Profile on the SA Citrus Industry

DYNAMIC REALISM

South Africa is the third largest exporter of citrus in the world, and the leading exporter of fresh citrus from the southern hemisphere. Citrus export earnings are estimated at about R3.2 billion a year. The industry exports citrus to more than sixty countries and in 2004 export volumes are estimated at just under 70 m cartons.

The industry employs about 100,000 people on farms and in pack houses, and many more in related service industries. The citrus industry’s viability and geographic distribution makes it a good vehicle for land transformation and rural development.

South Africa’s position on the international markets is strengthened by being able to produce a range of citrus fruits over an extended period of time - from March through to November. The citrus export industry is well established and the first fruit was exported during the 1920s through the SA Co-operative Citrus Exchange.

Justin Chadwick, CEO of the Citrus Growers’ Association (CGA), says local growers have also gained a reputation of delivering quality fruit. "Producers are supported by good extension system giving them the technical backup they need to be able to produce high quality fruit. The industry also has an internationally recognised and accredited quality management system to certify that the fruit leaving the country is of the required standard." The industry has also developed a reputation over many decades of being a reliable supplier. In addition, it is also geographically closer to its traditional markets in Europe in relation to other southern hemisphere countries.

There are major forces at work in the industry. Internally, deregulation has changed the industry from a single channel marketing environment to a leaner more fragmented industry. There is also political pressure on the industry to re-invent itself through black economic empowerment and land transformation. In addition, there is an oversupply of fresh produce on the world markets; and the volatility in the local currency, makes planning more difficult and expensive. In addition the European Union and British retailers require producers and pack houses to meet specific and audited, safety and employment protocols.

Deregulation

Deregulation in the late 1990s tested the industry’s resilience. Stuart Symington, CEO of the Fresh Produce Exporters’ Forum (FPEF), believes South African citrus lost its brand leadership and image immediately after deregulation. The familiar “Cape” (Cape not used for citrus) and “Outspan” brands now belonged to a single exporter, and competed directly with new, less familiar South African brands on the international markets. The industry lost a lot of generic information on production and export markets. In addition there was a very real threat of the industry losing its research capacity through a lack of centralised funding.

"On the positive side, we have seen a dramatic increase in sales. Six years ago the industry was exporting about 1m tons (? 1m tons total fruit to 2m - these are not figures for citrus alone). It has now almost doubled. The FPEF have also managed to coordinate producers and exporters to the benefit of the whole industry.

"Smaller producers are quick and adaptable and able to service niche markets that the large single channel marketing agent of the past was unable to do. The producer today is free to choose his exporter. If he deserves it, he can earn prices for his fruit. If his house is not in order, he will be flushed out of the system."

The industry is very vigilant about adhering and meeting the phytosanitary requirements of importing countries. The Minister of Agriculture imposed a levy of 32 cents per export carton which is administered by the CGA. About 80% of the levy is used for research and underpin market access by helping producers meet the phytosanitary and sanitary standards of the receiving country. The balance of the levy is used to facilitate empowerment through land transfers, skills development and to help previously disadvantaged people to gain access to resources. The administrative work of the CGA is also funded by the levy.

Perishable commodity market

Traditional markets for fruit from the southern hemisphere are becoming more and more saturated. Producers are exporting into a highly competitive market. Citrus exports from southern hemisphere producers in Argentina, Chile and Australasia coincide with arrivals from South Africa and traditional markets are becoming saturated. At either end of the citrus export season there is also some overlap with exporters from Israel, Spain, Egypt, Morocco and the United States.

Freke Dreyer, CEO of CapeSpan’s citrus division, explains that after deregulation exporters were fighting for a share of the South African market. "Now the focus has changed. Producers have learned to manage their risk and are working more closely with retailers and the competition is at the final point of sale. There is a market driven pull for fruit from South Africa."

The market has seen a move towards greater consolidation among retailers. Producers are realigning themselves with their major trading partners, and are far more market orientated, learning to play into the right market segments and how to cut back on costs. In future even greater focus on the logistical leg in the supply chain is essential. A lot of players
are feeling the margins. Freek Dreyer believes that the real challenge exporters will be to find a way of adding value to the supply chain. Capespan is one of the largest export agents handling citrus from South Africa. (There is a question over the term "exporter", we take it to mean the grower who exports the fruit, as opposed to the "export agent" who carries out functions on behalf of the exporter).

South African citrus' traditional export markets are those of European Union, with Northern Europe receiving 24% of total exports, and another 11% of exports are destined for the UK. (Our figures show 51% to Northern and Southern Europe and the UK combined). The Europe SA Free Trade agreement gives South African fruit access to the market at a lower tariff, especially at times when they are not in direct competition with their own fruit.

New markets have been developed in the Middle East, Far East and the United States.

Most of South Africa's lemons are exported to the Middle East (40%). Japan is seen as a good market for grapefruit and takes more than 40% of South African grapefruit exports. South African citrus exporters earn premium prices in the United States, Japanese and South Korean markets, but are required to meet very stringent phytosanitary conditions, including cold sterilization.

### Access to new markets

South Africa exports citrus to the US under the African Growth and Opportunity Act (AGOA) which allows SA citrus to enter the market without tariffs. In 1998 South Africa exported about 400,000 cartons of citrus to the United States, this increased to about 1.5m (My figures show about 2.5m cartons (15 Kg equivalent)) cartons in 2004. About half of these exports are in Valencia oranges, although the market also takes smaller volumes of navel and clementines (No - about 1.5m Navels, 600 000 clementines, 400 000 Valencias). Today South Africa is the largest exporter of fresh oranges to the US market.

However, due to specific phytosanitary requirements only fruit from specific magisterial districts in the the Western Cape and Northern Cape - accredited citrus black spot (CBS) free areas - can be exported to US market. Other production areas are still awaiting accreditation to export to the US.

South African producers - mostly from the Citrusdal area - have formed a USA Navel Alliance. To facilitate exports to the United States. The alliance includes export agents and other links in the supply chain. They have work closely with Australian navel exporters to the US, and are geared to meet the specifications of the US market where they can earn premium returns.

In 2004 South Africa gained official access to the People's Republic of China, through a dedicated partnership between the private and public sector after three years of negotiations. Now exporters need to deliver according the letter of the protocol. Stuart Symington is cautiously optimistic because this is where

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**PROMOTION**

**CITRUS DOOR-TO-DOOR TRANSPORT SERVICES**

Since transport being the life blood of the industry, a Durban based transport company, **KWIK CONTAINER MOVERS & AGENTS** have niched into the highly specialised citrus industry offering specialised door-to-door transport service during the citrus season. Growers and exporters in the Northern Province and Eastern Transvaal who have cold rooms built on their farms can now load directly from the source into reaper containers and have their containers transported directly into vessel stacks.

Kwik Container Movers have formed a joint venture with other service providers to offer its clients specialised equipment (which are the light weight skeletal trailers - 10m wheel base ± 34 tons gross payload and 9m wheel base ± 32 tons gross payload) for carrying heavy containers. These trailers give the growers and exporters an added advantage to load up to 26, 5 tons of citrus per container. This also enables growers and exporters to load more cargo into fewer containers thereby allowing them a further saving on shipping and freight costs.

Kwik Container Movers provides a complete transport and logistical service to its clients eg. a progress report is e-mailed on a daily basis containing information on containers from the time they are collected from the empty depot until they are packed and turned into the vessel stacks.

We also provide a service for documentation (C.T.O) which are completed and processed by our efficient and professional staff.

All our joint venture partners have been selected both in terms of skill and professionalism. We offer 30 truck tractors with 35 x 12m light weight skeletal trailers (2 Genset trailers).

All vehicles are fitted with vehicle tracking and fleet management devices and come with fully experienced drivers. Our goods in-transit insurance covers both the cargo (R350 000-00) and the reefer container (R350 000-00).

Once again we emphasise that our professional service and relationship building is our key recipe for success.
the real work starts. Their phytosanitary requirements are very strict, and they are particularly concerned about (would rather not mention FCM) Mediterranean fruit fly. The fruit will have to undergo cold sterilization, which can affect the quality if the temperature does not remain within the required range.

There is a very small local market for citrus fruit, and availability is often influenced by the juice price for oranges. The per capita consumption of oranges is estimated at about 8kg, and rising, although Justin Chadwick believes it could be attributed to improvements in the local distribution channels.

Logistical challenges
Citrus is exported through four ports. Durban and Port Elizabeth receive most of the volume, followed by Cape Town, while small volumes pass through Maputo in Mozambique.

The biggest logistical challenge facing the industry is the lack of capacity in the ports. Citrus exporters are not only competing with other exporters in the fruit industry for space at the ports, but also with other industries. Systems are overloaded giving rise to complaints of too few gantries and cranes, inadequate stacking space, and a shortage of electrical plug in points for containers. The port authorities were caught off guard by the rapid increase in volumes from the fruit industry.

In Table Bay the problem is compounded by a fruit terminal that is exposed to the South Easter, and when the wind reaches speeds of 80 km/hr fruit cannot be loaded onto ships causing further delays in the port. The African oil industry is also putting pressure on Cape Town port facilities.

All fruit exported from South Africa is certified by the Perishable Products Export Control Board (PPECB), an internationally accredited inspection agency. This is seen as a major advantage to fruit entering the European Union by containing costs relating to rejections, and quality loss due to delays. Custom officials are merely required to do a paper audit and normal quality checks.

All the fruit sent to the ports are received by Fresh Produce Terminals (no - the bulk is received by FPT but there are other terminals), a company that owns the fruit terminals.

Production areas
Worldwide, citrus is produced at a latitude of between 20° and 40° north and south of the equator. Brazil, the United States, China, Spain and South Africa are the world’s largest citrus producers. In South Africa there are 1,200 citrus producers registered for export. Justin Chadwick estimates that the average production unit is between 40 and 60 ha, although economies of scale favour larger operations.

Citrus is a generic term for all oranges, grapefruit, easy peelers or soft citrus, lemons and limes, and is produced throughout the country. Production increases at an average rate of about 8% a year, but there has been a marked increase over the last three years. In the past growers formed co-operatives around communal packing facilities to achieve economies of scale. Most co-operatives are now private companies although a few co-operatives can still be found in Mpumalanga and Limpopo.
The Eastern and Western Cape dominate in the production of navel oranges. Most Valencias are produced in the Limpopo province. Larger volumes of grapefruit are grown in Mpumalanga and Limpopo provinces, and soft citrus prefers a more Mediterranean climate and almost half of all soft citrus originates from the Western Cape. The Eastern Cape produces the highest volumes of lemons (49%).

Citrus has a long export season, beginning with lemons in March, followed by soft citrus from weeks 19 to 21. Grape fruit is exported from week 16 to 34, with peak volumes arriving between weeks 21 and 23. Oranges (mainly Valencias and navels) dominate exports and are delivered from weeks 18 to 42, with peak volumes between weeks 28 and 34.

**Transformation**

There are factors that can act as barriers to entry into the citrus industry. It is expensive to buy a high potential citrus farm, and build it up from scratch. The return on capital is very low. Input costs and marketing costs are also very high. Some exporters help producers by financing packaging and shipping costs, and are reimbursed once the crop has been sold. The industry also requires more intangible inputs such as intellectual capacity - knowledge and know-how passed on from one generation to another within families.

Stuart Symington points out that on the export side, the industry is equally sophisticated and requires an extensive network of contacts. "New exporters will need contracts with supermarkets, which today are largely taken up. It is now very difficult to get a large supermarket programme. The logistics through the value chain are also very demanding." Producers have become very wary of new exporters.

"I believe the real opportunity for empowerment lies in the value chain beyond the farm gate in pallet manufacturing, packaging, angle boards, cold storage and trucking. There is a lot of scope for entrepreneurs with innovative ideas who are able to deliver on quality. The industry can also look at preferential procurement procedures," he added.

Justin Chadwick agrees that transformation is taking place very slowly. One under reported problem is that only about 4% of farms come onto the market in the traditional buy-sell situation. He believes transformation can take place in three ways: through land reform, skills development and by increasing access to resources.

"We must accelerate the transformation process and experience has shown that worker equity trusts and community trusts are good vehicles for transformation," he said.

He agrees with Stuart Symington that there are challenges especially because a long term tree crop does not lend itself to empowerment.

"Firstly, as a tree crop, it takes ten years before a farm reach break even point. Secondly, farming is a very technical business especially when it is geared towards the export market. Existing growers have been mentored through a family business, and received years of support through a single channel market agency and sponsored technical advisors. Transferring intellectual capital takes time and requires mentoring, and is possibly best done through joint ventures.

Noel Kamrajh, a senior project manager for the Industrial Development Corporation (IDC), agrees that successful transformation requires a high level of commitment between the participants.

The latest empowerment deal brokered by the IDC is between TSB, one of the largest producers of grapefruit and oranges in SA, and two trusts representing workers and community members. In the R8mil empowerment deal, TSB retains a 51% stake in Golden Frontier Citrus, with the IDC taking up the balance on behalf of the worker and community trusts.

TSB is the largest producer of grapefruit in the southern hemisphere and has about 1,500 ha of grapefruit in production with a turnover of R170m. "In this deal we created two trusts, one for the community living on or close to the land, and a worker trust. The beneficiaries own equity in the farming operation through the trust". Part of the dividend flow is then used to pay off the IDC loan and payout to the beneficiaries. More than 2,000 workers are involved.

"An empowerment deal can never be a marriage on convenience. There must be a good working relationship between the land owners and the work force. The empowerment company must want to drive the process." The IDC prefers to deal with mature companies with an established profit record and a strong cash flow. The company must have a good track record and the ability to sustain profits, with a cash flow that is able to support the deal, he explained.

"It takes time to set up a project. Firstly, the company must be able to afford to do the deal. Then, there is the equity must be acquired at the right price. We also help with the legal paperwork and consult with the community. Life skills training and management training may also be required". Noel Kamrajh explained.

European organisations are very supportive to empowerment initiatives and Fair Trade procures fruit from empowerment farmers for supermarkets. Consumers then pay a premium for that fruit with the understanding that a portion of the proceeds goes back to the workers to pay for equity and social upliftment.

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