekerk, for her patience and advice in the writing of this assignment. I would like to extend a special thank you to Malcolm K. Green, Port Operations Manager of Portnet for the useful information and advice that he offered, and for the time he gave so plentifully to facilitate the completion of this assignment. My appreciation is also extended to Dr A.S. Myburgh of the Department of Agricultural Economics, University of Stellenbosch, for his assistance and advice. I would like to express my gratitude to a special friend, Mr Peter M. Davison, a farmer from Caledon, for the literature and useful advice that he offered. My personal thanks is also expressed to the producers and exporting agents who took the time to answer the market research questionnaire.

The input received from all of the above was critical to the writing of this assignment and their various contributions are sincerely appreciated.

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CHAPTER 1

INTRODUCTION

1.1 MOTIVATION OF STUDY

The chaos and mayhem that World War I and the start of World War II caused in the export and import markets in the thirties brought about the need for a regulatory body to manage the South African Fruit Industry. The regulatory body, called the Deciduous Fruit Board (DFB), was established in 1939 to regulate the deciduous fruit industry.

This board came up with recommendations for the marketing of deciduous fruit through the establishment of the Deciduous Fruit Scheme. The Marketing Act of 1968 set guidelines for the DFB and its associated fruits schemes. All deciduous fruit would be exported via a single-channel, namely the DFB. The Perishable Products Export Control Board (PPECB) was established to specify minimum quality standards for the export of fruit. The DFB delegated its authority to Universal Frustrate Co-operative Ltd, which in turn delegated that same authority to Unifruco Ltd, which was founded in 1989. The aim of Unifruco Ltd was to fulfil the role of sole marketing agents for the export deciduous fruit industry, thereby creating a marketing monopoly. Unifruco Ltd arranged the export of deciduous fruit according to the regulations set out under the Deciduous Fruit Scheme. These regulations stipulated that all deciduous fruit would be marketed on a single-channel pool system. This required all the fruit produced to be pooled together and sold on the international markets. The downside to this scheme was that producers could not influence the market demand and associated prices in any way. The system dictated an averaged approach to marketing and producers were treated and managed accordingly. This led to the producers' dissatisfaction, as they felt that their brand identity was being undermined and that they as producers did not get any individual recognition or reward, particularly when they produced exceptional quality products.

Many fruit producers eventually felt threatened and undermined by this monopolistic marketing approach. They were unhappy about prices and their inability to influence their product identity. Prior to 1994 various proposals and recommendations for the revision of the Marketing Act were submitted by these disgruntled groups. The following reports were issued: the Kassier Report with the document titled: "Report of the Committee of Inquiry into the Marketing Act, December 1992"; the Agricultural Marketing Policy Evaluation Committee (AMPEC) with their document titled: "A Framework for a future agricultural marketing policy for the RSA and the implementation thereof, Report 1: January 1994 and Report 2: April 1994" and reports submitted by the African National Congress (ANC). The ANC felt that the regulation of the fruit industry was associated with the previous "regime", the old South Africa, and that the fruit industry structure should change its "look" with the dawning of the new dispensation. Against this background the revision of the Marketing Act, 1968 was undertaken, leading to the promulgation of the Marketing of Agricultural Products Act of 1996, eventually culminating in the deregulation of the fruit industry in October 1997.

Deregulation resulted in the dissolution of the DFB and the single-channel pool marketing system. Producers were allowed to arrange their own marketing and export of fruit at any price, to any market, but in accordance to minimum quality standards as laid down by the PPECB. The Deciduous Fruit Producers Trust (DFPT) was founded on 1 October 1997 by producers delivering to fresh markets. The Trust was established to ensure the economic survival of the deciduous fruit industry in a free market environment and to facilitate transformation from a regulated to a deregulated environment. The Trust is a voluntary body, representative of the fruit industry. Its key role is to look after the wellbeing of the fruit industry, and it undertakes various tasks and research projects on behalf of the fruit industry in South Africa.

In 1998 Unifruco Ltd and Outspan amalgamated to form Capespan. Capespan has positioned itself to deal with the unacceptable fruit pooling system and is striving to obtain fair prices for producers, in line with the quality of the products being delivered to the markets. Their vision statement reinforces this intent and reads as follows: "Wealth creation for all stakeholders as the leading global fresh produce marketing company shaping the produce environment of the future".

The deregulation exposed domestic producers and exporters to the competitive global fruit market. It is believed that those organisations that move quickly to meet consumer demands will capture the market and ensure a competitive advantage. Market demands include product availability, quality, safety and convenience. Price is a serious consideration although certain markets are prepared to pay for a high quality product.

South African fruit exports have not grown substantially since deregulation. In real terms, producer prices have declined year on year, which has put a financial burden on the farming communities. However, it is believed that with an increasing black middle class there is an opportunity to develop a local niche market, which could cause dramatic changes and a strong market for local deciduous fruit in the near future. There has been a shortage of class 1 and class 2 fruit in SA, effectively leaving fruit of a lesser quality for the local fresh fruit market. A further restriction to the local market is the relatively small buying power of consumers in relation to those in the export markets. There is simply not the same disposable income available to pay for high quality and premium products. This situation is exacerbated by the relatively poor economic and social conditions in South Africa.

Consumer buying power is similarly limited in Africa, due to the turmoil and war that prevail in many countries. These conflicts have inhibited economic stability and growth with the effect that expensive fruit is considered a luxury and cannot be afforded. However, the potential of stability and democracy returning to West Africa will positively influence the buying power of these African countries. South African supermarkets are currently expanding into Africa and this will aid the development of fruit and other commodity markets.

It is of importance to South African producers and exporters to determine their future by optimising the value chain, through cost leadership along the logistics supply chain to contain its international competitive position.

1.2 METHODOLOGY

Literature was gathered from various sources for the writing of this assignment. Different proposals put forward by the Agricultural Marketing Policy Evaluation Committee (AMPEC) and the Kassier Report were analysed in conjunction with the Marketing Act, 1968 and the Revised Marketing of Agricultural Products Act, 1996. The views of various producers, international retailers and exporters were obtained from various issues of the periodical, *Deciduous Fruit Grower* in order to establish the atmosphere within the deciduous fruit industry regarding deregulation. Market research was done by means of a questionnaire. This questionnaire was answered through interviews and via e-mail. The results were taken from a sample group of 20 exporters and producers. The questionnaire contained 18 questions focusing on the changes that had been brought about since deregulation, and how exporters, producers, the supply chain and the port system needed to adapt to these changes in order to promote a well organised and profitable deciduous fruit export business.

1.3 FORMAT

Chapter 2 offers an overview of the evolution of the fruit industry in a regulated environment. It describes the Marketing Act of 1968, with its various Boards and Schemes which were set in place to regulate the fruit industry. An analysis is given on the proposals and recommendations from various groups regarding a new Marketing Act, and of the results of the revised Marketing of Agricultural Products Act of 1996.

Chapter 3 describes the implementation of deregulation and the DFPT that was formed as a result of deregulation. An overview is presented on the changing corporate structure of Unifruco Ltd and the formation of Capespan. The retail trade gave its opinion on how the South African deciduous fruit industry has fared in the first two years of deregulation. The benefits, opportunities, disadvantages and risks of deregulation are discussed in this chapter, with the benefits outnumbering the disadvantages. It is established that deregulation has put added pressure on producers in that they are now required to manage the marketing channel for their fruit and this becomes difficult when over one hundred

fruit exporters are competing for the same fruit. This chapter gives consideration to a host of factors when choosing an exporter, such as experience levels, financial standing, knowledge of the markets, product knowledge and quality requirements.

Chapter 4 deals with the market research that has been undertaken in South Africa's Fruit Industry to establish how the deregulated South African deciduous fruit industry performs in global terms.

Chapter 5 focuses on the deregulation of the fruit industry in terms of the opening of channels through which deciduous fruit is exported, which impacts directly on the efficiency and optimisation of the supply chain. Deregulation has increased the amount of exports moving through Portnet's container terminal in Cape Town to about 25-30% of total market volumes. The International Harbour Services (IHS) fruit terminal, operated by Capespan, which had a market share of 100% under regulation, now has a market share of 70-75%. The slow-down in growth in the containerisation market share as shipping costs increase while the conventional shipping industry reorganises itself through the introduction of more efficient vessels and the reduction of shipping costs is discussed. Although containerisation is the leading transport trend, the rise in costs will show a swing away from containers back to conventional shipping. However, the premium "door-to-door" market will continue to be handled via containers.

Special mentioning is made of the challenge of delivering export fruit of premium quality to the consumer or end user. Double handling of the fruit causes the fruit to deteriorate and it is therefore essential that the delivery chain is kept as short as possible. One of the ways to optimise the value chain is through the use of transport and logistics scheduling. When exporting a perishable product like deciduous fruit, the sustainability of the cold supply chain is the most critical factor in the value chain. The fruit is to be kept at a constant and uninterrupted temperature from the moment it is packed at the packhouse to the moment it reaches the supermarket. The use of information technology has become a vital part in the monitoring of the cold supply chain as well as the efficient handling of large volumes of containerised cargo.

The PPECB's important role of monitoring quality in the supply chain is also discussed. This Board sets the agreed minimum quality standards for South African fruit and these are aligned with quality standards throughout the world. Fruit may only be exported if it exceeds the minimum quality standards set by the PPECB. These standards include minimum diameter and size groups, maturity of the product, cultivars allowable, cosmetic appearances, internal defects and analysis. The standards also include the containers used, marketing requirements, sample and inspection methods and packing requirements. However, it is up to producers to see that the fruit is kept at premium quality. Once the fruit is inspected by the PPECB, exporters must see to it that the fruit is exported through reputable marketing channels with the use of correct handling equipment and modes of transport to ensure that it reaches the end consumer in the condition that it was in when first inspected.

Chapter 6 focuses on the various modes of transport for exporting deciduous fruit. The main focus is on shipping, and a brief description of air transport as an alternative mode of transport for exporting fruit is given. Fruit can either be shipped on a conventional reefer vessel or in containers on a container vessel. Containerised shipping is more expensive than conventional reefer shipping, but offers many advantages such as reduced double handling of the fruit, higher quality fruit delivered to the end user, no interruption in the cold supply chain and smaller volumes of fruit delivered to niche markets. Two types of containers are used, namely porthole containers and integral containers. The various treatments and controls to which the fruit is exposed in the containers, which add to the quality of the fruit on reaching final destination, are discussed.

Chapter 7 discusses the global market opportunities and risks that the South African deciduous fruit market faces in its ever-changing environment. Maintaining current markets, which is becoming increasingly difficult, and developing new markets are critical to the long-term sustainability of South Africa's deciduous fruit industries. Market access means determining what the market wants in terms of a product. It is often difficult to penetrate a market due to strict regulations, such as high phytosanitary requirements or steep tariff rates.

The UK fruit market is characterised by premium quality fruit from all over the world and is not impeded by any seasonality supply issues. There are markets in the Far East and Asia, which South Africa needs to explore and capitalise upon. These are referred to as emerging markets. An example of an emerging market waiting to be explored is China. Similarly, there is great potential to export to Singapore, Indonesia and Japan.

North America is a totally different market. It is a well established and mature market with huge buying power. However, it is difficult to penetrate due to the protectionist attitude of the US Government and the almost impenetrable phytosanitary requirements and regulations. These steep requirements question the USA's sincerity of being an open and free market.

In conclusion, Chapter 8 describes the formation of a globally competitive deciduous fruit industry in South Africa. This industry, however, will have many obstacles to overcome in the future and faces the challenge of creating opportunities and acting on them. There is still a distinct separation between independent producers and exporters, and Capespan. There needs to be competition between the producers who produce premium quality fruit, and in the port to reduce costs and promote efficiency and optimisation. However, South Africa should market its fruit under one umbrella, thereby creating economies of scale, and at the same time eliminating competition between South African fruit in the export markets. In this way South African fruit will only compete against other fruit-producing nations.

CHAPTER 2

THE EVOLUTION OF THE FRUIT INDUSTRY TO DEREGULATION IN 1997

2.1 HISTORICAL OVERVIEW

The global fruit industry had its birth as early as 100 years ago. It was the efforts of early growers realising the value of organisation and co-operation which led to the establishment of the first Fruit Exporters Associations. Problems such as unreliable markets, untrustworthy brokers, primitive transport and a disinterested government forced fruit growers into developing a body to promote their interests in 1899.

From this early beginning, through the turmoil and destruction of two world wars, the industry, recognising the lack of any real authority to act in its best interests, brought pressure to bear on the government which resulted in the creation of the Perishable Products Export Control Board (PPECB) in 1926 and ultimately the South African Co-operative Deciduous Fruit Exchange. The intention in the formation of these bodies was to formalise acceptable fruit quality standards for the export market. The outbreak of World War II was, however, the catalyst, which brought about the establishment of the Deciduous Fruit Board (DFB) to bring order, control, regulation and stability to the industry. This happened resolutely and the industry was effectively regulated from this time.

Fears of closed world shipping lanes during the war prompted the leaders of the fruit industry to create a system to stabilise the industry during these critical years. At the time of the establishment of the DFB, this body immediately dealt with the issue of restricted shipping lanes in the interest of expediting fruit distribution out of South Africa and minimising the effects of the war.

It was during this period that the DFB established recommendations for the control and marketing of fruit and, more importantly, for the grading of fruit for the domestic market.

It should be noted that the DFB said of itself at this time, to the South African fruit industry, “the machinery of control under which the DFB and the Citrus Board are at present functioning, has been established in terms of the War Emergency Regulations and, therefore, can be regarded as only of a temporary nature. If marketing in the Union is reorganised on a sound basis, however, your committee is of the opinion that the methods of control found necessary during the present emergency conditions will, if such methods of control function satisfactorily, probably become permanent. By the end of the war the fruit industry will have adapted itself, very largely, to local market requirements and as it is assumed that export after the war will probably have to be controlled under the Marketing Act, your committee recommends that this Act should be amended in order that the local market control schemes administered by other Boards be promulgated under the Act.”¹

It was as late as 1948 that a potentially prosperous export market in Europe presented itself to the deciduous fruit industry. However, by 1953 it was apparent that the organisation was detrimentally lacking in the basic tools of efficient business management. There were significant gaps in the Deciduous Fruit Scheme which was established in 1951 and there were times when the Board, albeit in good faith, exceeded its mandatory powers, simply because those powers had not been properly codified. Dr Bestbier, Assistant General Manager at that time, was responsible for addressing these shortcomings and initiated revisions to the Scheme, which resulted in redefining the powers of the Board and enabling it to function within the terms of its constitution. Changes and revisions to this constitution were necessary from time to time, particularly to keep up with operating practices at the time as well as the evolving Marketing Act, which had then officially replaced the outdated war regulations.

The fifties, sixties and seventies saw the rapid growth and development of the fruit industry.

¹ Submission to the committee of Inquiry into the Marketing Act, 1968: drawn up by a working group of producers from the Berg River area, p.2.



2.2 THE MARKETING ACT, 1968

The Marketing Act, No. 59 of 1968, was ratified on the 12th June 1968. This Act provided for the following:

- to consolidate the laws providing for the regulation of the production and sale of agricultural products
- the establishment of certain boards in connection therewith
- the establishment of a national mark
- the grading and standardisation of agricultural products, and
- matters incidental thereto.²

This Act applied to all agricultural products listed in its schedule. This list included basic commodities as well as value-added products such as canned foods, dried fruit, etc. Every single agricultural product produced was either grouped with other similar products of its nature or remained separate to form its own group. The different groups were called Schemes and a Control Board headed each Scheme. Control Boards would administer all functions performed regarding agricultural products. According to the definitions in the Marketing Act, a “Scheme” was defined as a set of rules complying with the requirements of this Act in relation to any one or more of the following:

- (a) the regulation of the marketing of any product in the Republic
- (b) the regulation of the export for sale of any product from the Republic
- (c) the promotion of the demand for any product whether within or outside the Republic, and
- (d) the promotion of research relating to any product, and matters incidental thereto, and includes any proposed Scheme.³

In practical terms this Act put in place a system which controlled the movement, pricing, quality standards and demand satisfaction for the bulk of the fruit export volumes in

² The Marketing Act No. 59, 1968, Introduction

³ The Marketing Act No. 59, 1968, Section 1

South Africa. Each Scheme provided specific powers to its Board to influence the marketing of the product for which it was responsible. The Scheme also provided for the imposition of compulsory levies and special levies to cover administrative costs or for purposes as the Minister deemed necessary. The powers the Control Boards had could vary from Scheme to Scheme. These powers were derived from sections 52 to 80 of the Act according to the needs of a particular industry, and in general entailed that a Board may exercise such a power with ministerial approval.

Over time the situation developed to the point where the primary functions of most Control Boards centred around only a few provisions of the Act, which may be summarised as follows:

- (a) the imposition and usage of levies and special levies based on sections 41 to 46 of the Act
- (b) the authority to buy a product to which the particular Scheme relates at such a price or on such a basis as the Minister may approve (the so-called 'surplus removal Schemes' based on section 56 of the Act)
- (c) the imposition of a prohibition on the sale of the product except to or through the Board or the persons appointed by it (the so-called 'single-channel marketing Schemes' or derivatives thereof, based on section 64 of the Act), and
- (d) the fixing or influencing of prices (based on sections such as section 60 of the Act).⁴

The Act required that there should be a National Marketing Council consisting of a chairman and four other members, all of whom had to be appointed by the State President, and one of whom had to be designated by him as deputy chairman for such period as he might determine, provided that either the chairman or the deputy chairman had to be an officer of the Department of Agricultural Economics and Marketing.⁵

The National Marketing Council was an advisory and investigating body instituted by the Act to perform certain functions. Apart from its advisory and investigatory functions relating to Control Boards and its function with regard to the institution of Schemes or

⁴ Kassier Report, Dec. 1992, pp.6-7

⁵ The Marketing Act No. 59, 1968, Part 1, Section 2

the amendment thereof, the Act also required that every decision of a Control Board in respect of which the Minister's approval was required had to be submitted to the Council which, together with its recommendation, had to be submitted to the Minister. After receiving a request for the institution of a Scheme, the Minister could after consultation with the Marketing Council, reject, approve such Scheme provisionally or refer the Scheme back to the nominating body.

A Scheme would empower a Control Board to conduct certain regulations on the product, whether it be certain packing materials and containers that the regulated product had to be sold or transported in; whether it be the grading, packing, storing, insuring or advertising of the products; or whether the products had to be sold in a pool system or the price of a regulated product fixed and the sale of a regulated product prohibited, except to or through a Control Board or specified persons.

Although not all the regulations set out by the Control Board are relevant to this assignment, the Control Board set regulations in respect of the pooling of the product, the marketing and advertising of the product, and the sale of the product through specified persons. These regulations are set out below in an extract from the Marketing Act, No. 59 of 1968.

According to the Act, section 57:

(1) A scheme may empower its control board-

- (a) to conduct a pool for the sale of any product to which the scheme relates, and to treat in such a manner as it may deem fit, grade, pack, store, process, adapt for sale, insure, advertise and transport any product in connection with which it conducts a pool
- (b) to finance any pool conducted by the board and to make advances to the contributors to the pool

(2) A scheme which provides for the conduct of a pool for the sale of the product to which the scheme relates, may, in addition to any other provisions which may be included in any such scheme under this Act, also-

- (a) define the time when and the place where delivery of the product to the pool shall be deemed to take place
- (b) provide that, where any balance in the pool when its accounts are closed is, in the opinion of the boards and the Minister, so small that a division thereof among the participants of the pool is not justified, such balance may be dealt with in any manner approved by the Minister;
- (c) provide that the Board may with the approval of the Minister transfer any portion of the proceeds in the pool to any other such pool conducted by the board.⁶

According to the Act section 59:

(1) A scheme may provide-

- (a) that no producer of the product to which the scheme relates or no producer belonging to any class or group of producers of that product shall-
 - I. sell that product within the Republic or within any area in the Republic defined in the scheme or determined by the control board concerned with the approval of the Minister and notified by the Minister in the Gazette, unless he has been registered with the board; or
 - II. sell that product within any area other than an area, defined therein or determined by the board, in respect of which he has been registered with the board; or
 - III. except for consumption by himself or members of his household, or for the feeding of his livestock, manufacture or process that product or convert it into any other product or commodity or cause it to be so manufactured, processed or converted, unless he has been registered with the board.⁷

⁶ The Marketing Act No. 59, 1968, Part 2, Section 57

⁷ The Marketing Act No. 59, 1968, Part 2, Section 59

2.3 THE DECIDUOUS FRUIT BOARD (DFB)

2.3.1 Background

The Deciduous Fruit Scheme regulated by the DFB is applicable to deciduous fruit produced or imported into the Republic and applies to all persons producing or dealing in the course of trade with deciduous fruit as well as any agricultural co-operative or special producers' co-operative which handles deciduous fruit, in the same manner as if the co-operative concerned were a producer of such deciduous fruit. Any requirement or prohibition imposed or decision taken may differ between classes of deciduous fruit or regions or may only be applicable to certain classes of fruit or a specified portion of the Republic.

The primary responsibility of the Board is to arrange the handling, shipping and marketing of apricots, peaches, nectarines, plums, grapes, pears and apples produced in the Republic and intended for fresh consumption to consumers in a number of overseas countries. The Board has appointed agents to undertake these functions on its behalf. The appointment of agents, the issuing of marketing permits, the administration of the pools and the imposition of levies remain the responsibility of the Board. The Board is also involved in recommending health, grading, labelling and quality specifications.

The industry comprises a totally integrated system of producer organisations, infrastructure and research planning. This combined effort is in the interest of every producer and the industry at large. It is aimed at ensuring that a highly perishable product reaches the end user in the best possible condition and at prolonging the shelf life of the product. Once the product has been marketed a co-ordinated effort is made to supply the original producer with marketing feedback regarding his product.

2.3.2 The marketing of South African fruit prior to deregulation

By the late 1980's the industry once again found itself in a crisis. This crisis, on the one hand, was characterised by continually rising costs such as production, road transport and shipping costs. The effects of inflation was that producers realised a decline in real terms of their profit margins and the wellbeing of the industry was put at risk. On the other hand, the increasing threat of politically motivated sanctions was becoming a reality, particularly as the International Communities attempted to force their hands with the then Apartheid Regime.

Mr L.B. Kriel became the General Manager of the DFB in 1980. His early comments were, "I found a very well organised industry. The infrastructure was sound and the growers had the right attitude, attuned to world needs. One of the reasons the fruit industry has thrived is that we operate on a basis of free enterprise. Our farmers are not protected by controlled prices, so only the fittest survive. Nevertheless, because of inflation, high interest rates, the vagaries of the money market and exchange rates, you find yourself with problems which did not exist in the past ... such cost rises are beyond the control of the grower or of the DFB. We face increases in packing materials, harbour and shipping costs and, because we rely on government or semi-government or monopoly organisations we have virtually no alternative but to use them."⁸

There was no control over the domestic marketing of deciduous fruit except for a requirement to apply for a permit which was automatically issued by the Board. Producers could, however, and subject to the health and grading regulations for the fruit, market freely within South Africa. If a producer so wished he could, however, have marketed via an agent on the domestic market. Unifruco Ltd operated as a sole agent on the domestic market. However, Unifruco's role as an agent on the domestic market was limited to handling fruit delivered for the export market. The Board marketed and pooled deciduous fruit on the domestic market on behalf of the growers who had voluntarily chosen to market their products through this less-than-optimal and averaged channel.

⁸ Submission to the committee of Inquiry into the Marketing Act, 1968: drawn up by a working group of producers from the Berg River area, p.3

The international marketing of deciduous fruit was done on a single-channel pool system. The Board imposed a prohibition on the export of deciduous fruit except through the Board. This constituted a monopoly by the DFB. The Board conducted separate pools for the fruit delivered to it on the basis of various classes. It treated the pools as it deemed fit, and graded, packed, stored, adapted, processed, insured, transported and advertised fruit delivered to it for sale. The Board was sensitive to limit cross-subsidisation between pools and endeavoured to ensure that producers were compensated in accordance with the quality of product that reached the consumer. At the end of the financial year, the Board determined the net proceeds of each pool by deducting from the gross proceeds any monies associated with the pool, such as advance payments and marketing costs incurred.

Before the start of each season, producers were compelled to inform the Board by a certain predetermined date of the gross volumes they intended to deliver to the Board in order for the Board to do proper planning of the logistics required. The Board determined, with the Minister's approval, the maximum amount of deciduous fruit which could be delivered within a predetermined period for export.

The Board appointed agents who handled the international marketing on its behalf. In 1987 the Universal Frustrate Co-operative was founded largely in response to international sanctions, e.g. the USA imposed the Comprehensive Anti-Apartheid Act which banned trade with government or quasi-government organisations within South Africa.

In 1989 Unifruco Ltd was founded with one of its aims being to continue as sole marketing agents for the export deciduous fruit industry. Other agents were appointed in specific markets, notably Africa. As regards international marketing, Unifruco Ltd established its own offices in London, Antwerp, Hamburg, Milan, Budapest and Oslo. These overseas Unifruco offices, in turn, appointed panels of agents in each market where they exercised control. Appointment of these agents was judged on merit.⁹

⁹ The Agricultural Marketing Policy Evaluation Committee Report, p.28

Up until October 1997, statutory powers were still vested in the DFB which, under the Marketing Act, was the sole exporter of various fruits. All producers who wanted to export their fruit had to be registered with the Board. The Board delegated its authority to Universal Frustrate Co-operative Ltd, which in turn delegated that same authority to Unifruco Ltd.

Thus, every single producer's fruit had to be marketed and exported through Unifruco Ltd. The establishment of Unifruco as the sole marketing arm in South Africa is considered a key milestone in the history of the deciduous fruit market. Unifruco was considered the panacea and the ultimate solution or response to the realities of trade sanctions and the embargoes on South African products. Unifruco Ltd controlled the total fruit market in South Africa and was soon labelled as a monopoly. This caused much bitterness among many producers, who felt they should be able to decide how, where and at what price they would like to sell their fruit. These frustrations remained prevalent in the fruit industry until deregulation in 1997.

2.4 PROPOSALS AND RECOMMENDATIONS FROM VARIOUS GROUPS TOWARDS A NEW MARKETING ACT

Various committees were drawn up to investigate and put forward new proposals for updating the Marketing Act. Three of these proposals were most influential in establishing the revised Marketing Act. The Kassier Report with the document titled: "Report of the Committee of Inquiry into the Marketing Act, December 1992" was the first proposal towards deregulation. The second move came from the Agricultural Marketing Policy Evaluation Committee (AMPEC) with their document titled: "A Framework for a future agricultural marketing policy for the RSA and the implementation thereof, Report 1: January 1994 and Report 2: April 1994". These were good reports but were politically unacceptable as they were from the old establishment with new ideas. Other reports were submitted by the ANC.

2.4.1 The Kassier Report: Report of the Committee of Inquiry into the Marketing Act, December 1992

This Committee, which was led by Professor Kassier, proposed the creation of a new, more representative national body in the place of the present National Marketing Council, to be called the Agricultural Marketing Council (AMC). The Committee was of the opinion that the Marketing Act did not represent the full spectrum of interests required to face the challenges of the future. The Committee believed that the following interest groups should be represented:

- farmers (including the emerging farmers)
- consumers
- commerce and industry
- the state, and
- independent experts.

The Committee stated that each of the first four groups should be given equal representation in the AMC in such a manner that all relevant interests are included, but that the AMC does not become too large a body, and that there should be at least three independent experts, acceptable to all the other parties. The Committee felt that the AMC should be an advisory body to the Minister of Agriculture on agricultural marketing policy, related legislation and the implementation of regulations.

The Committee had its views on the control that the Schemes induced. Due to the fact that this assignment focuses on the deregulation of the deciduous fruit industry, only those controls that affect this industry will be discussed. Firstly, single-channel marketing means that no producer may sell any produce except through the Board or its agents. The Committee believed that the single-channel marketing approach was the most important and sensitive issue to be dealt with. It was concerned that the single-channel approach encouraged abuse through the pooling system, as well as inequities in terms of price fixing and the registration and appointment of agents.

According to the Committee, the main issue was whether the individual farmer should have a free choice as to what and how much he wished to produce and where, how and to whom he would prefer to market his produce. They believed that the important issues were sustained independence, innovation and progress.

The Committee was convinced that the protection of one dominant export fruit brand, thus depriving the development of additional and new brands, was inappropriate to the free marketing approach. It was not convinced that the reputation and demand for South African produce would be dissipated in any way. It felt that the overseas consumer is intelligent enough to distinguish between better and poorer brand names. A single-channel export Scheme could actually exclude a large portion of the export market because a Board may decide that, for example, a lesser quality product should not be exported. However, a considerable demand does exist for cheaper, lesser quality products, a market, which is presently not exploited. If producers are to profit from exporting cheaper, lesser-quality fruit, they need to reduce their overhead costs and the costs in the supply chain. The fact is that it is not possible to say that a market is not worth developing before it has been tested.

In summary, statutory single-channel Schemes for both the local and the export markets could conceivably represent nothing more than a convenient mechanism of eliminating competition in the market.

Various provisions regulated matters relating to the conducting of fruit pools. Fruit pools are normally conducted in conjunction with a single-channel marketing system, like that of the deciduous fruit industry, although the existence of such prohibitive systems is not a necessity. The physical conducting of pools varied from Scheme to Scheme with some differentiation between classes and grades of products. Where effective differentiation did not take place, the Committee was of the opinion that the better performer would not get the advantage that he deserved, while the mediocre participator became the unfair beneficiary. The Committee was also concerned that a loss of producer identity could lead to a deterioration of quality and competitive advantage.

On the other hand, Unifruco presented a counter argument for the following, mainly in support of single-channel export marketing.

They emphasised the extreme importance of controlling and insisting on the production of high quality export fruit, particularly for products destined for sophisticated markets. According to Unifruco, this had been achieved with the 'Cape' brand which was now recognised as a product of high quality. Unifruco's fear was that, should single-channel export marketing be abolished, the excellent reputation which 'Cape' fruit enjoys could be endangered by the export of inferior quality fruit by some producers or producer organisations. This argument that quality would be undermined does not hold, due to the fact that the Perishable Products Export Control Board (PPECB) controls fruit quality as the agent of the Department of Agriculture under the auspices of the Agricultural Products Standards Act, and according to the Committee, it would continue to do so regardless of who the exporters are. Also, the fear was expressed that price-undercutting could take place. In Unifruco's opinion this would be to the detriment of the industry as a whole.

The Committee recommended:

- that the existing Control Boards or a majority of producers wishing to deregulate be permitted to do so, with the important proviso that these measures serve to open access to all existing and potential players and increase transparency.¹⁰
- that unnecessary restrictive control measures of any nature, for example, the issuing of permits for the local marketing of deciduous and dried fruit and conditions for registration of traders, manufacturers, etc. be abolished.¹¹
- that with proper consideration by the AMC, statutory single-channel and price support marketing Schemes be abolished and that the present Boards operate as private and voluntary organisations outside of the Marketing Act.¹²

¹⁰ Kassier Report, Dec. 1992, p.75

¹¹ Kassier Report, Dec. 1992, p.76

¹² Kassier Report, Dec. 1992, p.78

2.4.2 The Agricultural Marketing Policy Evaluation Committee (AMPEC): A framework for a future agricultural marketing policy for the RSA and the implementation thereof, Report 2, April 1994

AMPEC noted that the control measures in terms of the Deciduous Fruit Scheme, with the exception of levies, were only applicable to deciduous fruit destined for the export market. At the time of the AMPEC report, the Deciduous Fruit Board was in the process of abolishing control on the domestic market for deciduous fruit.

AMPEC also noted that the cost structures of the South African deciduous fruit industry are competitive and prices attained for South African deciduous fruit appear sound in a mature and highly competitive international market. However, this is due to the benefits that producers receive from the exchange rate, with the rand devaluing against the dollar, and not from the prices received. It was also noted that Unifruco and Outspan International should combine their marketing efforts abroad to reduce costs and enhance efficiency. In this way centralised marketing allows for the benefit of economies of scale.

It was also observed that most producers strongly supported the retention of the single-channel export system in order to benefit from economies of scale, as stressed by the Deciduous Fruit Board.

AMPEC was therefore of the opinion that single-channel export marketing is acceptable in the case of deciduous fruit. Nevertheless, it was recommended that the Board considered the use of the single desk principle, whereby more than one agent could be appointed for certain markets in order to test efficiency.

AMPEC stated that, with regard to the export market, only levies for the functions of the Board, namely research and promotion, were being charged at the time. All other costs on export fruit were handled as pool costs. Export fruit also contributed to promotion on the local market. The levies for the administration of the Board and research were in line with the viewpoint of AMPEC.

The industry submitted a consensus view regarding the Deciduous Fruit Scheme. The following points were made:

- The industry fully subscribes to the need to retain a statutory single-channel marketing structure for the successful international marketing of deciduous fruit. It is of the opinion that all necessary disciplines in terms of grading regulations, environmental and health requirements, pooling of expenses and logistical requirements that are currently provided for, should be retained in respect of exports.
- all of the few remaining statutory controls in terms of local marketing should be repealed with the exception of those that provide for levy funding for research, promotion and approved agricultural bodies.¹³

2.5 THE MARKETING OF AGRICULTURAL PRODUCTS ACT, 1996

The Marketing of Agricultural Products Act, No. 47 of 1996, was ratified on 27 September 1996. This Act provided for the following:

- to authorise the establishment and enforcement of regulatory measures to intervene in the marketing of agricultural products, including the introduction of levies on agricultural products
- to establish a National Agricultural Marketing Council, and
- to provide for matters connected therewith.¹⁴

The objectives of this Act were:

- (a) the increasing of market access for all market participants
- (b) the promotion of the efficiency of the marketing of agricultural products, and
- (c) the optimisation of export earnings from agricultural products as well as the enhancement of the viability of the agricultural sector.¹⁵

¹³ The Agricultural Marketing Policy Evaluation Committee Report, pp.29-30

¹⁴ The Marketing of Agricultural products Act No. 47, 1996, Introduction

¹⁵ The Marketing of Agricultural products Act No. 47, 1996, sub-section 2

The National Agricultural Marketing Council as a juristic person was established in terms of sub-section 3 of the Act.¹⁶

Sub-section 16 of the Act stated:

Control of exports of agricultural products-

- (1) The Minister may by notice, under section 13, direct a person who wishes to export the agricultural product or the class of agricultural product to which that notice pertains, to dispose of that product in the manner determined in the notice, subject to such conditions as may be specified in the notice.
- (2) The minister may in the notice referred to in subsection (1) prescribe for or exclude from such control-
 - (a) a particular class, grade, quantity or percentage of agricultural products;
 - (b) a particular date or period of time;
 - (c) a particular destination;
 - (d) information on the transactions and transaction costs that may be made public.
- (3) In formulating recommendations with regard to a direction contemplated in subsection (1) the Council shall have regard to –
 - (a) the need to encourage some diversity of marketing channels to foreign markets or in respect of different classes of agricultural products;
 - (b) whether value will be added to the agricultural product before it is exported;
 - (c) whether the potential exporters have invested from the commencement of this Act in the development of the market to which the exports relate or intend to develop a new market; and
 - (d) whether the exporters have facilitated or have demonstrated an intention to facilitate access to the market by small-scale farmers.¹⁷

¹⁶ The Marketing of Agricultural products Act No. 47, 1996, sub-section 3

¹⁷ The Marketing of Agricultural products Act No. 47, 1996, sub-section 16

In conclusion, prior to 1996 there was a lot of speculation and mixed opinions concerning the proposed marketing Act with regards to agricultural products and what the implications would be to the fruit industry. Some felt that the single-channel marketing structure should be abolished and there should be a free for all marketing structure with the Board operating as a voluntary organisation, whereas others felt that regulation was needed but in a free/transparent market.

CHAPTER 3

THE DEREGULATION OF THE FRUIT INDUSTRY IN 1997

3.1 THE LEAD-UP TO THE IMPLEMENTATION OF DEREGULATION

In October 1996 the industry expected that the draft act, in principle accepted by the Senate's Portfolio Committee for agriculture, would speedily be revised by the Senate and the National Assembly and would be accepted accordingly. According to the export manager of the Deciduous Fruit Board at the time, Mr Bokkie Strauss, this draft act would be the final result of an extended process that was started in 1993 by the former Minister of Agriculture, Dr Kraai van Niekerk and his appointment of the Agricultural Marketing Policy Evaluation Committee under chairmanship of Mr Gerhard Basson, who was chairman of the National Marketing Board at that stage.¹⁸

At the time that the agricultural portfolio committees were debating the draft act in Parliament, the ANC proposed a principle and guideline document that drastically departed from the principles set out in the draft act drawn up by the Agricultural Marketing Policy Evaluation Committee. The core difference between the two documents was AMPEC's proposal for a continued single-channel marketing structure and the ANC's abolishment of the single-channel marketing structure but with government intervention. Due to the fact that an agreement could not be reached, the draft act and inputs were handed over to a technical committee. The South African Agricultural Union (SAAU) represented the agricultural industries and the Land and Agricultural Policy Centre represented the ANC in this work group. The new draft act that was compiled was a compromise between commercial agricultural interests and what the government was prepared to deliver. In its new format the draft act allowed a variety of government interventions in the marketing of agricultural products to achieve proposed goals. An example of a government intervention is the power that the minister has to prohibit the export of a particular grade or quantity of fruit. The new draft act proposes the establishment of an advisory National Agricultural Marketing Council to replace the National Marketing Council. The draft act contained details of the request,

negotiations and implementation of statutory regulations. It was foreseen that the Marketing Act, 1996 and all its regulations would continue to exist for the duration of one year after the first meeting of the newly appointed National Agricultural Marketing Council – the so-called ‘sunset clause’.¹⁹

With the introduction of the new Marketing Act of 1996 coming into effect in 1997 and the Deciduous Fruit Board’s decision to eliminate the single-channel marketing system on 1 October 1997, although the Act provided for implementation until 6 January 1998, the deciduous fruit industry seemed to be in a state of turmoil and fragmentation. However, some said these were just the words of sensationalists, who didn’t really know and understand what was going on in the deciduous fruit industry.

A director member of Unifruco, Mr Koos Snyman, had the following to say about the deciduous fruit industry, “If we don’t realise that our environment is changing and if we don’t adjust to the changes at the same speed, then the future is not going to look as rosy as what is possible to achieve. The uncertainty that the deciduous fruit industry is experiencing is certainly not foreign; years ago people were asking the same questions about the uncertainty of the industry. It depends on how people handle the winds of change, which will determine whether they will be successful or whether they are doomed to ill fortune. Some people try to ignore these changes, while others fight against the changes. The successful entrepreneurs use these changes to their advantage. The main challenge is to produce more with less input: the consumer wants better products but wants to pay less for them. It doesn’t matter how well one did perform, one must just do better now and in the future.”²⁰

He went on to say, “The enemy is not Unifruco, the packhouses, small or large farmers or the supermarkets overseas, but it is the other fruit-producing countries in the Southern Hemisphere and also Europe that are a threat to the South African fruit industry. Quantities from these countries are drastically on the increase and with the new,

¹⁸ Deciduous Fruit Grower. *Vrugtebedryf moet nou opsies oorweeg*, p.348

¹⁹ Deciduous Fruit Grower. *Vrugtebedryf moet nou opsies oorweeg*, p.348

²⁰ Deciduous Fruit Grower. *Sondebokke soek is sinneloos*, p.192

improved storage facilities and materials handling methods, more European fruit is being stored in the cold rooms at the beginning of the Southern Hemisphere's season as compared to ten or fifteen years ago. For example, last season (1995) Chile exported 14,6 million 12,5kg cartons of apples and New Zealand 13,9 million to Europe against South Africa's 13,3 million. The fruit industry needs to be more involved in the marketing and promotion of the fruit. We can't think that we'll win the consumer over due to a good product without the right marketing effort. At the moment we are playing with prices, but that isn't marketing, that is sales, and there is a big difference between the two. Producers must also determine which market they are penetrating and that the production costs suit that particular market."²¹

An ex-Unifruco director, Mr Alistair Moodie, had the following to say about the deregulated industry, "I firmly believe it is correct for the industry to move towards deregulation. I think the past successes of the industry have been achieved through an incredible spirit of co-operation amongst growers representing different areas and fruit kinds and working towards a common goal: that of projecting South African fruit as world-class in terms of quality, reliability and service to major customers. It has been achieved in an environment of a free-enterprise spirit on the one hand, and the enforced discipline of a statutory single-channel system on the other. However, it is now time to move into a situation where growers are free to choose and optimise their potential returns. The deciduous fruit export paradigm has changed fundamentally. The new environment of deregulation is going to present a totally different set of conditions for industry leaders, the board and management of Unifruco and individual producers. It is going to be a major challenge for them to establish positive relationships with the wide diversity of suppliers."²²

3.2 THE DECIDUOUS FRUIT PRODUCERS' TRUST

The founding of the Deciduous Fruit Producers' Trust (DFPT) on 1 October 1997 by producers who deliver to fresh markets, was the first step over the long term to create a comprehensive structure to bring economic survival to the deciduous fruit industry in a

²¹ Deciduous Fruit Grower. Sondebokke soek is sinneloos, p.192

²² Deciduous Fruit Grower. Unifruco has the potential for success, p.134

free market environment. The SA Apple and Pear Producers' Association (SAAPPA), the SA Table Grape Producers' Association (SATPA) and the SA Stone Fruit Producers' Association (SASPA) are the three producer associations which established the DFPT. This was all part of a move involving the majority of producers, saying that there was really no choice but to accept responsibility for their own destiny. The chairman of the DFPT, Mr Anton Rabe, said that the Trust wanted the transformation from a regulated to a deregulated environment to run as smoothly and as optimally as possible.

The Trust is an official body that speaks for the fruit industry and deals with certain important facts such as the certainty that producers are getting market-related prices. The Trust's scope for success is also uncertain due to the fact that it is a voluntary body, unlike the Deciduous Fruit Board where membership was compulsory. Producers have to pay a levy in order to keep the management of the Trust going, but due to the fact that the Trust is not a statutory body, the levies cannot be made compulsory. The Trust tries to keep the levies as low and as few as possible.

The main objectives of the DFPT are to:

- promote the common interests of deciduous fruit producers as a national cohesive umbrella structure which exercises independent strategic control over the policy and activities of the industry
- promote and facilitate production research, plant improvement, training, education and related services and functions
- provide essential independent information, and
- act as mouthpiece for producers of deciduous fruit and co-operate with Government and other interest groups in the industry.²³

As part of its strategy, the Trust is forging a closer relationship with other affected parties in the industry to ensure that suitable export disciplines and essential services via co-ordinated forums will be maintained to safeguard the long-term economic sustainability of the industry at large. It is imperative that the disciplines of the past be maintained to

²³ Deciduous Fruit Grower. Trust ensures continued existence of industry, p.3

sustain the continuation of the competitive advantage the industry achieved over the years. The DFPT, along with various partners like the government, will facilitate the following functions:

- research, plant improvement and plant certification
- promotions and educational programmes
- training and development
- minimum quality standards/regulations
- phytosanitary protection for the industry
- information/statistics
- communication, and
- due diligence

The continued competitive advantage of the industry by way of the availability of new technology, world class plant material and new cultivars is vital. These functions will be co-ordinated and managed by Hortec (Pty) Ltd, the SAPO Trust and the DPA in conjunction with the ARC and the University of Stellenbosch.²⁴

Owing to the fact that there is a world-wide overproduction of some products, it is important that there are no compromises regarding the quality of exported fruit. Presently the proportion of the total crop exported has increased due to a wider spectrum of produce exported and new markets being developed. However, it will not be possible to sustain this tendency if it is done at the expense of quality. That is the reason why the Trust maintains a close relationship with the Department of Agriculture's Directorate of Plant and Quality Control and the Perishable Products Export Control Board (PPECB). It is also imperative that all role-players, including the government, receive accurate, meaningful and up-to-date information. The industry places a very high priority on maintaining tree census, providing crop statistics, information on volumes and prices achieved, production and packaging cost surveys, and net farm income (NFI) trends. Benchmarking, best practices and world beating productivity parameters will form part of this information base.

²⁴ Deciduous Fruit Grower. Trust ensures continued existence of industry, p.3

With just over two years that the DFPT has been in operation, growers' membership has already increased to 85%. Mr Dall stated that the industry has been through some tough times but that the Trust is helping to carry it forward by banning the export of second-grade fruit, which should help to restore the economic viability of the producer.²⁵

3.3 THE FORMATION OF CAPESPAN

As deregulation became a reality, many producers very quickly opted to manage their own destinies and in isolation from the control of Unifruco Ltd (the sole marketing agent). Unifruco's market share soon declined as a result of this breakaway by the independent fruit growers. The Unifruco association became contentious in the industry, particularly as Unifruco was considered as having been a "tool" of the previous regime and as carrying too much political "baggage".

The directors of Unifruco Ltd, acknowledged these pressures from the industry and realised that, in order for Unifruco to survive, it would have to change fundamentally the "look" and performance of the Company. If it failed to do so, the demise of Unifruco was imminent.

In June 1998, the amalgamation of Unifruco and Outspan took place to form a new company called Capespan. Capespan's premium brands are Outspan (citrus) and Cape (deciduous). Bella Nova is Capespan's internationally known value brand (or KVI). It is considered a lesser premium brand in comparison to Cape and Outspan, but is applied in a versatile manner for citrus, deciduous as well as tropical fruit.

Capespan has now assumed the role of dominant fruit marketer in South Africa and is restructuring its organisation in a manner which it hopes will be more acceptable to the local fruit industry and the new political dispensation. This implies that Capespan has to deal with improved operating efficiencies, a reduction in operating costs and overheads and the structural (particularly equity) organisation of the Company. There is still much association and reference to the old Unifruco, and Capespan is desperately trying to rid itself from this old and outdated identity.

²⁵ Deciduous Fruit Grower. DFPT: working for economic viability, p.36

3.4 VIEWS FROM THE RETAIL TRADE

In October of 1997, the news that South African deciduous fruit marketing had been deregulated caused more than a ripple amongst the people in the United Kingdom fruit trade. The Cape branded fruit comprised a significant portion of the UK trade, particularly during the UK summer and has a reputation for quality. The Cape brand had enjoyed a high profile for many years, not only due to extensive promotional campaigns but also due to the fact that marketing relationships had been forged with wholesalers and buyers. Branding is so vitally important in the competitive market of the future. Capespan's branded fruit had been able to exert considerable influence on overall market price structures.

However, the Cape brand is under pressure from increasing competitive sources. New Zealand apple production is continually on the rise, whereas Chile is regarded as a sleeping giant, with its massive seedless grape and stone fruit crops. China may soon dominate the market with enormous plantings, low costs and a new export ethic.

Deregulation led to a heated debate amongst knowledgeable, practical traders and retail buyers in the UK. Those UK wholesalers who were not appointed agents of Capespan in the past now, for the first time, had the opportunity to acquire South African fruit from other sources. Others were naturally concerned that they could lose a major source of income if their South African fruit-producing sources discontinued to supply them in order to receive better prices elsewhere.

While supermarket buyers increasingly want only the best size and varieties, and hope to gain the maximum from any situation, they nevertheless indicated that they would want to deal with fewer and larger organisations which can provide both volume and marketing infrastructure in the future.

Whatever the outcome of the South African situation, there is no doubt that deciduous fruit growers will feel the effect of dramatic changes in the UK distribution and retail sectors. UK supermarket sales have rocketed and now account for 80% of the South

African trade in fresh fruit, bringing enormous purchasing power. As the trend of supermarkets acquiring or merging with other retail outlets continues in the UK, these acquired and merged supermarkets, known as multiples, press on to win market share and are therefore making greater demands on growers. To be more competitive, buyers are looking for special grades outside the norm, specific weights or sizes and for fruit handled in dedicated or approved packhouses. These days the end user, notably the consumer, wants fruit which is traceable all the way back to the orchard. Full accountability has led to closer relationships with retail buyers keen to develop long-term buying programmes with fixed prices – moves that could create greater supply stability. Closer consultation has already led to the development of special packaging and the joint development of new varieties, allowing supermarkets to establish initial exclusivity as a method of building value-added, niche markets.

Against this background, the question arose of: how the new, deregulated South African export industry would perform. Multiples and wholesalers agree that given the world-wide overproduction of fruit, there is no room for second rate quality in a first rate quality demand market. The traditional UK market is for first grade quality; however, second grade fruit is also saleable, but needs to be marketed as such. The problem arises when second grade fruit arrives on the first grade fruit market. This undermines the quality of the first grade fruit market, therefore some sort of regulation is needed to ensure that the correct grade of fruit is exported to the correct fruit market. Another critical question was whether South African producers who choose to enjoy their independence, have sufficient critical mass to be able to provide the volumes of fruit now required by the UK retail chains. Also, whether they will be prepared or even able to afford the level of investment needed to keep up with changing demands in the longer term. Individual importers claim they can help such growers develop, because they can move more quickly than their larger counterparts, have fewer overheads and can take advantage of market conditions. However, they may lack detailed information on what it takes to be successful in the international arena. Meanwhile multiples are seeking every way to

reduce costs by shortening the distribution chain, which means that large-scale operations could have added advantages. It is in fact the success of this element, that the trade felt would be the deciding factor in the South African metamorphosis.²⁶

3.5 THE BENEFITS AND OPPORTUNITIES OF DEREGULATION

Two years of deregulation have provided some distinct benefits to the deciduous fruit industry. The following factors count in favour of the abolishment of the single-channel marketing legislation. Producers were bombarded with enquiries from local and overseas agents to supply directly to overseas markets. In the new environment of increased competition, agents and buyers disclosed valuable information to producers. Producers could compare agents' commissions and other costs and agents had to rely on their experience and expertise more than ever before. Regular, up-to-date information on the overseas markets was available. Regular faxes disclosed comparable overseas prices, volumes and even the factors affecting these prices (weather patterns, carnivals and duties). Timely information assisted packhouses to make better decisions regarding packing cultivars, standards and types of packing. Speedier payments based on clear cost structures were received. Specific cost items were compared and questioned and payment terms negotiated. This was unheard of under the regulated regime. In the process, export logistics were simply explained to producers, who often discovered that exporting was not so difficult or risky after all. Direct contact between overseas agents and buyers and producers forced more producers to take ownership of their produce. Numerous visits from overseas buyers and overseas trips by producers started building the foundation of future communication and a much better mutual understanding. Finally South African fruit producers became world players, but not without risks.

3.6 THE DISADVANTAGES AND RISKS OF DEREGULATION

The impact of deregulation has brought about a few negative factors in agricultural economics which also affect the deciduous fruit industry. The industry is exposed to international competition, interest rates have remained relatively high, the gap between

²⁶ Deciduous Fruit Grower. UK trade buzzing with deregulation debate, pp.377-378

input costs and income is continuously getting smaller and the government of today is not as sympathetic towards agriculture as used to be the case. These changes impose new demands on farmers. One of the greatest financial problems that any business could experience is profitability. Profitability is generally measured in terms of the return a producer gets on his investment and is a factor of profit margins, the productivity of assets and a measure of financial leverage. Over the last ten years there has been a tendency for producer prices to rise at an average rate of 9,9% per year, slower than the costs of farming requisites at 12% per year. This can impact heavily on producers, as the profit margin consequently becomes much smaller. All businesses are subject to this risk, whether they operate in a regulated or deregulated environment.

3.7 CHOOSING AN EXPORTER

Deregulation has resulted in over 100 exporters competing for South African producers fruit. It is important for producers to choose the correct exporter in this competitive market in order to achieve optimum prices and viable marketing practices.

The following questions will guide producers in their choice of an exporter:

- Firstly, what experience do they have? It should be determined how long the exporter has been in business, what staff they have and if there is any backup.
- What market knowledge do they have? It is good to test their knowledge on the product that they are marketing and their knowledge of other markets. It is important to visit the market along with the exporter before making a final commitment. The exporter is going to be the producer's partner, therefore the producer should make sure what the partnership entails before investing huge quantities of produce.
- How good is their marketing division? Whom do they sell to, and what programmes do they have in place for marketing and exporting the fruit?
- Do they have proper logistical transport support and knowledge? Do they have adequate experience in logistics requirements and if not, is the fruit going to be kept in storage, or will it be left standing in the sun too long, waiting for transport?

- How long have they been in business? Find out if it is a one-man concern or very small business, which might be affected if one of the partners should withdraw.
- Do they really know the product they are marketing? What is their involvement in getting the correct packaging for a particular market? Do they have the right size of fruit, the right colour and the right maturity for the market they are exporting to?
- Whom do they sell to, and what selling programmes do they have in place?
- Do they have an intelligent system that will keep them informed of the activities of other Southern Hemisphere suppliers on their markets?
- Are they likely to create problems with other exporters or growers in South Africa?
- Are they one of several exporters supplying the same fruit to the same market?
- Are they observing protocols?
- Are they moving the fruit without excessive storage?
- What is their financial standing? Find out what assets the company has.
- Do they have the proper insurance? The exporter should also have credit insurance to ensure payment. Does the insurance pertain to domestic and/or international exports? Does the exporter have Marine insurance? If the exporter sells fruit to an agent and something happens to the ship on the way, is it possible that he could end up paying for it? Does the exporter have the proper insurance to guarantee that the producer will get his money, no matter what?

3.8 FACTORS THAT POTENTIAL EXPORTERS NEED TO CONSIDER

Due to the competitive nature of this business there are questions that potential exporters should take cognisance of before considering exporting fruit as a business, such as the following:

- What does it entail to be a successful and competitive exporter?
- What are the correct communication channels to follow?
- What is the extent of my knowledge on market research and market access issues?
- Will the decision being made affect the industry negatively?

- As a potential exporter of deciduous fruit, what is really required of me, and how should I establish an export portfolio that can be successful and useful? One of the most important goals for an exporter is to follow the industry rules properly and especially to follow through – knowing whom to speak to, when, where and about what.

The following aspects are also important:

- Maintaining a healthy relationship between the producer, exporter and consumer.
- To participate in an export programme, exporters must register themselves and their producers with the National Department of Agriculture, Directorate Plant Health and Quality, Division Protocol and Work Programmes.
- The work plan and protocol maintaining optimum phytosanitary measures will be available at the NDA and DFPT offices.
- The execution of the pre-clearance programme and all necessary liaising, including operational and financial factors, can be done through the DFPT.
- Concerning operational issues, the exporter must attend meetings and workshops held by the NDA and DFPT.
- Knowledge of packhouse operations is vital.
- The movement of fruit from inland to port should be properly managed and understood.
- Advice is available from research institutes like the ARC and Hortec.
- Knowledge of the cold chain, pre-cooling, cold storage and shipping of consignments of fruit.
- Quality is controlled by PPECB.
- The final logistics and operations for loading of fruit consignments onto conventional vessels and containers need to be known.
- The phytosanitary documentation from inspectors, carrying instructions from PPECB, and manifests of the vessel from the international harbour service should be obtained.

It is the responsibility of each exporting participant to be positively competitive, maintain high standards within the South African export industry, making South Africa an influential market and globally competitive.²⁷ The above can be used as guidelines for exporters to create successful marketing channels to the benefit of all parties concerned.

²⁷ Deciduous Fruit Grower. Being a pro-active exporter, p.7

CHAPTER 4

MARKET RESEARCH TO ESTABLISH TRADE SENTIMENT ON DEREGULATION

4.1 PURPOSE

The purpose of the market research undertaken for this assignment was to establish the opinions of the key stakeholders in the industry regarding the deregulation of the deciduous fruit industry and to link their recommendations with regulatory recommendations. Secondly, the purpose was to show the validity of the regulations or statutes governing the marketing of deciduous fruit and to establish whether they are in line with the fruit industry's line of thinking and current trends.

4.2 METHODOLOGY

- Firstly, a questionnaire was developed that asked strategic and market-focused questions relating to current affairs in the fruit industry (see Appendix, A). These questions focused on the pros and cons of a deregulated deciduous fruit industry and how deregulation has affected the deciduous fruit supply chain.
- The questionnaire was conducted through interviews and via e-mail.
- Most of the results were collated by summarising the various responses to the questions. The unsolicited opinions of producers and exporters have been summarised and included as results to the questionnaire. Various questions were statistically collated, using the average rating (Me), the highest rating, the lowest rating and the middle rating (Mo) statistical functions. The Me is calculated by taking the rating that the interviewees gave to a certain option, adding up all 20 of the sample group and then dividing the total by 20 to get the average rating. The highest and lowest ratings are given for each option. The Mo statistic shows the rating that the majority of the sample group gave.

4.3 QUESTIONNAIRE AND RESULTS WITH KEY FINDINGS

The results are taken from the responses of a sample group of 20 exporters that are either just exporters or exporters and producers. This sample group consisted of Cape Citrus, Cape Five Export SA, Capespan, Colors, Del Monte, EXSA, Fedfa, Fruitair Export CC, Grapeco, Hoekstra Farms, Kromco, Lona Fruit, Multifruit, Oceanic Fruit Exports, SAFPRO, Sunpride, Table Mountain Fruit Exporters, Tropicana Marketing International, Two a Day, WP Fresh Distributors.

The total 100% of the sample group finds the multiple channel export system (deregulated industry) more beneficial for their exporting needs than the single-channel export system. However, Christo Botha from Capespan mentioned that from a producers point of view, it should be less beneficial to them, as in the past Capespan (then Unifruco) would have had to take all the producer's fruit (grade 1, 2 and 3), while now export agents can choose the grades they want. This means that producers are competing against one another in terms of quality and price.²⁸

Table 4.1: Rating of the importance of qualities of a multiple export channel

	Me (average)	Highest rating	Lowest rating	Mo (middle)
Prices	4	7	1	3,5
Customer service	4	7	1	4
Quality	3	6	1	3
Secure market	6	7	1	6
New market opportunities	4	7	1	3
Individualisation of producer	4	7	1	2,5
Better integrated supply chain	4	7	1	5
Other	8	8	8	8

As can be observed from the above result, if taking the average rating (Me) in conjunction with the middle rating (Mo) statistic, most of the sample group felt that quality, new market opportunities and individualisation of the producer were the most important benefits to deregulation. By using the Mo statistic it is established that the majority of the sample group rated quality, new market opportunities and individualisation of the producer either as one of the three most important aspects.

Forty-five per cent of the sample group were of the opinion that it was easy to find a suitable marketing agent while the rest disagreed because they were of the opinion that too many exporting agents are available. To date there are over 70 exporters registered at the SA Fresh Produce Export Forum and there are between 150 and 200 exporters in total.

The various qualities that producers and exporters would look for in a marketing agent varies. Sixty per cent of the sample group said they would look for an existing secure marketer; 15% said they would look for a conservative marketing agent; 10% said they would look for an opportunistic marketer; 10 % said they would look for a marketer offering prices which are determined by the market and the last 5% of the sample group said they would look for a marketer offering them low, secure prices.

In addition, the sample group mentioned some other factors that they would look for in a marketing agent:

- the exporter's knowledge of the product
- a stable, long-term and reliable exporter
- consistency of pricing and volume which should include an element of each of the qualities mentioned in Table 4.1 to maximise returns at lowest cost
- the ability to sell to supermarkets, retailers, municipalities, open markets, vendors and juice factories. Many exporters market one's product only to supermarkets. Should the quality be below supermarket standard, they would have no other alternative.
- innovative, professional marketer
- long-term relationships with customers (supermarkets)
- a good financial administrative system and financial strength
- the identity of the agent's international partners
- world-wide spread of the exporter's capabilities so that he is not restricted to or dependent on a few regions, for example the European Union, to market the product
- logistical and marketing knowledge on the part of the local staff.

²⁸ Capespan, Christo Botha

The majority – being 95% – of the sample group were of the opinion that they receive more status and acknowledgement for their fruit due to the multiple export system. The other 5% were of the opinion that they didn't receive more recognition for their fruit.

Eighty per cent of the sample group were of the opinion that fruit prices received vary greatly with different agents. Fifteen per cent stated that there wasn't any variation and 5% stated that the question was not applicable to their company.

The deregulated industry proved beneficial to prices received for the fruit for 90% of the sample group, while 10% disagreed. A few from the sample group stated that in the short-term, the deregulated environment did not benefit prices received for the fruit, but in the long-term it would definitely be beneficial. Capespan was one of the few firms that said it was not beneficial, as deregulation causes competition and competition drives the prices down.²⁹

These are the comments made by the sample group regarding the long-term benefits of a deregulated industry:

- The crop in the RSA is increasing year on year and therefore supply and demand will determine which agents will survive.
- At present there are too many small fly-by-night exporters who disregard quality standards, thereby affecting the prices of all exporters. Until such time that these exporters are eliminated (3 – 5 years) there won't be any benefit.
- Producers will be in a better position to secure their markets and therefore their income.
- There will be wider benefits for producers and a more efficient flow of information.
- The market becomes demand driven.
- There is competition at both ends.
- The producer has a choice of exporters.
- Security, opportunities, dynamics and involvement are offered to producers.

²⁹ Capespan, Christo Botha

- Freedom of choice in placing fruit in better-paying markets, so long as quality makes the grade.
- Producers are paid for the actual product, as there is no pooling.
- Better prices.
- Better communication between the producer and the consumer.
- A producer has the opportunity to determine for himself how he markets his fruit. He can now make use of other options and can possibly benefit from these by receiving better returns.
- It shows the producer exactly what the market is doing, where it is growing and at what pace. It makes his investment more reliable and less dependant on external influences.
- It gives the producer a right to choose and the producer becomes more market orientated.
- The industry will generate enough income to sustain itself and its people.
- Competition always benefits and regulation stifles.
- Greater global/international recognition for South African fruit.
- The excitement that it has brought to the industry. More markets are being penetrated.
- More investments will be made in the South African companies.
- A top quality producer linked to a sophisticated packhouse and an innovative, professional marketer can differentiate himself and have the fruit sold into the top end of the market for a higher return. The producer will also be exposed to the needs of the customer and thus adapt the cultivars and methods to meet international demands.
- New market access, i.e. finding new markets for all the fruit, without which we would flood our European markets.
- Increasing the outlets within established markets, resulting in more products finding their way to the consumer.
- Increased quality as everyone fights for market share, resulting in better prices and a great reputation for South African products.

The entire sample group were of the opinion that they had more control over their product in a deregulated environment.

Ninety-five per cent of the sample group were of the opinion that they had more negotiating power regarding price and 85% of the sample group were of the opinion that they had more negotiating power regarding quality. Five per cent of the sample group were of the opinion that they didn't have negotiating power regarding price and 15% were of the opinion that they didn't have negotiating power regarding quality.

This 'free trade for all' system was perceived as a benefit by 95% of the sample group, as it was now possible for producers and exporters to find and develop their own markets. The rest of the sample group was of the opinion that it was a threat.

One of the exporters and producers said such a system is a benefit because of the high prices that one receives, but it can also be a threat to receiving one's money. Another exporter said that it is a huge benefit, but at the same time very dangerous, as the choice of exporter now becomes most important. Another exporting agent said that the risk exists that producers commit to a program of security, but then look for their own niche market to obtain higher prices.

In choosing one's own agent and export channels, 90% of the sample group were of the opinion that the logistical supply chain had become more efficient. The remainder of the sample group was of the opinion that it had slowed the export process down.

Ninety per cent of the sample group were of the opinion that it would be better to promote a couple of large exporting agents, while 10% of the sample group were of the opinion that there should be a large number of independent exporting agents.

One of the exporting agents stated that he believed that the industry will find its own requirements which will include a couple of large agents, but still with a fair number of smaller agents.

Table 4.2: The number of large agents necessary in a deregulated environment

Me (average)	Highest rating	Lowest rating	Mo (middle)
10	50	2	5

As can be seen from the above statistics, the majority of the sample group thought that five large agents would be best. The second most suggested number of large agents was three. An exporting agent went on to say that he believed that three large agents were necessary, namely: Dole, Capespan and Del Monte.

Ninety per cent of the sample group were of the opinion that the port facilities and operations were not conducive to a deregulated fruit industry. The remaining 10% felt that they were.

Below are the requirements that the sample group felt that the Port of Cape Town needed to fulfil, in order to contribute to a successful deregulated fruit industry:

- The fruit needs to be loaded onto the vessel as soon as effectively possible.
- There needs to be independent facilities open to all.
- The port facility must be totally open to all exporters, with no single party having vested interests.
- The Port of Cape Town should be privatised fully, thereby allowing competition in the various port operations, which will force prices down and improve efficiency.
- The Port of Cape Town must cater for small as well as medium exporters. The services provided by the port facilities are improving. Improvements will take time due to the fact that they have serviced the single-channel market for a very long period.
- The Port should allow private sector investment.
- The Port of Cape Town should invest in all-weather facilities, as the wind hurtles through the port causing the loading and discharging of vessels to come to a standstill, which is a major factor causing delays and congestion at Cape Town's Port.
- The Port should be able to handle many brands from many sources and be able to load containers and/or conventional vessels quickly and correctly.

- In addition to the privately owned, Capespan International Harbour Services (IHS) terminal, there should be a modern cold store on the water's edge which has all the state of the art features such as handling equipment, mobile racking, pre-cooling tunnels and very good software for inventory control.
- Good management is needed.
- Equal pricing for all exporters.
- Timeous and accurate confirmation of loading details.
- Better loading facilities for break-bulk shipments.
- Better handling of perishable products and better labour efficiency and productivity.
- Competition for harbour facilities to increase efficiency and reduce costs, i.e. more than one 'on quay' coldroom.
- IHS was built and paid for by the industry and should be managed on a non-profit basis for the industry.
- More user-friendly information at more regular intervals.

These are the main features that the sample group thinks are necessary for a successful cold supply chain:

- Delivery from farm to cold store as soon as possible after packing.
- No break in the cold chain – always at the carrying temperature, from cold store to customer.
- The best equipment should be used at the source of packing, whether it is the ship or containers or the portside facilities.
- Most importantly, the point-to-point handling of the product should be shortened.
- Sufficient number of facilities and equipment should be available for use.
- Speed of movement and control and the ability to manage and monitor the system from start to finish.
- The fruit must be handled according to the correct protocols.
- Integrity of stock management.
- Understanding of the product.

The sample group gave their opinions on their preferred method of transportation. Sixty-five per cent of the sample group prefer reefer containers; 30% of the sample group prefer conventional reefers; and 30% of the sample group prefer porthole containers.

The 65% from the sample group who prefer reefer containers, gave their reasons why they opt for that option:

Table 4.3: The reasons for using reefer containers

Percentage of respondents	Reason
0%	Price
69%	Quality of product
62%	No interruption in cold chain
46%	Customer satisfaction
8%	Other: Flexibility

The 30% from the sample group who said conventional reefer, gave their reasons why they opt for that option.

Table 4.4: The reasons for using the conventional reefer vessel

Percentage of respondents	Reason
100%	Price
50%	Quality of product
0%	No interruption in cold chain
33%	Customer satisfaction
17%	Other: Greater choice of discharge port

The 30% from the sample group who prefer porthole containers, gave their reasons why they opt for that option.

Table 4.5: The reasons for using porthole containers

Percentage of respondents	Reason
83%	Price
0%	Quality of product
67%	No interruption in cold chain
0%	Customer satisfaction
0%	Other

Fifty-five per cent of the sample group were of the opinion that there is no legislation that limits export potential. The remainder of the sample group were of the opinion that there is legislation that limits export potential.

The 45% from the sample group that were of the opinion that there is legislation that limits the export potential, gave their reasons:

- There is a lack of deregulation in the port, i.e. privatisation.
- The banning of the export of class 2 fruit.
- Still too much government intervention in respect to what may be packed for export.
- The local protocols regarding the quality of fruit.
- Portnet and the lack of privatisation.
- There are a number of trade barriers conveniently disguised by the importing countries' Departments of Agriculture.
- No grape exports to Japan.

Of the sample group that was chosen, 40% are exporting agents as well as producers and the remaining 60% are exporting agents.

4.4 SUMMARY

The results to the questionnaire reinforced the fruit industry's support for a deregulated and free market. There is no support for a single-market channel, however many agents believe that there are too many exporting agents and that there should only be three to five agents. However, supply and demand will determine who will survive. The market forces will define price, quality and volumes of the produce. Deregulation has brought about greater individualisation for the producer associated with new market opportunities. Producers and exporters believe that, in choosing their own export channels, it has resulted in a more efficient supply chain. The most popular marketing agents are stable, reliable exporters, with a knowledge of the product and the market. There are many new challenges facing the South African port system. These include the development of competitive terminals, for which privatised terminals are desired. The competition in the industry will drive costs down and increase port efficiency. Equipment handling needs upgrading in order to ensure a reliable and efficient supply chain. The producers and exporters are now autonomous and therefore have the independence to establish their business exactly to fit their needs and preferences.

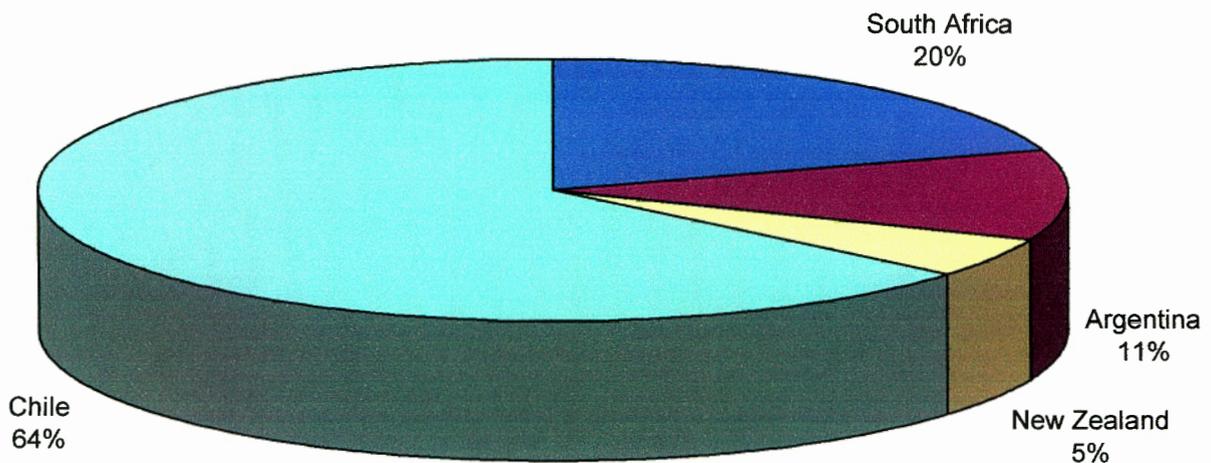
CHAPTER 5

SUPPLY CHAIN MANAGEMENT AND THE EFFICIENCIES OF THE PORT OF CAPE TOWN

5.1 PORT OF CAPE TOWN'S MARKET SHARE

In Figure 5.1 the major deciduous fruit exporting countries of the Southern Hemisphere with their market share is shown, i.e. Chile has 64%, South Africa (SA) has 20%, Argentina has 11% and New Zealand has 5%. With regards to their competitive assessment, SA price premiums and quality are above that of Chile and Argentina. SA has lower volumes compared to Chile and Argentina, as these countries have massive crops. SA brand image is good in comparison. Sixty per cent of SA fruit production is exported. The country has a high-quality market and a high-quality fruit and packaging reputation. SA markets primarily in Europe due to its proximity and the popularity of South African fruit in those countries. SA is Europe's biggest supplier during the counter season.³⁰

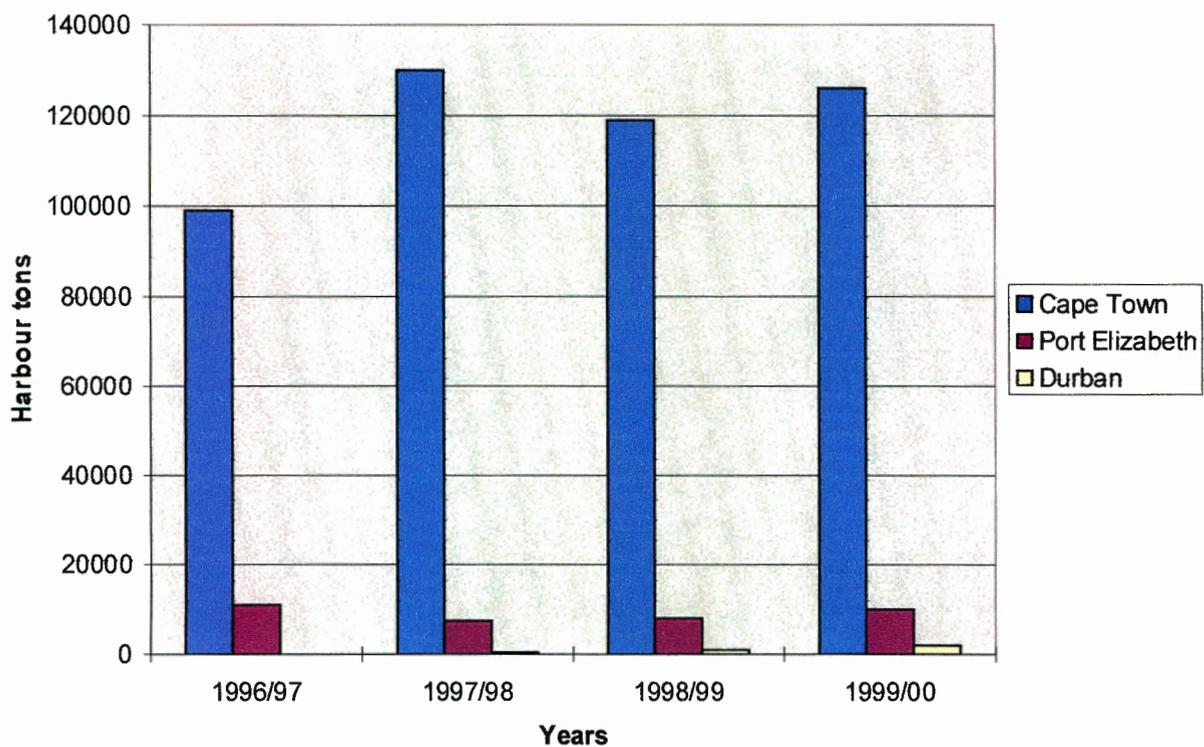
**Figure 5.1: Major deciduous fruit exporting countries
of the Southern Hemisphere**



³⁰ Malcolm Green, Portnet fruit presentation, 1999.

Deciduous fruit export volumes from the South African fruit industry in 1999 was 60 million cartons exported to 66 countries, which brought in \$700 million. Figure 5.2 shows the export volumes of deciduous fruit that pass through the Port of Cape Town, which, exceed the volumes passing through the Port's of Durban and Port Elizabeth. In the 1999/2000 year deciduous fruit export volumes through Cape Town amounted to 126 000 harbour tons, whereas only 12 000 tons were exported through Durban and Port Elizabeth collectively. From the 1996/1997 year, which saw 99 000 tons exported through Cape Town, the volume increased to 130 000 tons in 1997/1998 but then decreased to 119 000 tons in 1998/1999. It increased again as stated earlier in 1999/2000. The deciduous fruit export volumes through Durban and Port Elizabeth collectively between the years 1996 and the end of 1999 fluctuated between 8 000 and 12000 tons, with Durban exporting the lower quantity.³¹

Figure 5.2: Export volumes, deciduous fruit



³¹ Malcolm Green, Portnet fruit presentation, 1999.

5.2 CONTENTIOUS ISSUES REGARDING DECIDUOUS FRUIT HANDLED IN THE PORT OF CAPE TOWN

In the days of the single-channel marketing system in the regulated environment in SA, Unifruco operated the IHS (International Harbour Services) fruit terminal in Cape Town.³² In the regulated environment all South Africa's fruit had to be exported through Unifruco's terminals. Therefore, in Cape Town, IHS operated as a monopoly. This monopoly resulted in the emergence of wasteful operating practices which led to increasing costs and poor efficiencies at this terminal. Owing to the fact that the costs increased and the prices received by the producers and the agents decreased (in real terms), which led to an overall increase in marginal cost, the deregulation of the deciduous fruit industry was greeted with open arms by those previously disenfranchised.

Under the deregulated environment, Capespan, which is the marketing company of the brands Outspan, Cape and Bella Nova, operates the IHS fruit terminal in Cape Town. Due to the fact that Capespan's costs were increasing, and that they were unable to cope with the operating disorder resulting from different consignments of fruit coming in at different times and from different producers and exporters, the producers and exporters decided to take an alternative route, i.e. to export their fruit in containers through the container terminal owned and operated by Portnet. The market share of exports through the Portnet terminal increased to around 25% and caused the loss of Capespan's market share. The producers and exporters found this new channel more beneficial with regards to the costs involved and the quality of the fruit, as containerisation provides for a continuous cold chain.

However, since the use of containers for transporting fruit has become so popular, shipping costs have started to increase again, with the result that independent fruit producers are now looking for alternative and cheaper ways of exporting their products. The demands to Portnet are for independent and preferably privatised fruit terminals in order to create competition and ultimately keep costs down to a minimum.

³² Portnet is the owner of all port land, and lease/contract some terminals to private undertakings in the form of joint ventures.

In the beginning stages of deregulation with the first season of deregulation starting in 1998, there was great fear that there would be inadequate shipping space available to the smaller exporters, and that what was then still known as Unifruco and Outspan would use their muscle to hinder the access of the 'new' exporters to international markets. In particular it was felt that Unifruco and Outspan would keep close control over the provision of conventional reefer shipping services. In many respects those fears proved to be unfounded. There was in fact a much bigger breakaway from the duopoly than most observers forecast at the beginning of the 1998 season. In the deciduous fruit sector, Unifruco was confident that they were going to hold on to around 85% of the market share. In practice they achieved a market share of around 70%. These two organisations, now known as Capespan, remained relatively powerful and experienced. It is their stated intention to fight hard to keep their market share and to maintain their volumes, so the decrease in their market share should not be taken for granted. Capespan has continued to market the shipping space it has procured to independent exporters, but the degree of mistrust that exists has been such that this option has not been widely taken up by the new generation of exporters.³³

Before deregulation came into effect, the smaller exporters expressed concern that they would find it hard to get shipping space at rates comparable to those secured through the huge buying power of Unifruco and Outspan. During 1998 the rates they negotiated was even less than those fixed by Unifruco and Outspan earlier in the year of 1998.

The container shipping lines with reefer capacity have also benefited from the changes that have been made in the market regarding deregulation. On the one hand, they were able to exploit the smaller exporters' initial fears about being prevented from obtaining conventional space by selling reefer container services as an alternative. Also, with the increase in the number of exporters, there has been a decline in the average volume of fruit per shipment and this has opened up more opportunities for container shipping lines.

Container shipping is more expensive than conventional shipping due to the technology involved and is going to become even more expensive in the future, as the container lines

³³ Reefer Shipping. Changes open up opportunities in South African trade, p.23

can only accommodate a relatively limited share of the total volume needed to be exported. The shipping lines want to increase prices for TEU's/reefers shipped. As, Mike Economou, – from the MSC shipping line, put it, “The holiday period is over – prices have to go up. Shipping lines have to recover their margins.” The conventional shipping companies are therefore fighting hard for cargo by reducing costs, taking risks by putting into port and waiting for cargo and sometimes sailing with less than full ships. Container liners are also marketing the intermodal option harder as being well suited to the needs of the smaller exporter.

5.2.1 The Port of Cape Town's fruit terminal

At the IHS fruit terminal, which is operated by Capespan on a long-term lease from Portnet, handling facilities include:

- 16 cold rooms
- 12 000 pallet capacity
- a temperature range of –5 degrees Celsius to +20 degrees Celsius
- 14 rail-mounted wharf cranes, and
- an off-loading area, which enables the loading of 180 trucks daily.

At the container terminal owned and operated by Portnet, handling facilities include:

- reefer plug points: 135 x 6m
500 x 12m
- reefer store: 500 Conair TEU'S, individually controlled, with a temperature range of – 30 degrees Celsius to +20 degrees Celsius
- Independent container fruit terminal: consists of roads to reefers
5 cold rooms (750 pallet capacity)
Temperature range of –1 degrees Celsius to +20 degrees Celsius
All fruit types are handled.

At the multi-purpose terminal owned and operated by Portnet, handling facilities include:

- 20 reefer plug points in the combi terminal
- direct loading from inland cold stores, and
- capacity for expansion.³⁴

Regarding cold storage facilities in SA, total capacity exceeds 500 000 tons and of that, the Western Cape has 75% of the total. Presently in SA, the Durban, Port Elizabeth and Cape Town IHS fruit terminals are at full capacity while there is an average growth in exports of 3-6% per year.³⁵

In order to provide this additional capacity, Portnet could form a joint venture with a partner willing to invest in the port. Alternatives would be to privatise and then to receive revenue through the lease of the land, or to own and operate it, in which case the revenue accruing to Portnet would be from the cargo handling fees. The best option as yet appears to be a joint venture.³⁶ The risk would then be split between different entities. Joint venture participation generally involves the injection of fresh capital, a transfer of industry expertise and management skills, the provision of new technology and increased market share, which could result in much needed improvements to the Port of Cape Town.

In Cape Town it seems that one of the berths (E-berth) could be converted into a combi terminal, which would be the cheapest and easiest way of setting up an additional competing terminal, as the infrastructure and resources are already available.³⁷

³⁴ Portnet The Port of Cape Town, handbook and directory, 1999 p.61

³⁵ Malcolm Green, Port Operations Manager, Port of Cape Town

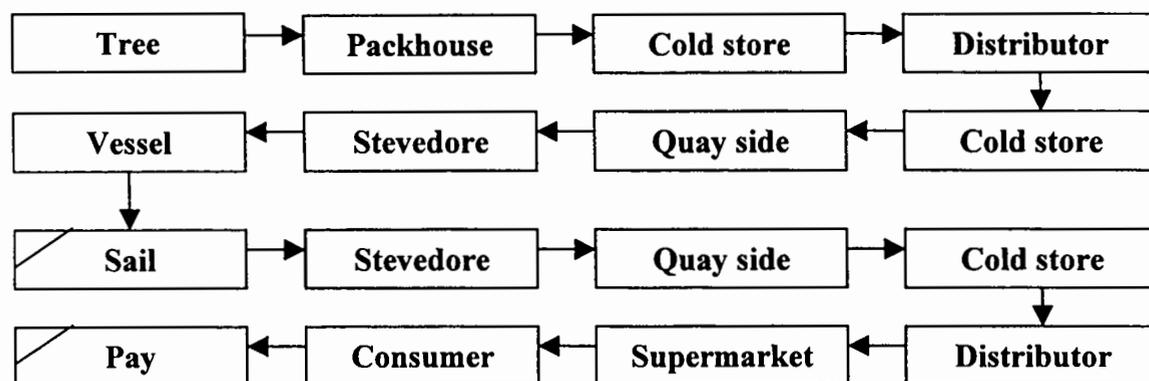
³⁶ Malcolm Green, Port Operations Manager, Port of Cape Town

³⁷ Malcolm Green, Port Operations Manager, Port of Cape Town

5.3 SUPPLY CHAIN MANAGEMENT FROM THE PRODUCER TO THE CONSUMER

The transportation of fresh fruit from the farm to cold stores in production areas to the final destination in an overseas country is a specialised undertaking and involves an organised value chain, including different modes of transport; as illustrated in Figure 5.3.

Figure 5.3: Fruit value chain



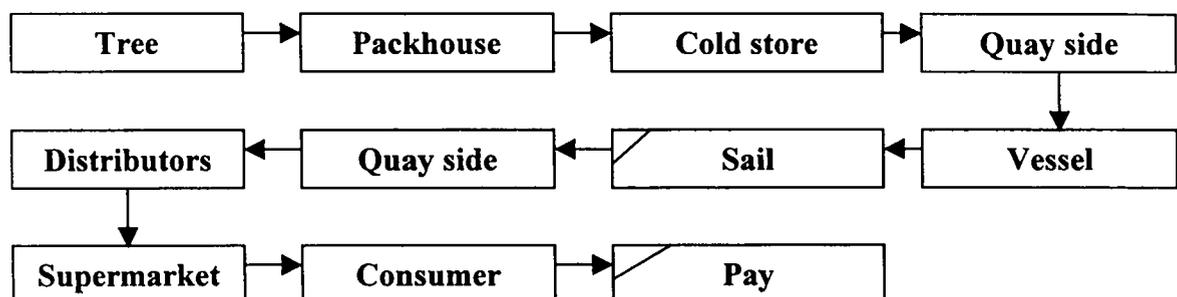
When exporting a perishable product like deciduous fruit, it is imperative that the fruit is handled in the best possible way and as little as possible. This is necessary so that the quality of the fruit does not deteriorate from the initial point of picking the fruit from the tree in the orchard to final consumption by the consumer or end user. Due to the fact that the product is perishable, the cold chain forms the most important feature of the supply chain. The most important factor when dealing with a cold chain is that it should never be interrupted and that the temperature must remain constant throughout the deciduous fruit journey. The transport of containerised fruit has definitely helped in shortening the supply chain and in providing an uninterrupted cold chain. The longer the fruit takes to reach the end user, the higher the costs become and the more the quality of the fruit decreases. The market is often saturated before the fruit even arrives, which translates into lower prices. It is therefore of the utmost importance to shorten the supply chain to an optimised value chain.

It is possible to form a shorter and more organised value chain by introducing transport scheduling into the equation. The role of transport scheduling is to entrench a clear, executable plan that can be measured. It can be described as the smoothing of the transport function, it is predictable and offers certainty and flexibility, so that corrective action can be taken when plans deviate.

Due to deregulation there are far more independent exporters, both large and small. These exporters coming into the Port of Cape Town cause congestion and queuing during the peak seasons with different consignments of fruit destined for different destination ports. A monitored transport schedule indicating time slots for consignments entering the port will reduce or even avoid congestion and undue delays.

A proposed schedule to optimise the supply chain is as follows: The fruit is picked from the tree and taken to the packhouse, where it is put in cartons, palletised and put in cold storage. It is stored there until trucks come to collect the consignment of fruit at scheduled times from the cold store depots, which are scattered around the hinterland. At these cold store depots the fruit is loaded onto trucks, keeping the fruit cooled at a constant temperature and then taking it to the port, where it is loaded on to the vessel and shipped to the port of discharge. All these activities are integrated and co-ordinated through the scheduling process that reduces any opportunity for operational inefficiency or waste. Once at the port of discharge, the consignment of fruit is discharged from the vessel and the distributors take command of the produce by distributing the produce to the supermarkets or to the end user. The fruit is continuously cooled at a constant temperature from the cold store at the packhouse and no interruptions should be made until the fruit reaches the end user. An improved value chain is illustrated in Figure 5.4.

Figure 5.4: Optimisation of the fruit value chain



In comparison to Figure 5.3, it can be noted that five links have been eliminated from the value chain. This is important in the life cycle of a perishable product, as it reduces the number of times that the fruit is handled and therefore maintains the quality of the fruit. Economically this means that costs have been reduced as a result of a shorter value chain and value has been added to the shelf life of the product in the form of its quality.

Computer technology can be used to facilitate transport scheduling and has become a vital part of the successful operation of a modern container terminal. The efficient handling of large volumes of containerised cargo presents complex issues in terms of management and control, which can only be realistically addressed by the use of computer technology.

Examples of technology employed are the following:

- **Terminal yard management system** – This system is central to the operation. At its most basic level, this system records the location and status of all containers passing through the terminal.
- **Community system** – This system links the wider elements of the port user base. Thus it serves as a method of passing information between a variety of parties. All information is transferred electronically.
- **Electronic data interchange** – This system allows the electronic transfer of data from one computer system to another, making the process faster, more accurate and after the initial investment in software and communications hardware, cheaper.
- **Automated container terminal** – In a number of advanced container terminals the technology is far more advanced. Automation of functions previously carried out by humans is on the increase, where computer systems control the automated equipment in order to move containers to and from predetermined locations.

The use of the above computer technology is important to exporters and receivers in determining the position of their consignments, at what temperature it is being stored and when it is due to arrive at the destination. It provides for timely, efficient and accurate information, which will provide a competitive advantage to those using it.

The important aspects to take into consideration when employing information systems is to achieve an integrated approach to the management of the value chain, optimisation and the elimination of operating waste, predictability, flexibility and improved customer service. When put together, all these aspects translate to “customer relationship management” which when effective, operates on the philosophy of creating a “win-win” scenario.

5.4 THE PPECB’S QUALITY ASSURANCE ROLE IN THE SUPPLY CHAIN

The PPECB plays a particular role in ensuring the adherence to the agreed minimum quality standards for SA fruit. However, there are certain principles that have to be established and maintained before the PPECB comes into play.

There are usually two sets of criteria involved when dealing with the parameters of quality. The first one involves minimum diameter and size groups, maturity of the product, cultivars allowable, cosmetic appearances, internal defects and analysis. When dealing with these issues, it is also important to take into account the fact that there is a second set of criteria that needs to be addressed, such as the containers which are used for the product, the marketing requirements, the sample and inspection methods and the packing requirements.³⁸

When dealing with the more specific issue of maintaining agreed minimum quality standards, certain requirements need to be met. The maintenance of minimum quality standards rests on three pillars. The first one is the approach from the industry at large. Deregulation requires that the industry should once again develop a far greater degree of order, discipline, best practices, understanding of the issues involved in production, exports and marketing, and a willingness to be bold to achieve these to serve its own best interests.³⁹

The second pillar is regarded as an essential third-party quality assessment. The PPECB is undertaking this function at the moment in terms of the Agricultural Products

³⁸ Hubinger, N. Fruit Marketing, What does the future hold? p.46

³⁹ Hubinger, N. Fruit Marketing, What does the future hold? p.46

Standards Act. The Act requires such a body to have an official and reputable status, credible to importing countries in terms of bilateral agreements. This third-party quality assessor should have a sufficient knowledge base to be professional and skilful in its core business. It has to have the infrastructure to maintain uniform standards throughout not only the country, but throughout the season on specific products. It therefore has to be able to manage and monitor consistency. It is important that a fair and large amount of information is communicated to those involved in the industry and it has to ensure food safety and phytosanitary issues.⁴⁰

To have an industry that is disciplined and an assessment authority that assesses the product is only going halfway. Therefore the third pillar is the need for an export process and a management system to ensure that the product reaches the market in a state suitable for the consumer to buy. The inspection is usually done at the packhouse when the fruit is being put into cartons and palletised. The product only reaches the market two or three weeks later. The role of the export management is of extreme importance to ensure that the end user receives the fruit in premium quality. Thus, the export management must have knowledge of the post-harvest behaviour of the product as well as the equipment that will be used, be it vehicles, ships, containers, or cold storage, and the processes that are involved. Knowledge of temperature monitoring and control and management of the cold chain is essential, so that the information can be communicated and feedback provided to the parties concerned.⁴¹

Towards the end of 1998, a new agreement was reached between the PPECB in South Africa and the shipping lines, which constitute the Southern Africa Europe Conference (SAECS). In view of the changing environment brought about by deregulation in SA, it was agreed that the arrangements between the PPECB, representing the perishable products industry's, and the Conference should be amended so that exporters wishing to do so may make their shipping arrangements directly with SAECS, instead of via the PPECB. Following the change, new contracts were negotiated directly between the shipping lines and exporters. The PPECB continues to exercise its responsibility regarding shipping and technical matters in general, as well as collating and providing

⁴⁰ Hubinger, N. Fruit Marketing, What does the future hold? p.46

⁴¹ Hubinger, N. Fruit Marketing, What does the future hold? pp. 46-47

statistical services to the industry and negotiating and arranging shipping space on behalf of exporters, on request.⁴²

The PPECB ensures that all exports conform to a specific standard. All products are inspected to ensure compliance with prescribed grading, packaging, and marking specifications. Export certificates are issued, samples are drawn and reports are compiled on the inspection results. All vessels, containers, cold stores and road transport must be suitable for the carriage and storage of perishable cargo. The PPECB will ensure that the product remains within the TTT (time, temperature, tolerance) limits during handling, transportation and storage and will instruct the vessel to deliver and maintain the correct temperature and handling procedures during loading and in transit. They are involved in the formulation of internationally acceptable standards and techniques to ensure optimum use of reefer equipment, handling, storage and transport conditions. The PPECB also maintains a data base, which contains all relevant technical information – both local and international – to improve performance and reduce quality loss during handling, storage and transport.⁴³

The PPECB can enhance the supply chain by carrying out fruit inspections on site at the packhouse, instead of at the port. This is also a form of “optimising the value chain”. This function is already performed at various packhouses. It is, however, very important that the PPECB is punctual in performing these inspections so as not to cause delays. The PPECB should also be available for fruit inspection at the time that the consignment arrives at the port of discharge, so that the consignment of fruit can move quickly and smoothly to the end user. The efficient, smooth flow of the supply chain is the focal point in the logistics of a perishable product like deciduous fruit, in order to ensure that it reaches the end user in premium quality.

It is the view of the fruit industry these days that if the deciduous fruit industry is to be deregulated, then all aspects including quality control also needs to be deregulated. The question of who will manage these standards is easily answered by the producers

⁴² Navigator, Exploring the world of Safmarine Container Lines, p.30

⁴³ Safmarine guide to Reefer Shipping, all you need to know about shipping perishable products in refrigerated containers ... p.7

selecting internationally recognised, independent inspection bodies to perform the inspections. It is felt that the industry should be able to choose whom it entrusts to inspect its fruit. The inspection service needs to be reliable, independent and have a standardised inspection procedure with recognised international credibility.⁴⁴

⁴⁴ Ludik, H. Fruit Marketing, What does the future hold? p. 49

CHAPTER 6

MODES OF TRANSPORT AND QUALITY TREATMENTS FOR DECIDUOUS FRUIT

6.1 SHIPPING

When deciduous fruit is shipped, it is either transported in bulk, on a conventional reefer vessel or in container units.

6.1.1 The two main types of containers

There are several types of refrigerated containers – or thermal containers as they are described by the International Safety Organisation (ISO). The two main types are the porthole container and the integral container.

The **porthole container** is an insulated container with two holes or ports in the end wall, for the delivery and return of cold air from the supply source. See Figure 6.1. This specialised unit does not have its cooling machinery built in and relies on the cooling being supplied from an outside source, such as the vessel or a clip-on unit (see Figure 6.2). These clip-on units provide the temperature control whilst the porthole container is in the port and, once on the vessel, the container connects to a built-in cooling system. An advantage of a porthole container is its increased internal dimension. This container offers on average an additional 1.3 cubic metres cargo space compared to a six metre integral reefer container and can accommodate 10 ISO pallets.⁴⁵ It is important that when cargo requiring temperature control is loaded in this type of container, an air space of approximately 75mm – never above the red line – is left over the top of the cargo to allow free air circulation.⁴⁶

⁴⁵ Safmarine guide to reefer shipping, All you need to know about shipping perishable products in refrigerated containers, p.6

⁴⁶ P&O Nedlloyd, The container guide, p.14

The **integral container** has its cooling machinery built in, powered by electricity and is therefore self-sustainable (see Figure 6.3). This mechanically driven refrigerated unit is plugged into electric power points on board the ship as well as ashore at the port in order to keep the cargo refrigerated at all times. However, if a container is packed inland and the transport time exceeds approximately two hours then the container needs to be placed under cooling while in transit. To meet this requirement, gensets (generating sets) are used (see Figure 6.4). Gensets are diesel generators specially designed to clip onto the back of integral containers to provide electrical power to the reefer machinery. By using gensets, temperature can be controlled to ensure the cold chain is maintained.⁴⁷ The tank capacity of the genset ranges from 150 litres up to 455 litres of fuel, which is equal to a running time of between 36 hours and five days.⁴⁸

Integral containers are available in six metre (28,7 m cubed) and twelve metre (59,5 m cubed) configurations as well as a twelve metre hi-cube container (66,5 m cubed). A hi-cube container has the standard length and breadth but is 30cm higher than a standard container. Each container is capable of maintaining its own individual carriage temperature, in the range of +25 degrees C and -25 degrees C.⁴⁹ As with porthole containers, cargo should not be stowed to the full height of the container, but an air space of approximately 75mm should be left over the top of the cargo – never above the red line.⁵⁰

⁴⁷ Safmarine guide to reefer shipping, All you need to know about shipping perishable products in refrigerated containers, p.6

⁴⁸ Maersk, Cool facts, p.45

⁴⁹ Safmarine guide to reefer shipping, All you need to know about shipping perishable products in refrigerated containers, p.6

⁵⁰ P&O Nedlloyd, The container guide, p.14

The two main types of containers⁵¹

Figure 6.1: Porthole container

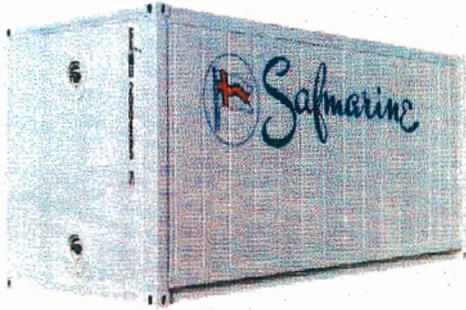


Figure 6.2: Clip-on unit

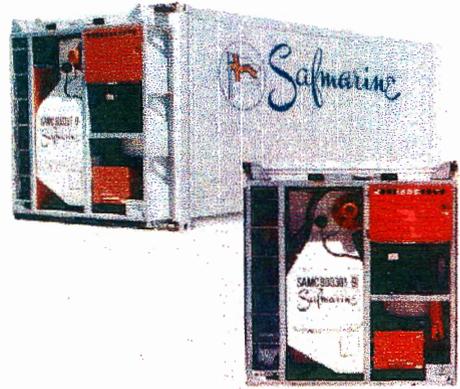


Figure 6.3: Integral container

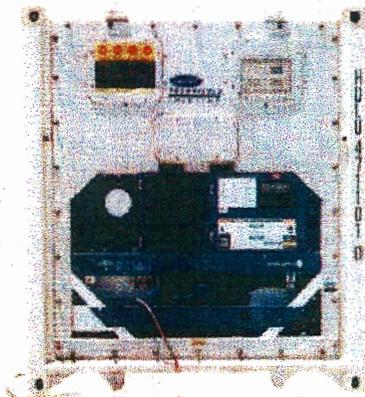
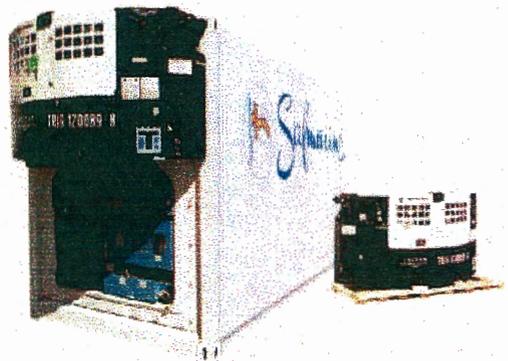


Figure 6.4: Genset



⁵¹ Safmarine guide to reefer shipping, All you need to know about shipping perishable products in refrigerated containers, p.6

6.1.2 Various treatments adding quality to the fruit

The fruit is exposed to various treatments and controls in the containers, which add to the quality of the fruit on reaching its final destination.

6.1.2.1 In-transit cold treatment sterilisation

Certain countries require any perishable organic products imported to be sterilised so that any insect infestation of the cargo and container is eliminated.

The method of sterilisation used is known as In-Transit Cold Treatment Sterilisation. Both the cargo and the container are sterilised by means of temperature control – by maintaining the cargo at a specific temperature and time period any insect infestation in both the cargo and container will be eliminated.⁵² The temperature usually has to be between 0 and 2 degrees C. In the event that the temperature increases to above 2 degrees Celsius, the entire cold treatment process has failed and will have to be started all over again. By employing cold treatment, the use of insecticides such as methyl-bromide, which is illegal in many countries, is eliminated. These days, cold treatment is primarily applied to various types of citrus fruits, such as oranges, lemons and clementines. Kiwi fruit, apples, pears, grapes, lychees, loquats, etc. are, however, also carried under cold treatment.⁵³

6.1.2.2 Controlled atmosphere

Controlled atmosphere (CA) technology offers shippers both cost savings and greater flexibility. When fresh perishables are shipped to distant markets, they require a precisely temperature-controlled environment during transportation. It is well known that harvested fruit and vegetables continue to live and breathe until they are consumed or

⁵² Safmarine guide to reefer shipping, All you need to know about shipping perishable products in refrigerated containers, p.5

⁵³ Maersk, Cool facts, p.41

destroyed by decay or desiccation. Under normal circumstances these factors dictate the life span of individual products.

CA involves the carriage of perishable cargo in a refrigerated container in which the oxygen, nitrogen, carbon dioxide and ethylene levels are controlled. By controlling these gases, the ripening process is retarded, which provides an extended shelf life to the product and gives shippers more time in which to sell their produce.⁵⁴

Loss through decay is greatly reduced, as is retail “shrinkage”, resulting in a higher proportion of the picked produce being available for sale. The commodity is thereby able to endure a longer transit time, which in turn means better quality in overseas markets. Produce shipped in a CA environment arrives fresher, enabling it to command a higher retail price and increasing its marketability.⁵⁵

CA containers are specifically designed to accommodate this method of cargo carriage. Further advances in CA technology will make it possible to ship products which previously couldn't be moved by reefer box, or ship those that could, but in better condition. This will enable growers using the CA reefer boxes to pick later, and provide better quality fruit to the market, thereby stimulating demand for their produce.⁵⁶

There are two CA systems, namely Transfresh and Everfresh. The Transfresh system is based on specially designed containers, an advanced computerised built-in controller and the Techtrol atmosphere. The Carrier Everfresh CA system is the most recent application of advanced technology for the protection of even the most delicate fruits during shipping. It is a highly efficient alternative to standard methods employed to date. Everfresh is a fully integrated system, which is to say that all controllers and sensors are built into the refrigeration unit itself, thereby avoiding the usual necessity of having to sacrifice valuable cargo space.⁵⁷

⁵⁴ Safmarine guide to reefer shipping, All you need to know about shipping perishable products in refrigerated containers, p.5

⁵⁵ Safmarine guide to reefer shipping, All you need to know about shipping perishable products in refrigerated containers, p.5

⁵⁶ Safmarine guide to reefer shipping, All you need to know about shipping perishable products in refrigerated containers, p.5

⁵⁷ Maersk, Cool facts, pp.42-43

There are a number of benefits in using CA:

- There is a substantial increase in the range of commodities suitable for sea transportation, thereby eliminating the necessity of expensive airfreight.
- The opening of new markets.
- A considerable increase in storage and shelf life.
- The maintenance of firmness and crispness of the produce.
- The reduction of product loss caused by deterioration.
- Higher prices due to enhanced quality.
- A possible tool for insect disinfestation in some commodities to meet quarantine requirements in certain importing countries.⁵⁸

6.1.2.3 Dehumidification control

The relative humidity of the air affects the quality of fruit and vegetables. If the humidity is too high, mould may develop. On the other hand, if the humidity is too low the products may wilt or shrivel.

The latest range of modern containers are fitted with special equipment which dehumidifies the air in the container. This feature is of benefit to shippers of 'humidity-sensitive' items – such as flower bulbs, onions and garlic – which rely on the absence of moisture to prevent sprouting. The majority of live products require a relative humidity of 90 per cent, which is maintained by the respiration of the product itself when ventilation and temperature settings are at the optimum level. The humidity set point range is between 65% and 95%.⁵⁹

6.1.3 Functions performed prior to loading the container

Before a container is released to the customer, it must pass a thorough pre-trip inspection (PTI). The PTI is actually an extensive check of both the container and the machinery,

⁵⁸ Maersk, Cool facts, p.43

⁵⁹ Safmarine guide to reefer shipping, All you need to know about shipping perishable products in refrigerated containers, p.5

ensuring that only clean and undamaged containers with reefer machinery in perfect running condition are released. It is also essential that the products have been treated correctly prior to loading. Even though the temperature, ventilation and humidity are all at optimum levels during the entire voyage, the products will not arrive in perfect condition unless the pre-treatment has been handled correctly.

Proper pre-cooling of the products will have a positive effect on their shelf life and improve the cargo outturn. The produce should always be pre-cooled to the required carriage temperature prior to being placed in the container. The produce should never be loaded at temperatures above the carriage temperature as the strain on the reefer unit will be considerable and will eventually result in the breakdown of the machinery.⁶⁰ The reefer container should never be pre-cooled. The reason is that, once the doors of a pre-cooled container are opened, the ambient hot air will meet the internal cold air and result in the formation of a large amount of condensation on the interior surfaces of the container. The condensed water can damage the labels on the packages and must therefore be removed through the evaporator coils inside the reefer machinery. The heat, which enters the container during stuffing and penetrates the container walls, combined with the heat which is constantly developed by the “respiring” cargo, must also be removed through the evaporator coils. Once the water and heat pass the evaporator coils, ice is formed and the machinery goes into short defrost mode. As a result less capacity will be available for cooling the cargo.⁶¹

In a tropical climate with excessively hot and humid air, any pre-cooling of the container is likely to cause problems and damage of the products. Pre-cooling of the reefer container is only allowed when the temperatures in the cold store and in the container are identical and a “cold tunnel” is used. A “cold tunnel” is a tight duct between the cold store and the container, which prevents ambient air from entering.⁶²

The transportation of containerised fruit therefore offers far greater benefits than that of the conventional reefer vessel. Containers are perfect when the producer or exporter,

⁶⁰ Maersk, Cool facts, p36

⁶¹ Maersk, Cool facts p.36

⁶² Maersk, Cool facts, p36

wants to export a small consignment of fruit, or export a consignment of fruit to a niche market. There is no double handling involved in the transport of containerised fruit and the quality that the consumer receives is impeccable. However, this mode of transport is more expensive than the conventional reefer. Figure 6.5 illustrates the loading of a container vessel.

Figure 6.5: Container's being loaded onto a container vessel⁶³



6.1.4 The conventional reefer vessel

The conventional reefer vessel operates as a large cooling chamber. The cartons of fresh produce are loaded by cranes and stevedores into the wide open compartment/hull of the vessel, where they are stacked one on top of another and side by side. Palletisation of the cartons of fruit has made loading and discharging of the produce easier and quicker. Cool air, set at a certain temperature according to the type of fruit being carried, is then blown throughout the hull in order to refrigerate the produce. The consignments are transported in bulk and therefore this shipping arrangement is cheaper. However, the quality of the product is reduced as a result of this shipping method and due to the double handling of the produce. This mode of transport is excellent for exporters wishing to export huge quantities of fruit to general markets. This mode of transport still dominates

⁶³ Portnet, The Port of Cape Town, handbook and directory, 1998 p.18

the market, the reason being that it is still cheaper and large volumes can be shipped. Figure 6.6 illustrates the loading of a conventional reefer ship.

Figure 6.6: Breakbulk fruit being loaded onto a conventional reefer ship⁶⁴



⁶⁴ Reefer Shipping, Changes open up opportunities in South African trade, p.25

6.2 AIR TRANSPORT

The transportation of deciduous fruit by air is not dealt with in this assignment, but needs to be mentioned because the use of air transport is generally in the case of urgency, when a consignment of fruit has to be in a certain country as soon as possible. It is far quicker to fly a consignment over than to ship it; it takes 12 hours compared to three weeks. This mode of transport is very expensive, but can be offset by the extended shelf life of the fruit. It is more often delicate, luxurious fruit that is transported by air, for example strawberries and exotic fruit.

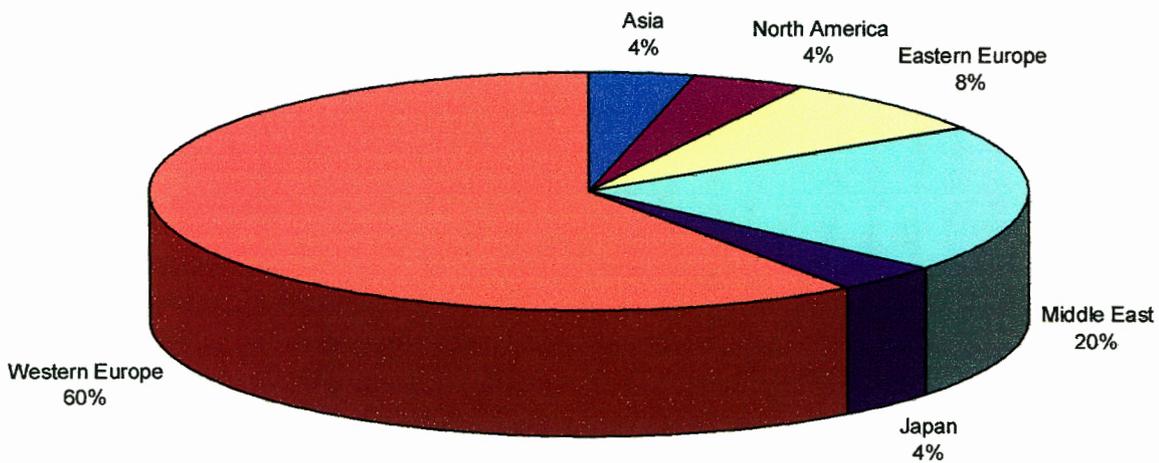
CHAPTER 7

GLOBAL MARKET OPPORTUNITIES AND RISKS FOR THE SOUTH AFRICAN DECIDUOUS FRUIT EXPORT MARKET

7.1 MARKET ACCESS REQUIREMENTS

Maintaining the current markets, which is becoming increasingly difficult, as well as developing new markets are critical to the South African deciduous fruit industry's wellbeing. Figure 7.1 illustrates the South African fruit importing countries. At the moment 60% of all SA fruit is exported to Western Europe, 20% to the Middle East, 8% to Eastern Europe, and 4% each to Japan, Asia and North America.⁶⁵

Figure: 7.1
South African fruit importing countries



Research is being done by the Deciduous Fruit Producers Trust (DFPT) to provide new and differentiated products, like new cultivars and organic products, to improve production and handling techniques and to provide scientific answers to address the needs

⁶⁵ Malcolm Green, Portnet fruit presentation, 1999.

of the market. Market access means providing what the market wants in terms of product, and that means quality, price, service, consistency of product and convenience. Knowledge of the market itself, consumer preferences, demographics, packaging and infrastructure, although very important, is not sufficient these days. Focus needs to be on issues such as grading standards, size and cosmetic restrictions. The way the inspection method is measured, interpreted and applied is in some cases being deliberately abused as producers and exporters export fruit that only just passes the minimum quality standard. In other cases there is also a feeling that these standards are too strict or not strict enough and that market demands are higher, with a result of oversupply. It is the producers and exporters that do not strive for premium quality that feel that these quality standards are too strict. The producers and exporters that do strive for premium quality believe that the quality standards are not strict enough, which then results in a flooding of the market with poor quality fruit.

Sanitary and phytosanitary requirements (SPS) is an important health requirement and needs to be discussed. Pests and diseases are spread throughout the world because of inadequate SPS controls both in the country of origin and the importing country. Strict quarantine measures are therefore required. Once again, some countries over-regulate and these measures are being used to restrict market access. Access is the most difficult in the countries on the South-North market trade. The following are examples of countries with strict regulations:

- Canada, phytosanitary requirements for deciduous fruit as regards light brown apple moth
- China, high levels of tariff duties – 30% on declared value of apples, phytosanitary restrictions on fruit
- India, commodity bans applied to certain products
- Japan, heavy costs of protocols demanded from importers leading to an absence of trade, i.e. high import duties, 20% for apples
- Malaysia, import duties for apples – 10%, need an import permit, issued by the Department of Agriculture

- Thailand, high import duties for apples, 45%.⁶⁶

All these countries over-regulate in order to protect their own fruit markets.

Agricultural trade reform is a market access matter, which includes a host of issues, including export subsidies, import duties, tariff rates and quotas, import licenses, antidumping measures, environmental and labour agreements, SPS agreements and the correct labelling of produce.

The results of the Uruguay round on agricultural trade reform have been limited due to unresolved disputes. Most of the improvements in market access during the past five years were as a result of bilateral liberalisation agreements. Renewed emphasis will have to be placed on these issues to prevent barriers being raised in other areas.⁶⁷ The three major areas that were discussed during the World Trade Organisation (WTO) (August 1999) multi-lateral negotiations were domestic support, export subsidies and market access, which are all major concerns for the fresh fruit export trade. Significant achievements have already been reached through the Agreement on Agriculture, though further commitments need to be agreed upon in order to reach a fair and market-oriented agricultural trading system.⁶⁸

South Africa has become a member of the CAIRNS group, which was established in Australia, (hence, the name). CAIRNS is a group of 15 agricultural exporters including Canada, Australia and New Zealand, some developing countries from South and Central America and some agent countries. This group was active during the Uruguay round campaigning for a fair and market-orientated agricultural trading system, in terms of eliminating subsidies in the areas of price, production and trade, economic growth, improved welfare, fruit security and reform of policies that contribute to environmentally sustainable agricultural development. Working together with this group should benefit the South African industry in terms of aligning itself with other global players.⁶⁹

⁶⁶ Deciduous Fruit Grower. Millennium round: the position of the Southern Hemisphere Fruit Exporters, p.7

⁶⁷ Rabe, A. Fruit Marketing, What does the future hold? P.42-43

⁶⁸ Deciduous Fruit Grower. Millennium round: the position of the Southern Hemisphere Fruit Exporters, p.6

⁶⁹ Rabe, A. Fruit Marketing, What does the future hold? P.43

There is inadequate industry involvement and communication interaction between various stakeholders in the South African deciduous fruit industry. The industry must take responsibility for its own destiny by maintaining current markets and developing new ones. It must provide the capacity to create awareness, to monitor, to train, to collate information, to be pro-active and to influence directives. It needs to make sure value and not just cost is added to enhance the long-term economic viability and sustainability of the industry. In the process global interest must be safeguarded and protected by a safety net and verification system. The South African deciduous fruit industry must adapt in time, in order to take advantage of the opportunities that exist. In many cases a premium will not be earned for the additional effort or conforming, but ultimately it will mean the difference between selling and not selling the product at a viable return.

7.2 GLOBAL FRESH PRODUCE TRENDS: EUROPE AND THE UK

UK food retailers dominate the world market with premium quality fruits. Looking at the supermarkets in the UK, whether it is Sainsbury, Tesco or Marks and Spencer, there is a wide variety of fruit, unrivalled and certainly better than previous years. There is virtually no seasonality in fruits and vegetables in the UK owing to the imports all year round from fruit producing countries in the Southern Hemisphere for example South Africa, Chile and New Zealand.

Basic UK statistics as far as the UK consumer is concerned, are the following:

- the population growth in Europe is basically static
- household size is actually decreasing; that is because there are more single parents and as people get older they lose their partners, etc.
- price is an important aspect for the UK public, but increasingly, as real income increases, expenditure on food for certain portions of the population will increase and those people are looking for quality products.

As the market requirement broadens, opportunities increase such as providing added-value products, i.e. products that make a difference.⁷⁰ The consumer developments in the UK are moving at a rapid rate. The challenge therefore is for organisations, supermarkets and supply chains to anticipate those consumer demands and to move quickly to meet them. Those organisations that move quickly to meet consumer demands will be the survivors.

At the moment, mergers and acquisitions are definitely the latest trend in the UK. For example, Walmart has acquired Asda and this is believed to change the face of UK food retailing forever.⁷¹ There is a rationalisation of the supply base to reduce the number of suppliers. The race is on for retailers to work with the most efficient suppliers, offering premium quality produce, and for those suppliers to work with reliable retailers in order to meet the quality and technical aspirations which are necessary to satisfy customer requirements. Brand awareness is getting even stronger. When people look at a brand, they look at what a brand represents and they develop confidence in that brand. This is going to lead to pressure down the chain.

Customer service and one's ability to meet customer demands are probably understated in the marketing mix. Essentially, the perceptions of customer service should exceed the cost of delivering it.

$$\text{Customer satisfaction} \geq \frac{\text{Customer's perception of product}}{\text{Cost to deliver product to market}}$$

$$\text{Customer satisfaction} \geq \text{Factor of 1}$$

A customer's satisfaction is at its minimum when the customer's perception of the product, through promotion, place, price and type of product, equals that of the cost to deliver that product to the market. In order to achieve greater customer satisfaction, the customer's perception of the product should be greater than the cost to deliver that product to the market.

⁷⁰ Spriegel, G. Fruit Marketing, What does the future hold? p.8

⁷¹ Spriegel, G. Fruit Marketing, What does the future hold? p.8

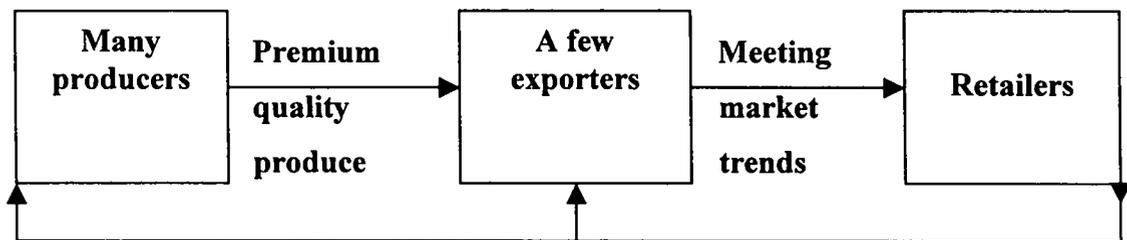
Quality is going to be increasingly competitive and one needs to be aware of how products are perceived by the supermarkets, their own and other customers. Safety of the product for consumption should be guaranteed and the issues regarding safety are becoming more sophisticated. Customers are now asking, “Where does my food come from, how is it produced, what is in it, under what circumstances was it produced and what is the social standard of the workers, i.e. their health, hygiene and living arrangements, in the supply chain?” Convenience is a fundamental issue. The organisations or providers that move rapidly to provide easier access to fruit will be the industry leaders. Furthermore, there is obviously the price issue. Customers in the UK are being bombarded with full-page advertisements comparing the prices of one supermarket against another. The elasticity of demand needs thorough understanding when determining prices to customers. What one does not need is to have radical demand swings as a result of poor price setting.

One of the big growth areas in fruit in the UK is organics. Organics can be defined as the growing of fresh produce in an insecticide, chemical and hormone free environment. The produce is grown in its natural environment with no artificial influences. The customers’ perceptions of organics is that organics are natural, they are pure, they are independently checked and audited, they are chemical free and not genetically modified (GM free). But this is not strictly true, as it is difficult to produce a large quantity of premium quality organic fruit without the use of an artificial influence. There is a phenomenal demand for organics, which supply cannot meet. A lot of organic production needs to be imported from countries like South Africa and Chile. Farmers are now being encouraged to convert to organics due to the growing demand from consumers. The technical support teams in supermarkets are providing technical support to farmers to convert to organics.

The fundamentals of success have to be the restructuring of the supply chain. Figure 7.2 illustrates the aligning of the supply chain to meet market demands. The chain has to be closer aligned and that means fewer, more sophisticated suppliers and making a selection of those suppliers who are most dynamic in meeting market trends, the change in requirements and the demanding customer requirements. The supply chain needs to be restructured from the retailers through to the exporters and back to the farms. Market

information such as changing demands and customer perceptions of the products needs to be made known to all in the supply chain so that strategies can be developed together in order to manage customer demands. At the end of the day, the strategies need to be owned by the producers, as they are responsible for the initial quality of the product. It would be in the producers' and buyers' best interest to work closer together in order to produce premium quality products for the customers so that their competitive advantage would be quality rather than price.

Figure 7.2: Meeting market demands



7.3 GLOBAL FRESH PRODUCE TRENDS: USA AND THE FAR EAST

Asia and the Far East are South Africa's second largest fruit export markets after Europe, and the Middle East and North America are jointly third. The regulations controlling the import of fruit into Asia, the Far East, the Middle East and North America are stricter than those in the UK. North America doesn't need to import much fruit as it has its own large production. Deciduous fruit has been successful in Europe in the past and still is, while Asia and the Far East have smaller export market shares of approximately 5% each. The Middle East has about 1% and North America between 6% and 7%.⁷²

Stone fruit is mainly sold in the Middle East, and in Asia. The sale of apples and pears in the Middle East is almost absent due to a lack of market demand, but stronger in Asia and North America. Deciduous fruit has developed through new market opportunities into Asia since the deregulation of the South African fruit industry. The market demand for apples and pears have grown since the start of deregulation. The largest market demand for grapes is presently in Europe and the smallest market demand is in these other

⁷² Galland, B. Fruit Marketing, What does the future hold? p. 13

markets. There is almost no market demand for grapes in the Middle East and North America has very small volumes alongside Asia and the Far East.⁷³

In order to sell deciduous fruit at a good price, niche markets need to be opened and widened. Niche markets can be defined as one segment of a market that is unique and that needs a different marketing approach according to its unique properties. It represents a small gap in the market that offers opportunities to increase demand. The question is, how large can those markets be and how are they evolving? Firstly, a look at the Far East and Asia. The Far East and Asia are too broad a definition, therefore a few markets will be focused on. China is regarded as an emerging market. When the market establishes itself it will be one of plentiful opportunities and great demand. Japan has everything, a large population of 126 million inhabitants as well as great wealth, therefore that is where South Africa's target market should lie.⁷⁴

However, deciduous fruit hardly features as an import into Japan. Hong Kong has a fairly balanced import. With a population of 10 million people, there is a huge market available. They import more deciduous fruit than Japan. Singapore does import deciduous fruit, therefore both the potential and the market are present. Deciduous fruit has potential in Taiwan. As only about 200 000 pallets are imported from all over the world into these countries, they are not regarded as huge export markets. Hong Kong, however, does have potential to become one, as Hong Kong may be the importing city but not necessarily the consuming one. A lot of the produce that enters Hong Kong is smuggled into China because of China's high levels of tariff duties – 30% on the declared value of apples and the strict phytosanitary restrictions on fruit.⁷⁵ Due to the fact that produce is smuggled into the country, there are no accurate figures. At the moment the Chinese government is not watching what is going on at their borders, but when they do start to watch, the consequences will be dreadful. It will lead to an oversupply on the Hong Kong market. They will close the border and all the fruit will remain in Hong

⁷³ Galland, B. Fruit Marketing, What does the future hold? p. 13

⁷⁴ Galland, B. Fruit Marketing, What does the future hold? p. 13

⁷⁵ Deciduous Fruit Grower. Millennium round, The position of the Southern Hemisphere Fruit Exporters, p.7

Kong, which will be too much for them to consume. Therefore, when talking about Hong Kong, it must be remembered that China is actually where the market is.⁷⁶

It is definitely worthwhile giving some attention to Japan, as Japan is a large market with buying power and open to opportunities. It is a fairly stable country, however, their supermarkets are losing money, market share and sales, especially market sales in the fruit business. They were too concerned about what they call store-keeping units and about the loss that they could make on these products. Obviously as a retailer, one has to guard against loss, but nevertheless the worst loss that one can have is through not having the product on the shelf at all. Losing some money from a product that has a low turnover is one thing, but having no product available is even worse. The entire infrastructure that a supermarket has is then useless. In Japan the money spent on food has decreased by 3%.⁷⁷

A trend that is taking the Asian market by storm is the supermarket. Fruit is traditionally sold on the wet markets in these countries, however, the emergence of the supermarket as a cleaner, trendier environment is attracting consumers and therefore reducing the amount of fruit sold on the wet markets.

North America is a totally different market; it is a 'macho market'. This means that it is a large, mature, controlling market, with well established distribution channels. However, imports have been at a low for years now. The USA's population is 270 million with great buying power within a wealthy country. Canada and the USA, are two wealthy and greatly populated markets. The imports of grapes from the Southern Hemisphere amount to 35 million tons; apples to 27 million tons and pears to 19 million tons.

Regarding deciduous fruit, South Africa has not been very successful in Canada. One of the main reasons is the proximity of Chile. Chile is closer to North America than South Africa and logistical costs are therefore lower and the time taken to transport the fruit is shorter. There is potential for exports to Canada, and South Africa is definitely under pressure from competing countries in the Southern Hemisphere as far as deciduous fruit

⁷⁶ Galland, B Fruit Marketing, What does the future hold? p. 14

⁷⁷ Galland, B Fruit Marketing, What does the future hold? p. 14

is concerned.⁷⁸ In 1999, 53 000 pallets of deciduous fruit was exported from South Africa to North America. The main ports of entry are Philadelphia for conventional reefer vessels and New York for containerised fruit. The main barriers to entry in North America are their quality and phytosanitary requirements. SA now has new technologies and quality assurance processes available to meet these requirements. These include the grading and packing standards with respect to labelling, sizing, maximum residue limits and phytosanitary measures; colour charts with photographs depicting maximum deviations; the measurement of fruit maturity; residue analysis and handling protocol. With these new technologies and processes available to SA, the barriers to entry should be easily penetrable. There are regular weekly liner services from SA to New York and Baltimore on either of the following shipping lines: CCAL, Lykes Lines, MSC, P&O Nedlloyd, Safmarine and Willhelmsen Lines.⁷⁹

Huge quantities of grapes are imported into North America from the Southern Hemisphere. South Africa is under-represented, although 300 000 tons is an average quantity exported to the USA. In the USA 90% of the market demands seedless grapes. Big volumes of seeded grapes will cause problems to both the producer and the exporter as this product is not in demand and will struggle to sell. The USA is used to first grade, top quality products and the physical features of the fruit are really important. Chile is leading the way in meeting these requirements. With regards to apples, the market is and will be small, as North America is a big apple producer. It is believed that it will be more and more difficult to significantly increase the apple export business to North America, Japan and Europe. Stone fruit faces the problem of getting the fruit from South Africa to the other side in premium condition. Looking at the trends of consumption in the USA, deciduous fruit consumption has only increased by 1% from 1994 to 1998. Looking at the individual products, the consumption of apples is decreasing, pears are a potential market and grapes are at least stabilising, but it is not in such great demand in a country where wealth is increasing. Figures for South African apple production for 1994 show

⁷⁸ Galland, B. Fruit Marketing, What does the future hold? p. 14

⁷⁹ Malcolm Green, Portnet fruit presentation, 1999.

274 000 tons of apple production, whereas for 1999 it was forecast at 270 000 tons. It should be reason for concern that the local production of deciduous fruit is basically stable, whereas the world market is actually decreasing.⁸⁰

The exchange rate, rand to dollar, has seen a devaluing in the rand since January 1997, creating opportunity for growers, due to the fact that fruit can be sold at more competitive prices. In Malaysia, the ringett has devalued by more or less 20% against the rand. In South Africa costs are increasing, the price of petroleum is increasing and all the overseas costs for distribution are increasing because they are in US dollars, yen, German marks, pounds sterling and French francs. At the same time, returns are decreasing.⁸¹

There are definitely opportunities in the markets discussed above. These markets can be developed, but need to be controlled. The worst would be to enter the markets with large volumes, because then prices will fall. However, the initial influx of supply would have to be demand-induced. The problem arises when supply exceeds demand. If imports are low, prices are very high, but if SA enters too much fruit, then the prices will be low and the producers will not want their fruit sold in these markets due to the low prices. It would lead to a loss-loss situation. Marketing has to be done cautiously. If volumes are increased, it would be at the expense of returns. The market cannot be widened and still demand the same prices as South Africa is receiving in North America.

7.4 FRESH PRODUCE TRENDS IN AFRICA AND SOUTH AFRICA

The following is a summary of the estimated size of the South African deciduous fruit market. The size of the apple market in SA is 255 000 tons, 5,3 kg per capita per year consumption for 48 million people. The comparison is about 8 kg in the USA. There is a fairly high per capita consumption in SA; it equals 1 apple per person per week.⁸² The consumption of pears is depressed, as in the rest of the world; the consumption of table grapes is low; that of plums is exceptionally low, while it is very difficult to get any figures for apricots. There is a fairly large market for peaches and nectarines, at almost

⁸⁰ Galland, B. Fruit Marketing, What does the future hold? p.15

⁸¹ Galland, B. Fruit Marketing, What does the future hold? p.15

⁸² Galland, B. Fruit Marketing, What does the future hold? p.15

2 kg per capita and almost 100 000 tons of total consumption, the majority of which is grown in Mpumalanga and the Northern Province. The deciduous fruit market in South Africa is fairly large and is very important to the local industry, as it creates employment and generates revenue. What is disturbing is that the market is not growing, nor are the returns to the producer growing.⁸³

Europe is looking at a very good crop of deciduous fruit this year, especially apples and pears, which will compete directly with SA suppliers in the year 2000. A major European apple crop has more influence on apple sales than on other deciduous fruit exported. There will be a natural tendency to divert more fruit to the local market, but unless there is a change in the quality aspect and packaging, this could put a lot of additional pressure on the local market which is already fairly saturated with deciduous fruit, although not of the right quality. The local market is not large enough to absorb export volumes and local prices are lower than international prices. On the other hand, if the fruit is dumped, it results in major losses. An oversupply of Granny Smith apples on the local market occurred in 1999. This, together with a poor performance of Granny Smith on the export market, means that a number of marketers should join forces with the DFPT to see if they can design a promotional campaign for Granny Smith apples. Large Granny Smith apples are a real marketing problem in SA. The producers could choose to replace Granny Smith apple trees in their orchards, but at great costs, and there is speculation that demand will grow for this cultivar. History has proven that the local market has always performed well when there has been a high processing price for deciduous fruit. The marketers should look at all kinds of processing outlets for apples – be it single strength juice, frozen puree, apple chips, etc. The more third grade fruit that can be removed from the market place and replaced with second grade, the better, as this means higher prices.⁸⁴

The market has done relatively well in the past three years in a very difficult and trying deregulatory marketing period. It is believed that, with the increasing black middle class, there is an opportunity to develop a market and that things could change dramatically.

⁸³ Dall, P. Fruit Marketing, What does the future hold? p.17

⁸⁴ Dall, P. Fruit Marketing, What does the future hold? p.17

There could be a very strong market for local deciduous fruit in the near future. Regarding consumer buying power, there are negative and positive forces influencing consumer buying power. The positives are the financial injection of Sanlam and Old Mutual's demutualisation which reflects positively on South Africa's financial standing, reduction of interest rates on overdrafts and bonds and the increase in minimum wages. The negative influences are the reduction of income of elderly pensioners who have to live off interest on their saving's, the high rate of increase in unemployment and finally, the HIV/Aids factor. The balance of the positive and the negative aspects seem to skew to the negative side. However, if people become more positive towards working together in South Africa, then there is scope to increase consumer buying power. Fruit is considered a luxury and with an increase in income per capita, more income will be available to buy fruit.

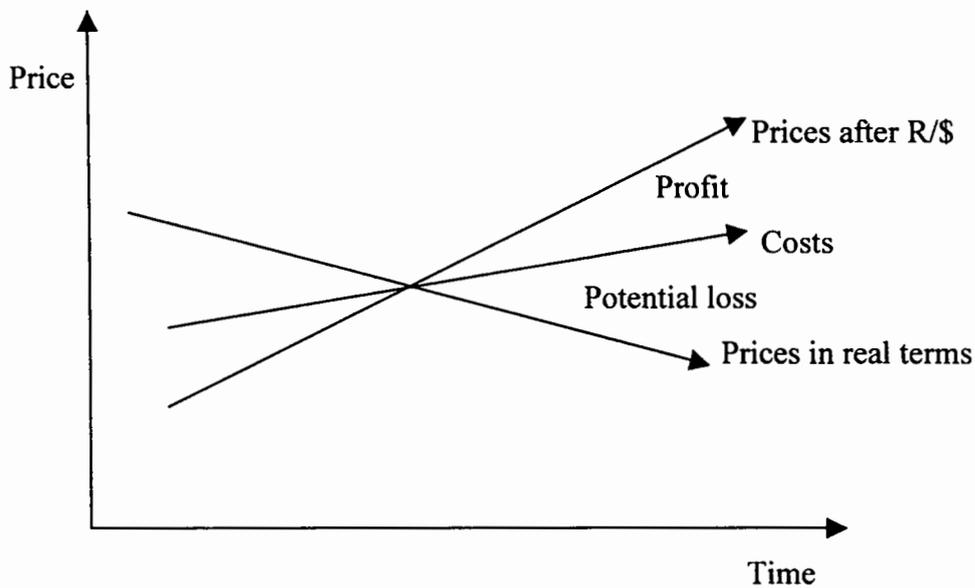
It is noteworthy that the South African fruit market has witnessed two years of increasing shortages of class 1 fruit, arguably due to the excessive export drive since deregulation. This has also been applicable to grade 2 fruit, effectively leaving less quality fruit behind for the local fresh market. This in turn has created a vacuum, attracting more class 3 fruit into the fresh market, and finding its way into the country's viable marketing areas. It has also been observed that at certain times, the relative shortage of quality has boosted the price of CA (controlled atmosphere) fruit above the level experienced up to and including 1997. However, as quickly as prices increased during periods of short supply of quality fruit, as quickly these prices have fallen to below par on the back of any real volume entering the market. The South African market has not experienced any real growth in terms of size or price. One must also be weary of cutting prices in order to increase demand, although this does not happen easily in the deciduous fruit industry.⁸⁵

The price elasticity of fruit is the rate at which demand for fruit responds to price changes. If fruit is price elastic, it means demand for fruit responds to price fluctuations. Therefore a decrease in the price results in increased consumer demand and an increase in the price results in a decrease in consumer demand. If fruit is price inelastic, consumer demand does not respond to price fluctuations. Retailers are fortunate to be able to

⁸⁵ Dall, P. Fruit Marketing, What does the future hold? p.18

choose their suppliers of deciduous fruit and therefore the low price of fruit is due to the choice that retailers have in the market. Which markets are elastic and which markets are not? In sophisticated markets such as Europe, consumers will pay high premiums for quality fruit and will invariably be reluctant to buy fruit if the quality is not up to the required standard. In mass markets, and particularly in poor economies, price is more important than quality and a second/third grade fruit at a lower price will suffice. Affordability or willingness to pay will largely determine the elasticity of fruit and vary vastly from market to market. To be successful in the South African market, one must be able to differentiate all fruit classes and market these classes to the correct market segment.

South African fruit producers benefit from the devaluation of the rand in terms of foreign exchange. The prices that producers receive for their export produce may be low in international terms, but when exchanging dollars for rands, their revenues increase. The prices that producers receive for their produce have been decreasing, but the prices received in rand terms are favourable. When the prices received are converted into rands, the prices turn upwards and cut through the cost function, which allows producers to either break even or receive a profit, as illustrated in Figure 7.3. If this currency effect, which is actually to the detriment of the country was reversed fruit producers would realise an operating loss that would be almost impossible to counter, given the cost structures of the industry, as in real terms prices have decreased.

Figure 7.3: Prices received after the exchange rate effect

South African producers must not rely on the currency to realise their profits. It is of absolute importance for producers to improve and optimise the fruit supply chain to reduce costs and therefore avoid potential losses.

A further concern is the debt factor. During the last two years the fruit industry experienced a strong increase in exporters defaulting on payment. These exporters took months, if not a year, to pay producers their revenue. The risk factor is increasing in line with crime, theft, poor economic conditions such as a high unemployment rate, poor health standards, poor living conditions and a poor standard of education, and the general degeneration of values and good business ethics in SA. It is difficult to operate a profitable business under these conditions.

As mentioned, there has been a shortage of good quality fruit on the market and an abundance of third grade fruit. The South African consumer is becoming more quality conscious concerning fruit purchases. Presentation has also become more and more important. There appears to be little change in fruit type preferences. The Eastern Seaboard's preference is for Golden Delicious and the Northern Province's preference is for small Granny Smith apples. The new varieties such as Fuji and Pink Lady still need

promotion in the market and it will take some time before they are fully accepted in the market, although Fuji is already gaining acceptance. It is interesting to note that Braeburn apples struggle to sell in SA and it is doubtful whether there will ever be a local market for this variety. The volume sale figure of peaches, especially in the rural areas, is far greater than one realises (see Figure 7.4). The market definitely needs development and expansion. There is a very large demand for yellow cling peaches and nectarines as well. There is definitely competition between other fruit and vegetable clients as they fight for shelf space in the supermarkets. Promotions and other gimmicks will have to be looked at to increase the shelf space and consumer demand for deciduous fruit.⁸⁶

Figure 7.4: Fruit type preferences within South Africa

Golden Delicious apples	Small Granny Smith apples	Braeburn apples	Fuji and Pink Lady apples	Peaches	Yellow cling peaches and nectarines
Eastern Seaboard	Northern Province	Struggle to sell in SA, mainly exported to UK	Not yet accepted in SA markets, need promotion	Rural areas	Large demand generally in SA

Producers need to help in the marketing of their fruit. However, due to the past history of single-channel marketing, producers are poor marketers. This situation needs to be improved. Producers need to be and must become, involved in the whole production and marketing chain. They must understand and export according to the market needs. What is happening in Europe with the supermarkets is starting to happen in SA too, and traceability is becoming more and more of an issue. The buyer wants close contact with the producer, he wants to know which orchard the fruit is coming from and that there are no health risks associated with buying that particular fruit. Co-ops will have to take this into account when making future packing plans, as will contract packing sheds.

⁸⁶ Dall, P. Fruit Marketing, What does the future hold? p.18

The size of the South African domestic market needs to be increased, especially if an effort is to be made to improve the quality of SA apples sold in Europe. Logic dictates that there should be more second grade fruit sales in SA and this fruit should not be exported. There is much scepticism amongst traders whether this kind of discipline will be accepted and incorporated into the South African deciduous fruit industry. Producers may not want to abide by these regulations as they make their revenue from the export of second grade fruit. It is naïve to think that fruit will sell itself, an effort needs to be made to provide to the consumer exactly what he/she wants and to convince the consumer why he or she should buy it.

A brief look into Africa as a growth market shows us that South Africa is in a period of reduced exports to its neighbouring countries. Exports into Swaziland, Mozambique and Botswana are stable to slightly reduced. Exports to Zimbabwe, Malawi, Angola, the Democratic Republic of Congo and Kenya are down on volume. Exports to the West Coast of Africa and north of Angola have increased during the last two years. It is assumed that exports into these regions have the potential to increase if political stability improves in, for example, Nigeria. Cheap French exports into these areas are expected to restrict price levels achievable in the future. The islands are a typical example of how quickly a market in Africa can be flooded. Mauritius and the other islands were flooded with South African fruit in March and April this year and are only now starting to recover from the oversupply situation (see Figure 7.5).⁸⁷

Figure 7.5: SA exports to its neighbouring countries

Exports flooding the market	Large export volumes	Stable to reduced export volumes	Low export volumes
<ul style="list-style-type: none"> • Mauritius 	<ul style="list-style-type: none"> • West Coast of Africa • North of Angola 	<ul style="list-style-type: none"> • Swaziland • Mozambique • Botswana 	<ul style="list-style-type: none"> • Zimbabwe • Malawi • Angola • DRC and Kenya

⁸⁷ Dall, P. Fruit Marketing, What does the future hold? p.21

The buying power in Africa is limited due to poor economic conditions, but there are opportunities. Positive influences on African consumer buying power are stability and democracy returning to West Africa and higher oil prices, which translates into a stronger economy. South African supermarkets are expanding into Africa and there is a better distribution infrastructure into Africa through the rail network and the convenience of air transport. Negative influences on consumer buying power are turmoil and strife, and the war in Angola, the Democratic Republic of Congo and Sierra Leone. The wars in Africa are a large debt burden for the governments of Africa. All too often Africa is seen as a dumping ground for poor quality fruit. The weakness of foreign currencies in Africa makes it difficult to be competitive in terms of price. Most of the traders believe there is growth potential in Africa, but one will have to be more innovative in packaging and distribution and delivering the right variety, size and quality to the right market.

Good quality class 2 fruit is acceptable to most markets. Knowing which market wants which variety is very important. West Africa wants Golden Delicious, the islands want small red apples, and Kenya wants large red apples. Most traders believe there are adequate shipping services to service most of the ports in Africa. The problem was distributing the fruit within the African countries, which today still remains a limiting factor.

What is actually needed to promote Africa as a market is political and economic stability, and what is badly needed is the long awaited African renaissance. Endeavours in the Shoprite/Checkers group to expand their empire into Africa will help greatly in developing these markets for fresh deciduous fruits. There are many pitfalls to trading in Africa, but South Africans with their tenacity, innovativeness, entrepreneurial spirit and their will to succeed and survive should be able to conquer Africa as a market.

CHAPTER 8

CONCLUSION AND SUMMARY

The deciduous fruit industry has evolved over the years from being a relatively unsophisticated business to one that is now described with terms such as competitive, increased consumerism, market segmentation, specialised logistics, value chain optimisation, cost leadership and global markets.

The deregulation of the deciduous fruit industry in 1997 was welcomed by producers and exporters who felt that they had previously been denied the opportunity to determine their own business destinies. The continued breakaway from Capespan could be ascribed to the inability of Capespan to deliver a high standard of productivity and efficiency, but more importantly, to the historical baggage associated with the company. The market objected strongly to the fact that Capespan fulfilled the role of “regulator, player and referee”. Capespan’s competitors expressed a determination to manage their own marketing of fruit and attempted to distance themselves as far as possible from Capespan.

While deregulation delivered a new-found freedom to those who were disgruntled with Capespan, this new era of independence brought with it a unique set of challenges and imperatives.

While Capespan continued to dominate Port facilities, this led to the independent fruit producers and exporters placing demands on the Port Authority at Portnet for alternative, and preferably privatised fruit handling terminals. Many proposals were presented to Portnet for these terminals and as a temporary measure, Portnet provided and operated an alternative terminal for and on behalf of the industry. This naturally drew a negative reaction from Capespan who had benefited from the exclusive right to handle fruit in the Port.

As the organisation of the independent producers improved, so did the determination of Capespan increase as it attempted to protect its declining market share. It started

focusing on opportunities to improve its operations as well as the restructuring of its corporate “look”. So, on the one hand there was a determined effort by many producers and exporters to break away from Capespan and on the other hand, a determined effort by Capespan to keep these customers in their fold.

In the meantime, the international fruit markets continued to become more sophisticated and competitive. The number of fruit-supplying countries increased, as did the volume and quality of fruit that was presented to these markets. Quality became an important factor in the deciduous fruit industry as only producers with premium quality fruit would survive in these well-respected markets. The markets quickly became saturated with an oversupply of fruit and this had a detrimental impact on the prices offered to producers in these markets. Consequently there was a necessity to explore new markets for these increased volumes, and this led many exporters to the markets in the East and in the USA.

The USA fruit market is difficult to penetrate, mainly as a result of their highly regulated quality and phytosanitary requirements. The markets in the East are less difficult to gain access to, although while it would be possible to export a lesser quality product to these markets, the prices paid would not be as competitive as in Europe.

The general trend therefore, is a decline in real terms of the prices paid to producers in South Africa. Profit margins started coming under pressure and the next survival imperative was to look for every opportunity to reduce costs along the value chain. Many different approaches were adopted, but in the main, the distribution channel was challenged to achieve greater optimisation, efficiency and synchronisation. Concepts such as “optimising the value chain” and the introduction of distribution scheduling were tested.

In the emerging and more established fruit producing countries, producers and exporters are grouping together in order to achieve greater optimisation through economies of scale. They approach their potential export markets as a unified front and work together in the interests of the fruit industry as a whole. The latest materials handling techniques

and logistics methods are employed in order to achieve high productivity levels and to ensure the containment of costs. The countries, through their efficiency and sophistication, are realising improvements to their profit margins and the producers are containing their financial risks.

In South Africa, the market is evolving into a free market scenario and the independent producers are attempting to reorganise their businesses, while Capespan is losing market share. The bottom line to the South African scenario is that deregulation has brought about “market freedom” but has taken away the desire for the total market to capitalise and organise itself around economies of scale. The South African fruit industry is losing its identity on the international market, excepting for the Cape, Outspan and Bella Nova brands, and the risk is that this decline could continue.

The question to be posed to the South African fruit industry is whether a deregulated fruit industry is really that “trendy” and whether it is able to conquer its export markets whilst not being unified. The key imperative is the declining profit margins of producers. If costs are not reduced along the value chain and if export prices continue to decline in real terms, the demise of the South African fruit industry will be imminent.

The country can ill afford not to optimise the fruit industry and in principle there is no reason why a unified fruit industry cannot add value to all its stakeholders. Producers and exporters are willing to use a single-channel marketing system, provided that the system is equitable, transparent, value-adding and fair. The question is whether this end can be achieved without having to regulate the market.

It is therefore recommended that producers and exporters organise themselves to the extent that they achieve an amicable and fair single-marketing approach for their fruit and that they establish competitive fruit handling terminals in the Port of Cape Town in order to ensure competitive services, efficiencies, productivity and, most importantly, cost-effectiveness.

The essence of this proposal is to create competitive operations to manage the fruit value chain. Quality service at an optimal price should be the goal of these operations. The marketing effort on the international market however, needs to be presented in a unified manner as a South African product. In other words, create competing operations, but sing off the same “hymn sheet” when marketing South African fruit.

The key goal of this “new look” industry should be to optimise the “cost leadership” concept. Through operating smarter, the fruit industry can fetch higher prices for their products and costs can be driven down. Producers should be supported and assisted in their attempts to grow profits. After all, it is these producers who create significant employment in the country and who earn much needed revenue for the economy. The wellbeing of this industry is critical, not only for the producers, but for the country as a whole.

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SOUTH AFRICAN FRUIT INDUSTRY QUESTIONNAIRE

I am a M.Phil (Maritime Studies) student at the University of Stellenbosch and am undertaking a research thesis for completion of the degree. The dissertation concerns the impact of a deregulated fruit industry on the supply of fruits in the international market. In this questionnaire I wish to obtain information from the industry on their opinions of the benefits or disbenefits of a deregulated fruit supply chain.

Could you kindly spare a moment and complete the following: -

1. Do you find the multiple-channel export system (deregulated industry) more beneficial than the single-channel export system (regulated industry)?

Yes No

Please mark with a cross the one you choose.

- 1.b If yes, why? Please rate in order of importance: 1 is the most important, 8 is the least important.

	Prices
	Customer service
	Quality
	Secure market
	New market opportunities
	Individualisation of producer
	Better integrated supply chain
	Other, mention.....

2. Is it easy to find a suitable marketing agent?

Yes No

Please mark with a cross the one you choose.

3. What are the qualities that you would look for in a marketing agent?

	Conservative marketer
	Opportunistic marketer
	Existing secure marketer
	The highest price offered
	Lower secure prices
	Prices to be determined by the market
	Other, mention.....

Please mark with a cross the one you choose.

4. Does a farmer (producer) receive more status or acknowledgement for his fruit due to the multiple export system?

Yes No

Please mark with a cross the one you choose.

5. Are there great price variances in the prices that you receive for your fruit with the different agents?

Yes No

Please mark with a cross the one you choose.

6. Is a deregulated industry beneficial to prices received for the fruit?

Yes No

Please mark with a cross the one you choose.

7. What are the long-run benefits of a deregulated industry?

Please state:.....

8. Do you have more control over your product in a deregulated market?

Yes No

Please mark with a cross the one you choose.

9. Do you have more negotiating powers for price and quality?

	Yes	No
Price		
Quality		

Please mark with a cross the one you choose.

10. Due to this 'free trade for all' system, it is now possible for producers to seek and find niche markets. Do you find this a benefit or a threat?

Benefit	
Threat	

Please mark with a cross the one you choose.

11. In choosing your own agent and export channels, has it resulted in a more efficient logistical supply chain management system or has it slowed down the export process?

More efficient	
Less efficient	

Please mark with a cross the one you choose.

12. Do you think it is better to have a large number of independent exporting agents or is it better to promote a couple of large exporting agents?

Large number of individuals	
Small number of large agents	

Please mark with a cross the one you choose.

13. How many large agents do you think are necessary?

Please fill in the number.

14. Are the port facilities and operations conducive to a deregulated fruit industry?

Yes No

Please mark with a cross the one you choose.

15. Mention the requirements that the Port of Cape Town should fulfil in order to contribute to a successful deregulated fruit industry.

.....

16. Mention the main features of a successful cold supply chain.

.....

17. What is your preferred method of transport?

Reefer containers	
Conventional reefer	
Porthole containers	

Please mark with a cross the one you choose.

17.b Why?

	Price
	Quality of product
	No interruption in cold chain
	Customer satisfaction
	Other, Mention.....

Please mark with a cross the one you choose.

18. Is there any legislation that limits export potential?

Yes No

Please cross the one you choose.

18.b If yes, please mention.....

Are you a:

Farmer (producer) Exporting agent and producer Exporting agent

Name:.....
 Address:
 Telephone No:.....
 Fax No:
 E-mail address:.....

Thank you.

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