The Impact of IPAP on the South African Processed Fruit & Vegetable Industry

Presentation:
Parliamentary Portfolio Committee on Trade & Industry

12 August 2015

Presented By:
Jill Atwood-Palm
- SAFVCA -
Introduction:

- Opening & Welcome

- Industry Delegation:
  - Henriette Hoon  : Langeberg & Ashton Foods
  - Andrew Dawson  : Rhodes Foods
  - Jill Atwood-Palm : SAFVCA
General Profile of the Industry

Primary Agriculture

Agro-Processing

Value-Added
National Representation of Fruit & Vegetable Processing Industry

“To create a sustainable platform for the long-term growth and competitiveness of the industry”

Our Partners / Linkages

Industry Body (est. 1954)
Focus: General Manufacturing Interests

Industry Body (est. 2005)
Focus: Export Promotion & Development
Pineapples

Vegetables

Tomatoes

Other Fruit

Geographically spread, but mostly up North

South Africa

• Well established
• Reliable supply
• World Class standards
• Export-oriented
• Premium quality
• Nutritional

Deciduous

Western Cape

Main employers – rural areas
• Labour Intensive (jobs; skills)
• Beneficiated Agriculture
• Value-Added Products
• Food Security
• Rural Development
• Community Upliftment
• Transformation

Nutritional

Main employers – rural areas
• Labour Intensive (jobs; skills)
• Beneficiated Agriculture
• Value-Added Products
• Food Security
• Rural Development
• Community Upliftment
• Transformation
General Profile of the Industry

- **Agro-Processing Sector:**
  - Processed Fruit & Vegetables; Value-Added Products (extent of over 200%)
  - Potential to be 90% of local origin *(Change: Imports i.e. Pines; Tinplate)*
  - Supports over 140,000 dependants in rural areas across SA

- **Farming:**
  - Fruit: Over 400,000 tons / Vegetables: 200,000 tons processed annually
  - Sourced from over 1,500 farms; employing close to 20,000 farm workers

- **Manufacturing:**
  - SA/SACU: 4 fruit canning factories, 2 jam unit, 3 fruit concentrate factories; 1 Pineapple Processor; over 10 vegetable/related units (spread nationally)
  - Labour-intensive environment; more than 14,000 factory workers
### Size of the Industry

#### Processed Products

<table>
<thead>
<tr>
<th>Processed Products</th>
<th>Exports</th>
<th>%</th>
<th>Domestic</th>
<th>%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>HS20.01-20.07 Vegetables, Jams, Other</td>
<td>898,443,348</td>
<td>10%</td>
<td>8,056,003,342</td>
<td>90%</td>
<td>8,954,446,690</td>
</tr>
<tr>
<td>HS20.08 Processed Fruit</td>
<td>1,904,076,799</td>
<td>82%</td>
<td>408,047,683</td>
<td>18%</td>
<td>2,312,124,482</td>
</tr>
<tr>
<td><strong>Total: Processed Fruit &amp; Vegetables</strong></td>
<td><strong>2,802,520,147</strong></td>
<td><strong>82%</strong></td>
<td><strong>8,464,051,025</strong></td>
<td><strong>18%</strong></td>
<td><strong>11,266,571,172</strong></td>
</tr>
<tr>
<td>HS20.09 Juices, Concentrates, Purees</td>
<td>2,602,997,780</td>
<td></td>
<td>5,988,627,906</td>
<td></td>
<td>8,591,625,686</td>
</tr>
<tr>
<td><strong>Total: All (including juices)</strong></td>
<td><strong>5,405,517,927</strong></td>
<td></td>
<td><strong>14,452,678,931</strong></td>
<td></td>
<td><strong>19,858,196,858</strong></td>
</tr>
</tbody>
</table>

- **Strongly export-driven:**
  - Especially processed fruit, 82% exported
  - SA accounts for approx. 9% of World Export Fruit
## Key Challenges Facing the Industry

<table>
<thead>
<tr>
<th>Market Access (Global)</th>
<th>Subsidies (ie EU CAP); High Tariffs; NTB’s iro Standards/Regulations; Free Trade Agreements (uneven playing fields)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Input Costs / Infrastructure Pressures</td>
<td>Energy Supply &amp; Pricing; Water Quality, Supply &amp; Costs; Fuel Pricing; Input pricing (i.e. sugar, ports); High Port Charges and Low Performance; Expensive Road Transportation; No Rail System</td>
</tr>
<tr>
<td>Cost of Capital</td>
<td>High Cost of Capital; Access to Capital</td>
</tr>
<tr>
<td>Domestic /Local Market</td>
<td>Lack of Monitoring/Inspection System of Uncontrolled &amp; Non-Conforming Imports; Strength of Retailers; Little to no room for negotiation</td>
</tr>
<tr>
<td>Farming Sector</td>
<td>Lack of Confidence amongst Farmers re Future Plantings; Climate Change; Farming Costs; Labour; Water &amp; Land Availability</td>
</tr>
</tbody>
</table>
Our Business Environment

Growth Potential

Export-Driven

Competitive

Positive Long Term Outlook

Research Basis: UCT Study: Prof. Don Ross

Concrete basis with Sound proposals

- Identifying industry as a worthy recipient for industrial policy intervention
- Addressing Agro-Processing as a whole within IPAP

Enabling Environment

PPP2 Fruit Canning Initiative

Sustainable Platform

GROWTH

NDP/IPAP

TESA EC
PPP Fruit Canning Initiative
“PPP” Fruit Canning Initiative

FRUIT CANNING INITIATIVE

PUBLIC PRIVATE PARTNERSHIP

... to create a sustainable platform for the long-term growth and competitiveness of the industry
The Partnership ...

Government

Business

Labour

Community

The Leadership Group

Value-Chain: Vertical-Cross Cut
The 4 Pillars: Strategic Themes

- Transformation
- Marketing
- Market Access
- Competitiveness

Fruit Canning Initiative Business Plan

Address the shaping for appropriate Industrial Policy
Benefits of the “PPP”

- **Industry Strategy:** Fully integrated across entire value chain
- **Aligned** with NDP 2030; IPAP; Integrated National Export Strategy (INES)
- Implementation Vehicle: “PPP Fruit Canning Initiative”
- Common **Platform**
- Elevated Industry **Profile**
- **Unified** voice to motivate interests
- Effective, efficient and practical **model**
- **Representative** of Industry & Key Stakeholders across the value chain
- Wrapping up phase 2; Identifying projects for **extension** into phase 3
Exports to India & China
The Market Access Programme

Established: Maintain Markets & Defend Position

WTO Developments

Emerging: Grow Exports & Broaden Markets

Tripartite: SADC-EAC-COMESA

SADC

SACU

EU

SA/TDCA
SACU/SADC-/EPA
- Concluded

Motivating Interests

ASEAN + Korea; Japan; NZ; Australia

SA/India PTA; SACU-India–Mercosur

Domestic Market
Grow Consumption & Protect Market

Limited Prospects

Limited Progress

Monitoring
Pending Review

Mauritius

GOA:
Monitoring; Pending Review;
US-TIDCA: Monitoring

China

BRICS

India

Mercosur

USA

EFTA
## Exports to China

<table>
<thead>
<tr>
<th>VALUE (ZAR)</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vege/Other</td>
<td>446,154</td>
<td>4,877</td>
<td>17,891</td>
<td>507,115</td>
<td>7,771</td>
</tr>
<tr>
<td>Fruit</td>
<td>13,339,721</td>
<td>15,057,973</td>
<td>25,129,134</td>
<td>47,733,187</td>
<td>122,392,419</td>
</tr>
<tr>
<td>Juices/Conc</td>
<td>4,601,095</td>
<td>2,755,494</td>
<td>5,592,405</td>
<td>16,531,508</td>
<td>75,949,088</td>
</tr>
<tr>
<td>TOTAL</td>
<td>18,386,970</td>
<td>17,818,344</td>
<td>30,739,430</td>
<td>64,771,810</td>
<td>198,349,278</td>
</tr>
<tr>
<td>% Increase Year on Year</td>
<td>-3%</td>
<td>73%</td>
<td>111%</td>
<td>206%</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vege/Other</td>
<td>1,990,790</td>
<td>2,287,524</td>
<td>2,186,415</td>
<td>2,576,541</td>
<td>2,347,750</td>
</tr>
<tr>
<td>Fruit</td>
<td>81,102,142</td>
<td>108,564,017</td>
<td>129,507,272</td>
<td>142,379,672</td>
<td>133,352,910</td>
</tr>
<tr>
<td>Juices/Conc</td>
<td>6,486,650</td>
<td>8,395,553</td>
<td>8,152,172</td>
<td>11,064,406</td>
<td>8,346,630</td>
</tr>
<tr>
<td>TOTAL</td>
<td>89,579,582</td>
<td>119,247,094</td>
<td>139,845,859</td>
<td>156,020,619</td>
<td>144,047,290</td>
</tr>
<tr>
<td>% Increase Year on Year</td>
<td>33%</td>
<td>17%</td>
<td>12%</td>
<td>-8%</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vege/Other</td>
<td>2,436,944</td>
<td>2,292,401</td>
<td>2,204,306</td>
<td>3,083,656</td>
<td>2,355,521</td>
</tr>
<tr>
<td>Fruit</td>
<td>94,441,863</td>
<td>123,621,990</td>
<td>154,636,406</td>
<td>190,112,859</td>
<td>255,745,329</td>
</tr>
<tr>
<td>Juices/Conc</td>
<td>11,087,745</td>
<td>11,151,047</td>
<td>13,744,577</td>
<td>27,595,914</td>
<td>84,295,718</td>
</tr>
<tr>
<td>TOTAL</td>
<td>107,966,552</td>
<td>137,065,438</td>
<td>170,585,289</td>
<td>220,792,429</td>
<td>342,396,568</td>
</tr>
<tr>
<td>% Increase Year on Year</td>
<td>27%</td>
<td>24%</td>
<td>29%</td>
<td>55%</td>
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<td></td>
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<td>Vege/Other</td>
<td>427,624,457</td>
<td>571,263,292</td>
<td>564,950,819</td>
<td>718,150,585</td>
<td>898,443,348</td>
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<td>Fruit</td>
<td>1,523,114,393</td>
<td>1,364,696,639</td>
<td>1,528,336,821</td>
<td>1,777,283,642</td>
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<td>Juices/Conc</td>
<td>1,448,062,383</td>
<td>1,607,308,986</td>
<td>1,817,406,424</td>
<td>2,173,950,298</td>
<td>2,602,997,780</td>
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<td>TOTAL</td>
<td>3,398,801,233</td>
<td>3,543,268,917</td>
<td>3,910,694,064</td>
<td>4,669,384,525</td>
<td>5,405,517,927</td>
</tr>
<tr>
<td>% Increase Year on Year</td>
<td>4%</td>
<td>10%</td>
<td>19%</td>
<td>16%</td>
<td></td>
</tr>
</tbody>
</table>
Exports to China

- Fastest growing export market; Significant shift of direct trade to mainland China (vs historical routing via Hong Kong)

- Over 10 years – R55m (2004) to R 342m (2014); SA exports to China now represents ±16% of total exports (±5% in 2010)

- Challenges: NTB’s; Protectionist actions; blocked imports; 30-40 delays in clearing FCL’s; Credit risks/credit guarantees; Stronger FER support on trade matters

- Opportunities: Continued growth potential; participation in trade initiatives, prospects for duty advantage (BRICS?); BRICS Development Bank opportunities
# Exports to India

## SA Exports to India:

<table>
<thead>
<tr>
<th>India: Value</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>Vege/Other</td>
<td>89,371</td>
<td>-</td>
<td>-</td>
<td>10,732</td>
<td>378,672</td>
</tr>
<tr>
<td>Fruit</td>
<td>578,071</td>
<td>1,870,092</td>
<td>2,360,220</td>
<td>2,342,436</td>
<td>1,768,026</td>
</tr>
<tr>
<td>Juices/Conc</td>
<td>5,954,306</td>
<td>5,456,411</td>
<td>6,359,154</td>
<td>3,664,812</td>
<td>9,527,078</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>6,621,748</strong></td>
<td><strong>7,326,503</strong></td>
<td><strong>8,719,374</strong></td>
<td><strong>6,017,980</strong></td>
<td><strong>11,673,776</strong></td>
</tr>
</tbody>
</table>

% Increase Year on Year: 11%, 19%, -31%, 94%

## Total SA Exports (World):

<table>
<thead>
<tr>
<th>India: Value</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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</tbody>
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% Increase Year on Year: 4%, 10%, 19%, 16%
Exports to India

- Potential opportunities for growth; Exports small at this stage
- Over 10 years – low base of R1.5m (2004) to R11.6m (2014)
- Difficult to assess true statistics – SA product being re-exported to India via other geographies (i.e. Dubai, Singapore)
- Challenges: Trade barriers; High and complex duty structures; price sensitive; complex business structures
- Limited: Increase in exports but difficult trading conditions

NOTE: Shifted drive into Russia; Growth of canned fruit & purees; further growth opportunities (geo-political conditions) but credit risks still challenging
Designation of Canned Vegetables
Designation of Canned Vegetables

- Canned Vegetables designated under the **Preferential Public Procurement Framework Act** (1st Agricultural product)

- **Limited** progress

- Act only covers Government Entities / SOE’s – does not **extend** to service providers i.e. Catering services, 3rd parties, etc.

- **Practical** system to lever the benefits difficult – different tendering / procurement process across various tiers of Government & Provinces
Generic Marketing Campaign
super can
...u can taste the goodness, anytime!
Generic Marketing Campaign

- Increase the consumption of processed fruit & vegetables
- Create consumer awareness to buy local

Outcome of Campaign:
- Stable consumption
- Reversed downward trend
- Growth in value over 2 years:
  - Fruit: 11.3%
  - Vege: 15.3%
  - Juices: 13.5%
Domestic Market Campaign

Magazines

Recipes

Television

Cooking Features
“From Can to Pan”
“Cooking with Cans”
Product Development

Eat Well, Eat Safe, Eat Local Campaign
DTI Ministerial Initiative: “Eat Well, Eat Safe, Eat Local” (IPAP Initiative; PPPFA) “Buying back South Africa”

• **3 X Events**: Maponya Mall, Soweto; Vangate Mall, Athlone, WC; East London

• Integrated Message: **Consumer Awareness; Nutrition & Food Safety; Buying Local**

• Product Development: Launch of **new products** by member companies

• Industry-wide **R&D** on a generic level iro product development – New Cultivars
Resource Efficient & Cleaner Production Programme (NCPC) & Manufacturing Competitiveness Enhancement Programme (MCEP)
RECPP (NCPC) & MCEP

- NCPC: Engaged directly with individual companies;
- Audits conducted at some units; No report back

- MCEP: Excellent incentive but process has been challenging
- Approvals received but limited to 50% of applied amount;
  delays of up to 16 months
Transformation: Emerging Farmers Tree Planting Scheme
## Emerging Farmers Tree Planting Scheme

<table>
<thead>
<tr>
<th>Tree Plantings</th>
<th>Trees</th>
<th>Ave. Ha</th>
<th>Farms</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-2013</td>
<td>52,696</td>
<td>42.16</td>
<td>8</td>
</tr>
<tr>
<td>2014: Constitution Rd Farm</td>
<td>15,836</td>
<td>10.00</td>
<td>1</td>
</tr>
<tr>
<td>2015: Constitution Rd Farm</td>
<td>2,000</td>
<td>3.00</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>70,532</td>
<td>55.16</td>
<td>9</td>
</tr>
</tbody>
</table>

Approximate Tonnage (40tons/ha) 2,206 tons
Return to Farmer (R3,000/ton) 6,619,200 ZAR
Canned Fruit Produced (40 cases/ton) 88,256 cases
Approx. Sales Value (R250/case) 22,064,000 ZAR

*Note: Excludes further investment by individual companies (RFG) i.e. Planting & Fruit Handling Infrastructure*
Conclusion

- Industry has harnessed the opportunities as a beneficiary of IPAP across various interventions;

- In particular: Very successful examples cited
  - PPP Fruit Canning Initiative Project – Effective model; Partnership
  - Major success in China (real case study to replicate into other markets)
  - Emerging Farmers Tree Planting Scheme – Multiplier Effect
  - Massive opportunities for vegetables (but practical model for PPPFA needed; Imports a threat on growth & jobs)

- Industry continues to have growth potential; Critical → Enabling environment to overcome challenges