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# **REPORT ON THE INVESTIGATION INTO FRESH PRODUCE MARKETING**

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## **REPORT 2: FRESH PRODUCE MARKETING IN SOUTH AFRICA**

**NATIONAL AGRICULTURAL MARKETING COUNCIL  
(NAMC)**

Fresh Produce Marketing Section 7 Committee

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### **LIST OF ABBREVIATIONS**

APAC	Agricultural Products Agents Act
BATAT	Broadening Access to Agricultural Thrust
DTI	Department of Trade and Industry
EU	European Union
HSRC	Human Sciences Research Council
NAMC	National Agricultural Marketing Council
NDA	National Department of Agriculture
NTB	Non-tariff barrier
NFPM	National Fresh Produce Market
PPECB	Perishable Product Export Control Board
SPS	Sanitary and Phyto-sanitary

## FOREWORD

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A successful market economy hinges on an adequate and relevant marketing infrastructure. It is essential that market facilities should be accessible to both buyers and sellers, and that complete, real-time market information should be available to all market participants. The NAMC Fresh Produce Marketing Section 7 Committee was commissioned in 1998 to examine the fresh produce marketing structure in South Africa, with a view to making recommendations to improve fresh produce marketing. The objectives of the Marketing of Agricultural Products Act, 1996, provided a framework for the investigation, particularly the objective of increasing market access for all participants.

This report provides information about impediments to efficient price formation and barriers to participation in the market. It is hoped that this information will help agricultural and local government authorities and institutions involved in the marketing of fresh produce in South Africa to take appropriate steps to remedy the problems.

In its efforts to gather information, the Committee held meetings with individuals and institutions to share their ideas and experiences on fresh produce marketing. Fourteen meetings and interviews were, in fact, held over a period of fourteen months (February 1999 to March 2000). This report would not, therefore, have been possible without the active support of many individuals and institutions. In this regard, the committee is grateful to the Fresh Produce Forum; the Agricultural Produce Agents Council (APAC); Ms A. Nyamande-Pitso from EPA Development; Dr A. Myburgh, University of Stellenbosch; Mr A. van Tuil, agricultural consultant; Mr C. King of Standard Corporate Merchant Bank; representatives of the Pretoria, Cape Town and Durban markets, including Mr Rademeyer, Market Master of Durban market and Mr Groenewald, Market Master of Pretoria market; Messrs Stofile, Mathe, Nkosi and Madelazi and Ms Sathole as representatives of small-scale farmers; and Dr J. van Deventer of Freshmark.

The Committee is also indebted to Mr A. van Tuil of the Netherlands for his inputs on international experiences. Special mention is made of Mr P. de Jong of the Royal Dutch Embassy in South Africa for his efforts in securing a grant of 150 000 Dutch guilders towards this project from the Netherlands Ministry of Agriculture.

The Committee takes this opportunity, as well, to thank Mr B. Bayley for compiling the first report on the Johannesburg market, and Ms S. Kritzinger for compiling the second report.

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## **EXECUTIVE SUMMARY**

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### **Introduction**

In 1997, the National Agricultural Marketing Council received complaints about the operations of the National Fresh Produce Markets. Consequently, a section 7 Committee, in terms of the Marketing of Agricultural Products Act, 1996, was established to investigate the matter. Phase 1, an investigation of the operations of the Johannesburg National Fresh Produce Market, was completed in 1998. This report is the culmination of the second phase of the broader investigation of the country's fresh produce markets.

Researchers and various role-players met with the Committee, input was obtained from an international expert and a literature review was undertaken.

The overriding objective was to make recommendations that will lead to a transparent pricing mechanism, equitable access for all existing participants and potential entrants to the fresh produce industry, and competition between role-players.

### **Recommendations**

The recommendations are fully set out in Chapter 8. The following main recommendations were made.

***Fresh produce markets should allow other intermediaries, such as wholesalers, to operate on the market floor and to receive fresh produce directly from producers.***

Although this recommendation did not enjoy support in the first phase of the investigation, the Committee was not convinced by the arguments put forward against it, and felt that there was no evidence that the commission system would be adversely affected if the different parties competed under fair circumstances. The Fresh Produce Forum has not come up with a strategy or recommendations to address this issue (pp. 13 - 14), and role-players hold conflicting views on this point (p. 21). The Committee believes the NFPMs may well lose their support to alternative marketing channels (e.g. internet actions and marketing channels) if competition and experimentation are not permitted (pp. 52 - 53), whereas many of the problems are likely to be eased if competition is permitted.

***If other intermediaries are allowed to enter the market, fresh produce markets should be responsible for capturing all the relevant information.***

***The fresh produce markets should supply real-time price and volume information, and disseminate it as widely as possible.***

***All markets should disclose standardised and correct information. This should be the responsibility of the market masters.***

Capturing information from other intermediaries, once they are allowed to operate on the market floor, could improve the relevance of market information to the end users as a wider spectrum of information becomes available (p. 54).

Previous reports and theory substantiate that buyers and sellers have to be well informed on market conditions for a pricing system to be efficient and transparent (p. 31). While the price information generated by the NFPMs is a valuable source to the industry, the Committee believes that it is not timeously available to all role-players in a meaningful format, and is sometimes incorrect (pp. 22 - 23).

***The need for infrastructure, the availability of information to small-scale fresh produce producers, intermediaries and buyers and the monitoring of problems pertaining to market access for small-scale farmers, intermediaries and buyers should be referred to the NAMC Market Access Steering Committee.***

***The Institute of Market Masters of South Africa should hold a workshop, facilitated by the NAMC, to review the system of floor space allocation and to devise practical and objective alternative allocation methods to facilitate market access.***

Small-scale producers identified a number of market access and other problems, and input was also sought from traders and low-income consumers (pp. 22 - 23). The Committee is of the opinion that the market access issues that have been identified should be addressed through the NAMC Market Access Steering Committee, since it is a structure that is in place to deal with such issues (p. 56).

In its first report, the Committee recommended that floor space allocation should be revised. It appears, however, that no steps have as yet been taken to do so (p. 53).

***Ownership and management of all NFPMs should be separated in order to achieve efficient business practices. The role-players and market authorities of each market should determine which process might achieve this.***

The recommendation in the first report dealing with the splitting of ownership of NFPMs found wide acceptance. This reflected the desire of all parties for clearer objectives in the running of the markets, as well as better and more transparent resource and financial management (pp. 11 - 12, 21, 54 - 55).

***Market management should ensure compliance with grading and food safety requirements. The National Department of Agriculture Directorate of Plant Health and Quality should be approached to fulfil its responsibility in terms of the Agricultural Product Standards Act.***

Inadequate quality control was highlighted in the Committee's first report (p. 13). This problem was identified during the second phase as well (p. 22), and it is noted that standards may be prescribed in terms of the Agricultural Product Standards Act (p. 51).

***The National Department of Agriculture and the Department of Trade and Industry must establish the planned Agricultural Export Council in order to facilitate the co-ordinated promotion of South African produce as soon as possible.***

The report discusses the importance of international market access for fruit exports (pp. 45, 55 - 56). It also deals with the role played by the reputation and image of a country and recommends that these and related matters should be dealt with by an Agricultural Export Council (pp. 55 - 56).

Please note that these are the core recommendations. The complete set of recommendations made by the Committee during this second phase of the investigation is provided in Chapter 8 (p. 50).

## **THE STRUCTURE OF THE REPORT**

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The remainder of this report is structured as follows:

**Chapter 1** sets out the Committee's overall terms of reference for the first and second phase as well as the specific terms of reference for the second phase. The investigation into fresh produce marketing in South Africa was divided into two phases. The first concentrated on the operation of the Johannesburg Fresh Produce Market. The second phase was a broader investigation on the current marketing systems for fresh produce in South Africa, with the aim to make recommendations that would increase efficiencies and market access (particularly for small-scale producers and traders) in this sector.

**Chapter 2** sets out the reactions to the recommendations of the Committee's first report on the Johannesburg Fresh Produce Market, what has been done to implement the recommendations and also what still has to be done to implement them.

**Chapter 3** sets out the objectives that the investigation aims to achieve and describes the process followed in the investigation. The process consisted of discussions with researchers and various role-players in the marketing chain, obtaining input from an international expert and undertaking a literature review. The chapter also contains a summary of inputs received from role-players such as market masters and agents, informal traders, wholesalers and commercial and small-scale farmers.

**Chapter 4** gives an overview of the current marketing structure of fresh produce in South Africa. The chapter contains information on the development of the various fresh produce distribution channels (including NFPMs and direct marketing) as well as price determination systems (including the auction system and out-of hand system), the current marketing systems in place for fresh fruit and vegetables and trends in the marketing of fresh produce in South Africa.

**Chapter 5** is a summary of reports by an international expert, Mr A. van Tuil, describing the experiences in fresh produce marketing in the Netherlands, Chile, New Zealand, Brazil and Thailand that are relevant to the fresh produce marketing structure in South Africa.

**Chapter 6** contains the Committee's discussions and findings in the light of characteristics of the South African fresh produce marketing system, international experience, theory and the legal framework of fresh produce marketing in South Africa.

**Chapter 7** sets out the Committee's conclusions in terms of export marketing, equitable access, transparency, risk and market access.

**Chapter 8** presents the Committee's recommendations.

## 1. INTRODUCTION

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In January 1998, the National Agricultural Marketing Council (NAMC) established a committee, in terms of section 7 of the Marketing of Agricultural Products Act, 1996, to investigate fresh produce marketing in South Africa. It was decided to divide the investigation into two phases. The first concentrated on the operation of the Johannesburg Fresh Produce Market, and was completed in September 1998.

The second phase broadened the investigation to a national level, and included evaluating the current marketing systems for fresh produce, with particular reference to the National Fresh Produce Markets (NFPMs). The aim was to make recommendations that would increase efficiencies and market access (particularly for small-scale producers and traders) in this sector.

The Committee's overall terms of reference (covering both phases of the investigation) were:

- a) To investigate the operation of the Johannesburg Fresh Produce Market, particularly its efficiency and accessibility.
- b) To investigate the legal status of the National Fresh Produce Markets (NFPMs) and suggest appropriate measures, particularly as to whether they should be overseen locally or nationally.
- c) To determine the roles of the Agricultural Produce Agents Council (APAC), the Director of the Market and the market agents, and how they have executed these roles in terms of the governing legislation.
- d) To determine whether the Agricultural Produce Agents Act, 1992 requires amendment.
- e) To determine whether the current market facilities should be enlarged, and/or additional markets established.
- f) To make recommendations to the Minister for Agriculture as to the appropriate course of action.

The committee's specific terms of reference regarding the second phase of the investigation were:

- a) To consider what is happening internationally, and why the market structure and price discovery mechanisms are as they are in different countries. What lessons can usefully be drawn from international experience and applied to the South African situation?
- b) To analyse how efficiently producer and consumer prices for fresh produce are arrived at in South Africa, and identify the barriers (if any) that prevent smaller scale participants from entering the market.

- c) To analyse the operation of the NFPM system (evolution, management, ownership, location, legal status, etc.) in general, and to consider the likely role of the NFPMs in the future, within the broader context of fresh produce marketing in South Africa.
- d) To analyse the appropriate role of government and the necessary scope of legislation (in particular, whether legislation should be introduced to govern the operation of the NFPMs and whether the Agricultural Produce Agents Act should be amended or repealed).
- e) To make recommendations to the Minister for Agriculture as to the most appropriate course of action.

The investigation attracted international interest and, during a visit by the Netherlands Minister for Agriculture in July 1998, a grant of 50 000 Dutch Guilders was made to enable the NAMC to fund a specialist from the Netherlands to assist in the second phase of the investigation.

This report is the culmination of the second phase of the investigation.

## **2 THE FIRST REPORT**

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The Section 7 Committee established to investigate the functioning and problems at the Johannesburg Fresh Produce Market published its report and recommendations in September 1998. The response to the report was broadly positive, and most of the recommendations it contained were widely accepted.

This report deals with the second phase of the investigation. It starts with a review of what has been done regarding the recommendations of the first report, and summarises what still needs to be done to implement these.

### **RECOMMENDATION 1**

*That the national Minister of Agriculture approach the Greater Johannesburg Metropolitan Council and express concern that the financial difficulties of the Metropolitan Council are having a severely negative impact on the Johannesburg market, which is of national importance.*

#### *Reactions*

All role-players agreed with the Committee and strongly supported this recommendation.

#### *Implementation*

The Minister of Agriculture wrote to the Greater Johannesburg Metropolitan Council on 17 December 1998 to confirm that he had accepted all the recommendations made by the NAMC in its first report, and had given his full support to their implementation. He expressed particular concern about the negative impact the financial difficulties of the Metropolitan Council were having on the efficient functioning of the largest fresh produce market in the country.

#### *Future action*

None.

### **RECOMMENDATION 2**

*That the Metropolitan Council should, as soon as possible, take the appropriate steps to give market management financial independence, and the authority to manage the market without reference to the Council. There is no compelling reason why the Council should continue to own the Johannesburg market, but, if it does, ownership and management should be split.*

### *Reactions*

All role-players were in favour of an independent national market system where at least ownership and management were separated. Privatisation was, however, strongly recommended.

### *Implementation*

The Greater Johannesburg Metropolitan Council decided in October 1999 that the market should be corporatised.

### *Future action*

The Metropolitan Council is currently in the process of corporatising the market, thereby effectively separating ownership and management. This process should be completed during 2000. The NAMC will continue to monitor the process.

## **RECOMMENDATION 3**

*Any moves to commercialise or privatise a market in accordance with Recommendation 2 should be designed in such a way that the market is managed in a neutral and objective way that is not unduly beholden to any narrow set of vested interests.*

### *Reactions*

The industry supported this recommendation and placed particular emphasis on the involvement of all the role-players concerned.

### *Implementation*

The corporatisation process will take account of the views of as many role-players as possible.

A project team/technical working group has been created, including all the representatives on the Johannesburg Market who will advise on the actions to be followed in the corporatisation process. The Johannesburg Market is also in the process of transferring the trust accounts so that the Metropolitan Council will no longer have authorisation powers over or access to the accounts.

### *Future action*

The Committee is concerned about the implications for free and fair competition if the Greater Johannesburg Metropolitan Council aims to maximise its returns on this asset by using bylaws to maintain the exclusivity of the market infrastructure. The NAMC will continue to monitor developments in this regard.

#### **RECOMMENDATION 4**

*The market authorities should invest time and money in upgrading the operations of the market. In particular, money should be spent on improving the fabric of the market, especially security and wholesale facilities, and the computer system handling sales, so that real-time price and volume information is available to buyers and sellers. Sufficient staff should be employed to improve the policing of the system and aspects such as grading. Furthermore, steps should be taken to increase the number of agents and reduce the barriers to entering the market as an agent, both in the way that floor space is allocated, and in terms of Act 12 of 1992.*

##### *Reactions*

It was agreed that floor space and the fidelity fund certificate could represent barriers to entry. The Fresh Produce Forum argued that the NAMC had created a perception that further barriers exist and that this perception should be dealt with.

##### *Implementation*

The Forum has identified upcoming market agents at the Johannesburg Market, but limited space has prevented them from entering it.

##### *Future action*

The Forum is to set up a committee to deal with perceptions that black farmers and agents do not have access to the market.

The NAMC accepts that there is limited space on the market and that the new market agents will enter the market as soon as the space problem is solved. The Committee is not, however, satisfied that adequate attention has been given to the way in which floor space is allocated. This issue is commented on further elsewhere in this report.

Further possible action will address barriers to entry such as training and finance. New legislation as to the financial security requirements for agents to operate is being considered. The NAMC will continue to monitor developments in this regard.

#### **RECOMMENDATION 5**

*The Johannesburg market should allow wholesalers on the market to receive fresh produce directly from producers. Such an initiative should be handled so as to ensure that the activities (transaction price, volumes sold, stocks and demand) of wholesalers are captured by the market's information system.*

##### *Reactions*

This recommendation did not enjoy support. The Forum felt strongly that the principle of commission-based marketing would be destroyed if wholesalers were allowed to compete on an equal basis with agents on the market floor. The Forum further suggested that the market has no means of implementing such a system.

The Committee is not convinced by these arguments, as no evidence has been forthcoming that the commission system would be adversely affected if the different parties competed under fair circumstances.

#### *Implementation*

The Forum was to hold a workshop involving all the-role players, with the purpose of establishing a national strategy and coming up with recommendations that would convince the Committee of its viewpoint. Although a workshop has taken place, the Forum has not come up with the required strategy or recommendations.

The recommendation has not been implemented.

#### *Future action*

The Committee stands by its original recommendation.

### **RECOMMENDATION 6**

*APAC should make producers aware that the ownership of interest earned on monies in trust accounts does not lie with agents as of right, but is a matter for negotiation between producers and agents.*

#### *Reactions*

This recommendation was accepted by APAC.

#### *Implementation*

It was decided that the Agricultural Produce Agents Act No. 12 of 1992, Rule 35.1 be amended along the following lines:

“A fresh produce agent shall forward the cheque by means whereof a payment is made to a principal in terms of section 20 (1) of the Act, to the principal concerned as soon as possible but not later than 5 business days after a sale has taken place, except in the case of unforeseen circumstances.”

Regulations to this effect have been submitted to the National Department of Agriculture (NDA) to accommodate this request.

#### *Future action*

The NAMC should monitor the implementation of the Bill.

### **RECOMMENDATION 7**

*APAC should remind producers that the level of commission that is deducted by agents is a matter for negotiation.*

### *Reactions*

This recommendation was accepted by APAC.

### *Implementation*

APAC continues to make producers, especially the smaller ones, aware of this fact.

### *Future action*

The NAMC will continue to monitor this.

## **RECOMMENDATION 8**

*APAC should ensure that agents do not operate in a way that advantages some producers over others (as per code of conduct). In particular where an agent pays a producer for produce that has gone bad on the market he or she should be obliged to do the same for all such producers. If an agent pays money to a producer for produce sold on the market on a daily basis, such a facility should be available to all producers with whom the agent deals. Where an agent pays over interest on a trust account to a producer, all producers should be entitled to such interest payments.*

### *Reactions*

APAC explained that at present it is only agencies that have to register with APAC, making disciplinary action difficult when individuals who operate on the floor do not comply with the above.

### *Implementation*

The Agents Act was to be amended to provide for registration of individual agents and salesmen with APAC, in order to maintain better discipline and control over individuals. This amendment has already been incorporated into the draft Bill.

### *Future action*

The amended Bill will be published as an Act of Parliament during 2000. The NAMC will monitor the implementation of the Bill.

## **RECOMMENDATION 9**

*The market authorities and APAC should immediately terminate the use of own buying cards by agents and the provision of credit by agents to buyers.*

### *Reactions*

There was mixed reaction to this recommendation. It was widely accepted that the current system of credit provision by agents was open to abuse, but it was felt that

these problems could be overcome by making the system of credit provision more transparent so that producers are fully aware of what happens to their produce.

#### *Implementation*

The regulations under the Agents Act need not be amended as minor changes could be made to the rules on the sales document to make transactions more transparent.

These amendments have been drafted.

#### *Future action*

The amended regulations pertaining to the sales document must be published.

### **RECOMMENDATION 10**

*The composition of APAC should be broadened further than is currently contemplated in the Amendment Bill so that there is better balance between the representation of agents, producers and the public interest.*

#### *Reactions*

APAC requested the Committee to reconsider this recommendation, as it sees APAC as a council for agents. It presently consists of three agents and two producers. It was conceded that steps should be taken to allow representation of public interests.

#### *Implementation*

The Act makes provision for an advisory committee comprising different role-players. At present a livestock and fresh produce committee is in existence as well as *ad hoc* disciplinary committees responsible for public hearings.

#### *Future action*

The Agents Act is to be applied in such a manner that stakeholders (e.g. consumers and producers) can be represented on these committees. The NAMC should have observer status on APAC.

The NAMC will monitor the application of this recommendation.

### **RECOMMENDATION 11**

*APAC should ensure that the onus is on agents to keep proper records rather than on the producer to prove wrongdoing on the part of the agent.*

#### *Reactions*

This recommendation was accepted by APAC.

### *Implementation*

The Agents Act already stipulates that agents should keep suitable and adequate records in view of their position of trust. APAC is taking a more proactive approach in this regard, and has appointed six auditors to investigate this. Disciplinary action will be taken if agents do not keep proper records.

### *Future action*

The NAMC will monitor disciplinary action taken by APAC.

## **RECOMMENDATION 12**

*The Minister of Agriculture should issue a public statement clarifying the situation with regard to statutory and voluntary levies. Furthermore, where levies have been collected after 6 January 1998, without the consent of the producer, such levies should, as far as possible, be refunded to the relevant producers. The NAMC should take note that there is a danger that applications for relatively small levies may in actual fact provide the recipient with the information required to enforce non-statutory initiatives to manage the supply of produce onto the markets and to collect “voluntary” levies.*

### *Reactions*

The recommendation was supported by all parties.

### *Implementation*

The Minister released a press statement clarifying this issue<sup>1</sup>.

### *Future action*

None.

## **RECOMMENDATION 13**

*The secrecy clause in Act 12 of 1992 should be removed.*

### *Reactions*

This was not supported.

### *Implementation*

It was decided that the Act should be amended to clarify that the secrecy clause may be used only until an investigation and hearing have been completed and a decision arrived at.

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<sup>1</sup> Attached as Annexure 1

*Future action*

The NAMC will monitor the application of the relevant clause.

**RECOMMENDATION 14**

*The reports of the Auditor-General, and the Office for Serious Economic Offences, should be made public as soon as possible.*

*Reactions*

This was supported.

*Implementation*

The reports have been made public.

*Future action*

None.

### **3 OBJECTIVES AND PROCESS**

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While phase 1 of the investigation concentrated primarily on the functioning of the Johannesburg Fresh Produce Market, phase 2 had a much wider mandate.

#### **3.1 OBJECTIVES**

The objectives of phase 2 were as follows:

1. To analyse how fresh produce is marketed within and outside South Africa.
2. To examine the interplay between competing marketing channels and interpret the trends that determine which channels are preferred above others and why.
3. To study the pricing mechanisms of a number of marketing channels using the understanding gained in (1) and (2) above together with lessons learnt from experience overseas.
4. To make recommendations on the model(s) to be adopted, with the following goals in mind:
  - a. They should encourage market access for all existing participants and potential entrants to the fresh produce industry. There should be minimal barriers to entry.
  - b. They should encourage competition between role-players.
  - c. They should result in a transparent pricing mechanism.
  - d. They should be acceptable to a wide range of role-players, from producers to buyers.
  - e. It should be possible to implement them with minimal intervention, or preferably by removing existing interventions.
  - f. They should not be forced onto role-players.
  - g. A process or structure should be put in place to encourage and/or ensure the implementation of the committee's recommendations.

#### **3.2 PROCESS FOLLOWED**

In March 1999, a draft proposal<sup>2</sup> for the investigation was sent to the various role-players in the fresh produce industry and to all the Provinces. The draft proposal was translated from English into Afrikaans, Isindebele, xiTsonga, Sesotho, Venda, Seswati, Setswana, Southern Sotho, Swati, Xhosa and Zulu

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<sup>2</sup> The English proposal and the translations into Afrikaans, English, Isindebele, xiTsonga, Sesotho, Venda, Seswati, Setswana, Southern Sotho, Swati, Xhosa and Zulu are attached as Annexure 2

The draft proposal enumerated the objectives of the second phase of the investigation, outlined some key questions to be answered and set out the Committee's terms of reference and the approach to be followed during this phase.

Comments on the draft proposal were received from the following parties:

- ?? Institute of Market Masters of South Africa (IMSA)
- ?? Institute of Market Agents of South Africa
- ?? Western Cape Provincial Government Department of Agriculture
- ?? Free State Provincial Government Department of Agriculture
- ?? Hoëvelddrif Distriks Landbou-unie
- ?? APAC
- ?? Nelspruit Farmers' Association
- ?? KwaZulu Natal Department of Agriculture

The Committee finalised its proposal once it had taken these comments into consideration, and then began its formal investigation. The process consisted of staging meetings and discussions with researchers and various role-players in the marketing chain, obtaining input from an international expert and undertaking a literature review.

The following meetings were held with role-players in the industry to discuss the investigation and gather inputs, as well as to obtain comments on the first report.

- ?? Fresh Produce Forum on 5 February 1999
- ?? APAC on 5 February 1999
- ?? Fresh Produce Forum on 12 March 1999
- ?? Ms Agnes Nyamande-Pitso from EPA Development on 1 April 1999
- ?? Dr André Myburgh, University of Stellenbosch, on 14 April 1999
- ?? Mr André van Tuil, Agricultural Consultant sponsored by the Netherlands government, and Dr Myburgh on 24 May 1999
- ?? Mr Collin King of Standard Corporate Merchant Bank on 25 May 1999
- ?? At Pretoria Market on 22 July 1999, Cape Town (Epping) Market on 20 October 1999, and Durban Market on 22 October 1999 where interested parties - including delegations from the informal sector, resident wholesalers, market agents and market management - made presentations to the Committee
- ?? Messrs. Rademeyer and Groenewald (market masters at Durban and Pretoria markets respectively) on 24 November 1999
- ?? A delegation of small-scale farmers on 15 December 1999
- ?? Fresh Produce Forum workshop on 28 February 2000
- ?? Telephone interview with Dr Johan van Deventer from Freshmark on 13 March 2000

### **3.3 SUMMARY OF INPUTS RECEIVED FROM ROLE-PLAYERS**

#### *3.3.1 Out-of-hand commission sales system at fresh produce markets*

The following opinions were received from role-players about the out-of hand commission sales system:

1. Agent-based and wholesale systems should not be allowed to compete with one another on the same market as this would probably lead to the takeover of the agent-based system by the wholesalers. This would lead to market inequality since large companies control the majority of wholesale businesses. The buyers on the market would therefore end up with relatively more market power than the sellers. The small-scale farmers would not be served well in such a system, since the wholesalers would take up only bulk.
2. Worldwide overproduction and deflated fresh produce prices will oblige middlemen to cut costs and add value. It was questioned whether agents add value. It was argued that a system that allows for competition between agents and wholesalers would put pressure on agents to add value. If both parties were allowed to operate on the floor (albeit separately), individuals should be able to choose whether to be wholesalers or agents, and should then stick to their choices. The bylaws could be changed to capture information from wholesalers and regulate the rules of the game.
3. The commission market is producer driven, while the direct sales system is buyer driven. The marketing system will move towards a consumer-driven system over time. The change to other systems (e.g. Internet sales) will occur through an evolutionary process. However, the present market should not allow agents to compete with wholesalers on the same floor. The agent has to remain, but his/her role will have to be redefined.
4. Small-scale producers are not properly served by the current agent-based system due to a lack of information and accessibility, and a tendency for agents to favour large producers.
5. Some informal traders prefer to deal with wholesalers and would prefer them to operate on the market.

#### *3.3.2 Separation of ownership and management of National Fresh Produce Markets*

Role-players were unanimous that ownership and management at NFPMs should be separated. They expressed the following views in this regard:

1. The fresh produce industry should rent facilities from the local authority and operate the market on its own account.
2. All the options have to be investigated and every market will have to be evaluated on its own merits. The different markets will pursue different strategies to separate management and ownership. These strategies will have to be decided upon by the role-players and the local authority.

### 3.3.3 *Direct sales*

The Committee received the following views:

1. Direct sales lead to a downward spiral in producer prices. The best quality is sold directly and the residue is disposed of on the fresh produce markets. The bad quality at the fresh produce markets is reflected in lower prices, which are published as the market prices. The purchaser who buys directly bases his or her offer on these “lower” prices.
2. Direct marketing of fresh produce should also receive attention in the Committee’s second report.
3. Direct sales have increased over the past ten years. This is borne out by the increase in the number of chain stores over the past decade, most of which buy directly from producers.

### 3.3.4 *Small-scale producers*

Role-players expressed the following views:

1. Access of small-scale producers and traders to the marketing channel should receive attention. Other projects, such as the BATAT (Broadening Access to Agricultural Thrust) drive, are also addressing issues of access of previously disadvantaged and small-scale producers to marketing structures.
2. Small-scale producers identified the lack of market information, credit facilities, transport and infrastructure as restricting access to the market. Information is needed about the following:

- ?? price
- ?? volumes
- ?? consumption
- ?? available infrastructure

3. A further problem identified by small-scale producers is a lack of the skills needed to interpret data.
4. Some producers indicated that price determination on fresh produce markets is unclear.
5. Some small-scale producers would welcome wholesalers’ entry to the markets, as this would give them the option of selling either to agents or to wholesalers.
6. Depots for small-scale producers from which all the produce could be collected could greatly enhance market access for these producers.

### 3.3.5 *Information*

1. Data collected for fresh produce markets must be standardised.
2. Some of the information supplied by the market authorities is incorrect.
3. An improved information system at the fresh produce markets should be supported by a more refined grading system.

### 3.3.6 *Platform trading*

Platform trading is increasing because these traders are more accessible to informal traders than the agents on the commission floor.

### 3.3.7 *Auction system*

1. An auction system would not serve the informal traders and would, in fact, phase out the smaller buyers.
2. Quality control and standardisation at the fresh produce markets are not capable of supporting an auction system.

### 3.3.8 *Informal trade*

The following problems were identified in certain communities:

1. A lack of contact between informal and commercial traders.
2. Inadequate access to cheap suppliers.
3. A long chain from producers to low-income consumers.

### 3.3.9 *Quality standards*

1. A protocol is required on ethical guidelines regarding the use of pesticides.
2. Quality control on the fresh produce markets was identified as a problem. Daily inspections have to be carried out to ensure that quality standards are met. Inspections on demand are not sufficient to ensure maintenance of quality standards.

## **4 SOUTH AFRICAN FRESH PRODUCE MARKETING STRUCTURE**

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### **4.1 PRODUCTION AND COMMODITY CHARACTERISTICS OF FRESH PRODUCE**

#### *4.1.1 Classification of fresh produce*

For the purposes of this report, fresh produce includes mainly fresh fruit and vegetables sold at the NFPMs.

Fresh fruit includes deciduous, citrus and subtropical fruit as well as berries, cherries, strawberries, figs, prunes, quinces and melons. Not included are grapes grown for the production of wine and all fruit types produced for processing purposes.

Fresh vegetables include the following:

potatoes	onions	carrots
tomatoes	green peas	cabbage
green mealies	beetroot	green beans
cauliflower	pumpkins	sweet potatoes

#### *4.1.2 Characteristics of fresh produce*

The nature of fresh produce has a strong influence on the distribution channels used in marketing these goods. Mollen (1967), the Human Science Research Council (HSRC 1991) and Seitz, Nelson and Halcrow (1994) set out the following characteristics of fresh produce:

- ?? A large proportion of fresh produce is produced at a considerable distance from consuming markets.
- ?? The weather, pests and diseases have an important effect on production.
- ?? The time cycle of production is relatively rigid.
- ?? Fresh produce is perishable.
- ?? The quality of produce varies.
- ?? Fresh produce varies according to weight-value relationships. In general, bulky produce (e.g. potatoes and cabbages) has lower relative prices/kg, while lighter, “fancy” fruits and vegetables obtain higher prices/kg.
- ?? There is an important institutional demand (from restaurants, hotels, hospitals, etc.) in addition to the ultimate consumer demand for fresh produce.
- ?? Fresh produce is convenience produce. This implies that consumers have a comprehensive knowledge about fresh produce and are not prepared to put a great deal of effort into comparing price and quality. The potential advantages or savings to be derived from comparisons normally do not warrant the additional time taken up by shopping.

#### 4.1.3 *Characteristics of fresh produce distribution*

The above-mentioned characteristics affect distribution in the following ways (Mollen 1967; HSRC 1991):

- ?? Transportation and storage as well as grading and packing of fresh produce are of greater significance than for most manufacturing industries.
- ?? Agricultural producers should be provided with a variety of alternatives for transfer of ownership.
- ?? Middlemen mostly specialise in the price-determining and risk-bearing aspects of the channel.
- ?? Different channels apply for institutional demand and ultimate consumer demand.
- ?? Products should be within easy reach of consumers, which requires a developed retail network and intensive distribution.
- ?? Convenience products lend themselves ideally to self-service marketing. This shifts the burden of the marketing communication process to the retailer and the producer.
- ?? Self-service requires effective packaging, shelf space and advertising at the point of sale.

## 4.2 **DEVELOPMENT OF FRESH PRODUCE MARKETING IN SOUTH AFRICA**

### 4.2.1 *Distribution channels*

#### 4.2.1.1 Fresh produce markets: background

South African fresh produce markets started out as meeting places between producers and consumers, where they could trade under the control of a government body or official. These places were centrally located and aimed at serving a town and its hinterland. Economic development led to the urbanisation of a large portion of the rural population. This, in turn, led to the development of central markets that replaced local markets serving a limited geographical area. A central market usually served two or more towns. In 1967, the Department of Agricultural Economics published a report that recommended the formation of national markets to separate markets of national interest from those of local interest.

The following fourteen NFPMs were identified at that time:

The four largest markets: Durban, Johannesburg, Cape Town and Pretoria

*The four medium markets: Bloemfontein, East London, Pietermaritzburg and Port Elizabeth*

*The six smaller markets: Kimberly, Klerksdorp, Springs, Uitenhage, Vereeniging and Welkom*

The fourteen markets were controlled by the various local authorities, which obtained their powers to run the markets from the provinces or the state. The central meeting place was thus replaced by an economic institution that became the pivot of South Africa's distribution network of perishable products. NFPMs operated under fixed policy and were regulated by legislation (Bureau of Financial Analysis 1975).

Since 1975, the Uitenhage market has changed its status to become a privately owned market and another municipal market has been established in Witbank.

The HSRC conducted a marketing investigation in 1991 and recommended that the ownership of the NFPMs remain with local authorities, which should continue to appoint market management. The income of management should be derived mainly from renting the market hall and other business premises.

At present fourteen municipally owned fresh produce markets (NFPMs) are in operation at the following venues:

Durban	Bloemfontein	Springs	East London
Johannesburg	Kimberly	Vereeniging	Cape Town
Pretoria	Welkom	Klerksdorp	Pietermaritzburg
Port Elizabeth	Witbank		

Nelspruit, Pietersburg, Uitenhage, King Williamstown and Queenstown have privately owned fresh produce markets. The establishment of a municipal local market in Umtata is under way. All the fresh produce markets are run on an out-of-hand, commission agent basis. For the purpose of this report "NFBM" refers to a fresh produce market owned by a local government and controlled by means of bylaws. Fresh produce markets include NFPMs as well as privately owned markets not controlled in terms of bylaws.

Table 1 provides information on the market share of the fourteen municipally owned markets and the Uitenhage and Nelspruit markets, according to 1998 turnover (Directorate Statistical Information, 1998).

**Table 1: Market share of the various fresh produce markets (1998 turnover)**

Fresh Produce Market	Market share
Johannesburg	31,7%
Pretoria	15,5%
Cape Town	13,3%
Durban	9,7%
Springs	4,9%
East London	3,7%
Pietermaritzburg	3,7%
Port Elizabeth	3,3%
Other	14,2%

Source: Statistics on Fresh Produce Markets (Report 36), 1998, Directorate Statistical Information, National Department of Agriculture.

It is clear from the above table that the Johannesburg market has the biggest turnover of the sixteen fresh produce markets under survey (i.e. the fourteen

municipal-owned markets as well as the Uitenhage and Nelspruit markets). The Pretoria and Cape Town markets follow with 16% and 13% of the total market share respectively. The Johannesburg, Pretoria, Cape Town and Durban markets account for approximately 70% of the total market turnover. As may be expected, the markets' turnovers are roughly related to the size of the cities in which they are situated.

#### 4.2.1.2 Direct marketing

Fresh produce is distributed through fresh produce markets, export channels and direct sales to wholesalers, retailers, hawkers, processors, institutional buyers and consumers. A percentage of fresh fruit is also kept back for producers' own consumption and seed crops (see 4.4.2 and 4.4.3 for details of the distribution of fresh fruit and vegetables).

The 1991 HSRC marketing investigation found that a vast majority of producers and buyers wanted to continue and/or extend their involvement in direct marketing. The reasons they gave included security of payment, lower marketing costs, better bargaining positions for producers, lower prices for wholesalers and retailers, convenience, less handling and better quality (HSRC 1991).

Mollen (1967) argues that quality considerations, freshness and the availability of specialised farmers' facilities are among the reasons for the existence of direct channels for fresh produce. However, in view of the varying qualities and varieties of the products to be marketed and the wide geographical distribution of users, direct channels can only do a fraction of the job. The bulk of fresh produce moves through more complicated semi-direct and indirect channels.

According to Morris (1992), informal trade plays a significant role in South Africa, largely due to a history of township living. Shebeens, spaza shops and street hawkers generate large volumes of product sales on a national scale. Research conducted by Myburgh (1997) on low-income communities on the Cape Flats revealed that consumers purchase 80% to 90% of all food items from widely dispersed informal traders. An avocado consumer survey conducted in 1998 showed that 58% of avocados are bought from street hawkers.

Morris (1992) characterises the township lifestyle as follows:

- ?? People travel long distances to work.
- ?? People work long hours and return home late.
- ?? The majority of homes do not have electricity and home comforts are rare.
- ?? The crime rate is high.

Van der Bank and Van der Merwe (1990) report that the direct marketing of fresh produce also takes place through roadside or farm stalls near large cities. This phenomenon is increasing in the western world, and in South Africa. Stalls are situated mainly along roads that carry substantial traffic and are in

the close vicinity of urban consumer markets and the product source area. The Regional Council or a particular town's municipality is responsible for the administration and control of such stalls.

In the above study, Van der Bank and Van der Merwe (1990) made the following recommendation:

“Although explicit policy formulation and effective controls on farm stall location and operation are needed, their application must be done in a way that does not quell private initiative and entrepreneurship. Orderly deregulation must be encouraged.”

The same should hold true for other types of informal sales, subject to health and other public concerns.

#### 4.2.1.3 Role of marketing boards in fresh produce marketing

In 1937, the government of the day passed the Marketing Act Act 26 of 1937), in terms of which marketing boards could be established. The Deciduous Fruit Board and the Citrus Board were established in 1939, the Potato Board in 1947 and the Banana Board in 1958. These boards tried to achieve price stability and increased efficiency by, *inter alia*, limiting distribution outlets.

In 1968, this Act was replaced by the Marketing Act of 1968 (Act 59 of 1968). The main purpose of both these Acts was to stabilise prices and increase efficiency in agriculture. Provision was made for the institution of various kinds of marketing schemes.

##### Potato Board

This body tried to stabilise prices through a surplus removal scheme whereby it disposed of surpluses. The Potato Board was therefore not concerned with establishing prices. Its main purpose was to conduct surveys of crops so that it could give crop estimates and projections of the quantities that would reach the markets (HSRC 1991). The Potato Board was disbanded in 1993 and the Potato Producers' Organisation was established to oversee certain activities formerly carried out by the Board. At present the only marketing restriction on potatoes applies to potatoes intended for export, which must meet phytosanitary requirements. A certificate to this effect is required from the Perishable Products Export Control Board (PPECB).

##### Banana Board

Before 1994, the Banana Board operated a single channel pool scheme. The Board appointed a panel of four agencies to market bananas on its behalf. The Board determined prices and adjusted these on a weekly basis. After 1985, the Board founded its own agency to operate on the NFPMs and marketed bananas itself. In 1990 the Board's ripening centres became cost and income centres, and producers were no longer responsible for the costs of the ripening process. During 1989 almost 60% of all bananas were sold directly to wholesalers, while 40% were sold at NFPMs (HSRC 1991). The Banana Board was disbanded in 1994 and the single channel pool scheme terminated.

With the deregulation of the marketing of bananas, market forces now determine the prices of bananas.

#### Citrus Board

Until 1998 the Citrus Board operated a single channel export scheme. All export producers had to deliver their fruit to the Board's appointed agent, the Citrus Exchange. The Board did not fix the price of its products. In 1990, it relinquished control over domestic marketing, and individual producers and co-operatives were able to choose their own domestic distribution channels. On 6 January 1998, the marketing of citrus exports was also deregulated. A Citrus Board Liquidation Committee replaced the Citrus Board to liquidate its affairs.

#### Deciduous Fruit Board

This body also operated a single channel scheme. All export producers had to deliver their fruit to the Board's appointed agent, Unifruco. The Board's marketing efforts centred on exports. Only surplus fruit or fruit not suitable for export was marketed locally. The Board acted in a co-ordinating and advisory capacity in respect of the domestic market. In 1994, control over the domestic market was relinquished. On 6 January 1998, the marketing of deciduous fruit exports was deregulated. The Board disbanded and a Deciduous Fruit Board Liquidation Committee was instituted to liquidate its affairs.

At present, the only marketing restriction that applies to export fruit is a regulation to adhere to phyto-sanitary and grading requirements. A PPECB certificate is required to prove that export fruit adheres to these standards.

In 1998, Outspan International and Unifruco joined forces to form Capespan. While a substantial number (approximately 70) of exporters have emerged since the deregulation of fruit exports, the bulk of this business is handled by only about 20 exporters.

### 4.2.2 *Price determination*

#### 4.2.2.1 Auction system

Early in the 20<sup>th</sup> century, auctions were the customary procedure for marketing fresh produce at fresh produce markets. The Auction Act was passed in 1925 to structure the procedure.

The auction system was the only one used at the Cape Town market at the end of the Second World War. During the 1960s this market introduced the clock auction system, similar to the Dutch clock system, where large quantities of fresh produce from a great number of producers are traded quickly under conditions of strong competition. However, the system was not successful and was discontinued after a short period.

Langley (1990) mentions the superiority of auction systems in terms of price recovery in that prices are determined in public and not controlled by buyers or sellers.

The Human Sciences Research Council (HSRC) (1991), on the other hand, listed the following problems with the auction system as it was operated in South Africa:

- ?? Sellers used predetermined reserve prices to obtain higher prices.
- ?? Auctioneers frequently offered only large volumes in an effort to auction the products as quickly as possible. Smaller buyers gradually disappeared from the market.
- ?? Markets became too large, which contributed to the inefficiency of the auction process. The auction and buying process ultimately took too long.
- ?? As retailers gradually became replaced by fewer wholesalers, competition between buyers declined. Buyers often also grouped together to form “rings” to increase their bargaining power.
- ?? Auctioneers lacked adequate training and experience.

Langley (1990) mentions a further disadvantage, namely that it is an expensive way of price discovery because both buyers and sellers have to be present at the auctions.

Because of these problems, the auction system was gradually phased out and replaced by the out-of-hand sales system.

The Dutch auction clock system used in the Netherlands (see 5.1.1) eliminated the need for buyers and sellers to be present at the auctions. Produce is sold on the basis of samples after it has been packed and graded according to strict specifications. A prerequisite for the effective functioning of electronic marketing systems is that strict grading and quality standards have to be adhered to.

#### 4.2.2.2 Out-of-hand system

Although the auction was the generally accepted sales system, out-of-hand sales occurred everywhere during the latter half of the 20<sup>th</sup> century. However, out-of-hand sales originally took place only when there was no bid for the product or the price was too low.

In the 1970s the Cape Town market decreed that it would no longer permit systems other than out-of-hand sales. In time, the other markets followed suit. The advantage of the out-of-hand system compared with auctions was that a trade could take place at any time of the day. This also encouraged smaller buyers to return to the market.

At present, out-of-hand sales are the only means of sale at fresh produce markets. Prices are determined by private negotiation between agents (acting on behalf of producers) and buyers (wholesalers, retailers, hawkers, consumers, processors and institutional buyers).

During the NAMC investigation into the Johannesburg market in 1998, the Committee made the observation that the out-of-hand system implemented on the Johannesburg market was skewed due to a lack of information. The

Committee also recommended that wholesalers should compete with agents on the same market, in such a way as to ensure that the activities of the wholesalers were also captured by the market's information system. This recommendation will receive further attention in this report.

The 1991 HSRC study (1991) also recommended that other enterprises such as wholesalers, retailers, repackers and processors of fresh produce should be permitted to establish and conduct their business under the same conditions as the market agents at NFPMs. It was further recommended that if the system was not changed to incorporate the latter, a study should be conducted on how to stimulate greater price competition through making information on prices and quantities widely available during the operation of the market.

Langley (1990) also recommended that an out-of-hand system with improved information be maintained on the South African fresh produce markets. He recommended that market prices and volumes be made continuously available on a central board or screen for the trading period. He commented, too, that an improved information system would have to be supported by a more refined grading and standardised packing system.

According to Chiriboga (1987), an efficient market is one in which both sellers and buyers are well informed as to the conditions of the market, the general state of supply and demand as well as the behaviour of prices in all the transactions.

It is noted that one of the conditions of a perfect market is that buyers and sellers have perfect knowledge of demand, supply and prices and act rationally upon that knowledge (Stigler 1966; Shephard & Futrell 1982).

#### 4.2.2.3 Direct marketing

Prices are established through private negotiation between producers and buyers (e.g. wholesalers, retailer, hawker or chain store group). The 1991 HSRC study found that prices at NFPMs are an important guideline for these price negotiations. During the meetings held in the second phase of the present investigation, it became evident that this continues to be the case.

The HSRC study concluded that there was evidence that direct marketing was increasing and that this might have a negative effect on the NFPMs. It was, however, recommended that there should be no interference from government.

Shephard and Futrell (1982) make the following observation about the effect of the growth of direct marketing on industry pricing procedures in the United States:

“In the past, centrally determined prices were accurate reflections of local demand and supply situations. With direct buying, however, there are not so many central markets where forces of total supply and demand interact. While terminal market statistics continue to serve as industry pricing guides, this information becomes a less and less valid representation of industry market conditions.”

## 4.3 A PERSPECTIVE ON THE SOUTH AFRICAN FRESH PRODUCE INDUSTRY

### 4.3.1 Production of fresh fruit and vegetables

The share of fresh produce<sup>3</sup> of the total value of agricultural production for the 1994 to 1998 period is shown in table 2.

**Table 2: Share of fresh produce in total value of agricultural production (1994 –1998)<sup>4</sup>**

Year	Total value of production (R million)	Value of fresh fruit production (R million)	Percentage of total value of production	Value of fresh vegetable production (R million)	Percentage of total value of production
1994	30 500	2 800	9%	2 100	7%
1995	31 100	3 200	10%	2 500	8%
1996	38 500	3 500	9%	2 700	7%
1997	42 000	3 700	9%	2 900	7%
1998	43 700	5 100	12%	3 300	8%

Source: Directorate Statistical Information, National Department of Agriculture. 1999

It can be seen that the value of fresh fruit production as a percentage of the total value of agricultural production remained fairly stable at between 9% and 10% from 1994 to 1997. In 1998 the contribution of fruit production increased to 12% due to an increase in the contribution of citrus and deciduous fruit production for that year. The value of vegetable production made up between 7% and 8% of the total value of agricultural production over the past five years. Fresh produce thus contributes between 16% and 20% to the total value of agricultural production.

Table 3 shows regional fruit production, based on the 1993 census of agriculture, while table 4 shows regional production of potatoes for 1998.

<sup>3</sup>Only fresh fruit and vegetables (i.e. excluding produce intended for canning, drying, dehydration, juice, freezing or any other kind of processing).

<sup>4</sup>Data apply to the period 1 January to 31 December and may deviate from data in the Agricultural Abstract 1999, which apply to “split year” periods (e.g. the period from 1 July 1997 to 30 June 1998).

**Table 3: Regional fruit production in South Africa in 1993<sup>5</sup>**

<b>Fruit type</b>	Total RSA	West. Cape	East. Cape	North. Cape	Free State	Kwa-Zulu-Natal	North West	Gau-teng	Mpuma-langa	North. Province
Citrus	738	115	141	2	0	62	29	0	160	229
Sub-tropical	461	15	103	0	0	79	1	0	161	102
Deciduous and other	1 237	1 061	99	31	10	1	5	5	11	14
<b>Total</b>	<b>2 436</b>	<b>1 191</b>	<b>343</b>	<b>33</b>	<b>10</b>	<b>142</b>	<b>35</b>	<b>5</b>	<b>332</b>	<b>345</b>

Source: Census of Agriculture, 1993, Central Statistical Service

Table 3 shows that almost 50% of fruit production is concentrated in the Western Cape, while production in the Eastern Cape, Mpumalanga and Northern Province contributes 42% to total production.

**Table 4: Regional production of potatoes in South Africa in 1998<sup>6</sup>**

	Total RSA	West. Cape	East. Cape	North. Cape	Free State	Kwa-Zulu-Natal	North West	Gau-teng	Mpuma-Langa	North. Prov.
<b>Potatoes</b>	1 640	318	119	76	418	118	51	13	237	290

Source: Potato South Africa. 1999

Potatoes account for approximately 42% of the total vegetable crop. Most potatoes are produced in the Free State (25%), Northern Province (18%), Western Cape (19%) and Mpumalanga (14%).

#### 4.3.2 Marketing of fresh fruit

The following diagram gives an indication of the distribution of the total volume and value of fresh fruit marketed in South Africa between distribution outlets. The identified outlets are fresh produce markets<sup>7</sup>, export markets, processors<sup>8</sup> and direct sales (including direct sales to wholesalers, retailers, hawkers, chain stores and producers' own consumption).

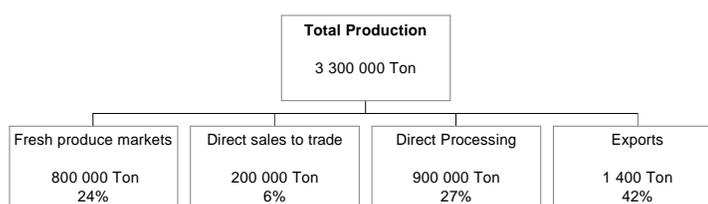
<sup>5</sup> Includes fruit intended for processing, except fruit intended for the production of dried fruit or wine.

<sup>6</sup> Includes potatoes intended for processing.

<sup>7</sup> Includes the volumes bought on fresh produce markets intended for processing

<sup>8</sup> Includes fruit intended for canning and juice. Fruit intended for drying and wine is excluded.

**Diagram 1: Distribution of fruit sales according to distribution outlet (1998)**



Source: Directorate Statistical Information, National Department of Agriculture. 1999

According to figures supplied by the NDA, most (42%) of the total fruit crop is exported, while the fresh produce markets and direct sales to manufacturers of canning fruit and juice each account for almost a quarter of the crop. Only 6% is sold directly to trade.

The following table shows the share of the main types of fruit in the total value of fruit production for 1998.

**Table 5: Share of main fresh fruit types of total value of fresh fruit production for 1998**

Fruit types	Value of fresh fruit production (R million)	% of value of fresh fruit production
Deciduous	2 600	51%
Subtropical	600	12%
Citrus	1 800	35%
Other	100	2%
<b>TOTAL</b>	<b>5 100</b>	<b>100%</b>

Source: Directorate Statistical Information, National Department of Agriculture. 1999

A large variety of fresh fruit is produced in South Africa. In 1998, deciduous fruit contributed 50% to the total value of fresh fruit, while citrus contributed 35%. Subtropical and other fruit contributed approximately 14% to the total value of fresh fruit production.

Although South Africa is a net exporter of a large variety of fresh deciduous, citrus and subtropical fruits, it also imports certain fruit types such as berries, kiwifruit and melons in relatively small quantities. Small quantities of mangoes, grapes and peaches are also imported at certain times of the year, due to the seasonal nature of production and an all-year round demand for these fruit types.

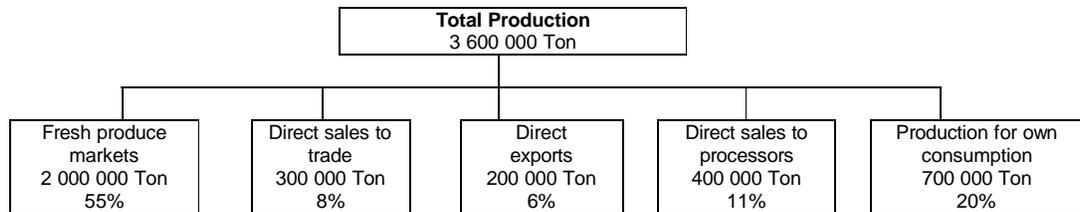
#### 4.3.3 Marketing of fresh vegetables

Diagram 2 gives an indication of the distribution of the total volume and value of fresh vegetables in South Africa between distribution outlets. The identified outlets are fresh produce markets<sup>9</sup>, exports, processors and direct sales

<sup>9</sup> Includes the volumes bought on fresh produce markets intended for processing and exporting (this constitutes approximately 14% of total volume sold on fresh produce markets in the case of potatoes)

(including direct sales to wholesalers, retailers, chain stores and hawkers) and own consumption of producers.

**Diagram 2: Distribution of fresh vegetable sales according to distribution outlet (1998)**



Source: Directorate Statistical Information, National Department of Agriculture and Potato South Africa. 1999.

The above diagram shows that the biggest share (55%) of the vegetable crop is sold through fresh produce markets. Only a small percentage is exported directly (6%), while a fairly large share (20%) is kept back each year for producers' own consumption. A relatively small percentage (8%) is sold directly to trade. However, these figures may not be entirely reliable since the NDA bases its total crop estimate mainly on volumes sold through fresh produce markets. Collecting direct sales figures from both informal and formal trade is problematic.

Table 6 sets out the share of different vegetable types in the total value of vegetable production for 1998. In that year, the total production of fresh vegetables was approximately 3 800 000 tons. Potatoes, tomatoes, onions, green mealies, cabbages, pumpkins and carrots account for 90% of total vegetable production. As already shown, potatoes make the largest contribution to total production (42%).

**Table 6: Share of the main vegetable types of total fresh vegetable production and total value of fresh vegetable production for 1998**

Vegetable types	Fresh vegetable production (ton)	% of total fresh vegetable production
Potatoes	1 400 000	39%
Tomatoes	500 000	14%
Onions	400 000	11%
Green mealies <sup>10</sup>	300 000	8%
Cabbages	200 000	6%
Pumpkins	300 000	8%
Carrots	100 000	3%
Other	400 000	11%
<b>TOTAL</b>	<b>3 600 000</b>	<b>100%</b>

Source: Directorate Statistical Information, National Department of Agriculture and Potato South Africa. 1999.

<sup>10</sup> Including sweet corn.

## 4.4 TRENDS IN THE MARKETING OF FRESH PRODUCE

### 4.4.1 *Consumption of fresh fruit and vegetables*

According to a study of the South African food market conducted by the Netherlands Ministry of Agriculture in 1999, the consumption of fresh vegetables continues to increase. This is mainly due to increased consumption by low-income consumers, urbanisation and the availability of fresh produce through expanding informal channels, and not an increase in buying power. According to figures from the NDA, total vegetable consumption increased from 1,8 million tons in 1988 to 2,1 million tons in 1998. Canned and frozen vegetables compete with fresh vegetables. Due to the slow growth in the fresh vegetable market, manufacturers are constantly looking to address the needs of niche markets.

The 1999 study also projects that growth in the fresh fruit industry will take place through the export market. For example, the Free Trade Agreement (FTA) between South Africa and the European Union (EU) is likely to benefit the fresh fruit industry.

In an interview<sup>11</sup> with the economic counsellors attached to the South African Embassy to Belgium and the Mission to the EU, they indicated that a substantial market exists in the EU for organically produced fresh fruit and vegetables that are not genetically modified. One of the prerequisites for produce to qualify as organically produced is the absence of chemicals and pesticides in the production process. The bulk of the organically produced fresh produce imported into the EU is genetically modified.

This information corresponds with a 1999 survey on worldwide consumer trends, which states that healthy eating habits are driving the demand for organically grown products. At the same time consumer resistance to genetically modified food is increasing

### 4.4.2 *Trends in the distribution of fresh produce*

Van Heerden (2000) and Blomkamp (2000) mention the following trends in the international distribution of fresh produce:

- ?? Large multinational companies are becoming increasingly involved in fruit marketing (also in South Africa).
- ?? Food safety requirements are receiving increased attention.
- ?? There is a worldwide overproduction of fruit and vegetables.
- ?? Electronic fresh produce markets (Internet trading) are increasing.
- ?? Mass production in terms of packing is shifting towards mass individuation to cater for specific needs of consumers.

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<sup>11</sup> An interview with Economic Counsellors, Messrs R. Moodie and X. Ndlangana on 5 October 1999, Brussels.

Van Deventer (2000) indicates that the informal sector has been growing since 1990 when hawkers were allowed to trade legally on pavements and street corners.

The past decade has also seen growth in the independent franchise groups (e.g. Spar, Sentra, 7 Eleven, Rite Value, Family Pick and Pay).

Although there are claims that direct sales and informal sector activities have increased during the last decade, the Committee was unable to substantiate them due to lack of available data. This matter is further discussed in Chapters 7 and 8.

## 5 INTERNATIONAL MARKETING STRUCTURES AND PROCESSES

As part of this investigation, Mr André van Tuil, an agricultural consultant sponsored by the Royal Netherlands government, conducted a study of fresh produce marketing in the Netherlands, Chile, New Zealand, Brazil and Thailand.<sup>12</sup>

The following table shows the average fresh produce production and exports as well as the percentage of fresh produce exported in relation to total production for these five countries and for South Africa.

**Table 7: Average production, exports and export as a percentage of total production per country<sup>13</sup>**

Country	Average production 1996-1998 (million tons)	Average export 1996-1998 (million tons)	Export percentage in terms of total production
Brazil	41,0	1,6	4 %
Chile	3,9	1,8	46 %
The Netherlands	4,4	2,6	59 %
Thailand	9,7	1,1	11 %
New Zealand	1,2	0,7	57 %
South Africa	6,3	1,5	24 %

The following is a summary of the findings from these investigations that are relevant to the fresh produce marketing structure in South Africa.

### 5.1 THE NETHERLANDS

#### 5.1.1 Domestic marketing

The Dutch auction system started operating at the beginning of this century. Most of the auctions operated as co-operatives whose shares were owned by producers. In order to standardise auctions, the Centraal Bureau voor de Veilingen was established soon after the first auctions started operating.

The system developed rapidly and by the beginning of 1960 there were 24 auctions operating throughout Holland. The auctions developed their own marketing, storing, transport and grading infrastructures and even supplied packing material and expertise with regard to the production of new varieties and pesticides.

The system had the following advantages:

- ?? Fragmented parcels of a number of producers were turned into homogenous units that attracted bigger market players and traders.
- ?? The system assured the same price for both small and large producers.

<sup>12</sup> Van Tuil's reports are available on request from the NAMC

<sup>13</sup> Figures supplied by Van Tuil.

In the seventies, the number of producers in Holland decreased substantially with the emergence of larger producers. This necessitated the rationalisation of auctions in order to justify substantial investments, and the first auction merger took place in early 1990. The market share of the supermarkets increased considerably during the eighties, and the more concentrated demand from these businesses also stimulated mergers between auctions.

The result of this rationalisation was the creation of big marketing organisations such as The Greenery, Fruitmasters and Veiling Zon. Only a few smaller auctions continue to exist at present. The Dutch auction clock system has, however, lost tremendous ground and the trend now is to market fresh fruit more directly.

So far results have shown that the auction mergers have not been successful. The Greenery started with 12,000 producers in 1997. At present, only 9,000 producers are left and turnover is expected to decrease by 25% in 2000.

The Netherlands has a strong domestic market, but the mission remains focused on maintaining its leading position as export/transit fresh produce marketer with all its natural advantages as a gateway to Europe.

### *5.1.2 Exports*

In order to stimulate exports to far or less privileged destinations the Centraal Bureau created an office with the responsibility to make long-term contracts and to trade every day, even when the auction was not operating.

A new trend in fresh produce marketing is to bypass the traditional auctions and to form new ventures and long-term alliances between producers and exporters. Exporters establish direct contact with selected groups of growers. The exporters claim that this system enables them to shorten the sales distribution chain and to create a smoother and quicker logistic process from seed to shelf.

Where formerly the Centraal Bureau served the needs of all exporters, the overhaul of the Dutch auction system has given rise to a completely different, commercially driven market structure. The rapid evolution of the market needs flexibility, service and innovation. At present reliability and reputation are weak points in the Dutch marketing system.

### *5.1.3 Future trends*

Despite the strong economy of the Netherlands and the surrounding countries, the fresh produce industry is going through a difficult time due to worldwide over-production and the inefficiency of the fresh produce marketing system. In general, traders and producers are dissatisfied with the current performance of the system. It is felt that the fragmentation of supply has cost the Dutch dear and that a country like Belgium performs much more successfully by adhering more closely to the auction clock system.

It is also felt that the auction system, with its accessibility to all growers, its infrastructure and the marketing methods that make it accessible also to buyers, brings a number of advantages but that it needs to be adjusted because of the concentration of buying power in Europe.

The EU is decreasing its direct support to growers as it sees clearly that intervention does not contribute to structural improvement of the fresh produce industry and that certain companies and/or activities are being kept alive artificially. At present funds are being released for long-term structural improvements (environment, promotion, and infrastructure) rather than for intervention payments to growers.

It is clear that the solution has to be found in innovation and direct efficient marketing by the trade itself.

## **5.2 CHILE**

### *5.2.1 Domestic marketing*

Chile has a limited domestic market, and its energies are directed predominantly at developing its export.

### *5.2.2 Exports*

Chile focuses on exports. The country is now exporting more than 40% of the southern hemisphere's grape production, while its share of apple, pear and kiwifruit exports is rising. Due to its accessibility to traders worldwide, foreign investors (multinationals like Dole, Chiquita, Del Monte and Unifrutti) and large producers are the driving forces behind the export orientated fresh produce industry. At present 900 export companies are exporting worldwide to more than 50 countries.

Chile has experienced the following disadvantages as a result of its liberal marketing system:

- ?? Lack of uniformity of product and package, thus confusion owing to too great a diversity occurs at the destination.
- ?? Lack of control of the volumes sent to different destinations creates competition against itself.
- ?? Logistical problems arise due to the need to serve different companies.

On the other hand the system also has the following advantages:

- ?? Encouragement of growers by direct returns and a transparent system that allows them to reinvest.
- ?? The same chances and benefits of the system are available to all growers, regardless of their size.
- ?? Accessibility to investors and buyers from all over the world.

Chile is regarded worldwide as a bulk supplier and not as a leading supplier of quality produce. Due to diversity of suppliers Chile's reputation is lower than,

for instance, that of New Zealand. It should, however, be noted that whereas South Africa has been regarded as a far more reliable partner than Chile in the past, the situation has now changed and Chile is currently being regarded as the more reliable of the two. This could partly be due to the deregulation of South African fruit exports. Whereas overseas fruit buyers previously had to deal with only two South African exporters (Outspan and Unifruco), they now have to deal with a substantial number of suppliers.

In Chile there are three supporting bodies that are strongly involved in the development of marketing strategies:

1. The government body, Pro Chile, which promotes Chile worldwide.
2. Asociacion de Exportadores de Chile, which looks after exporters' interests.
3. The producer body, Fedefrutto, which protects producers' interests.

The last two bodies are sector independent organisations and they have considerable influence in developing sector policies, lobbying, crop forecasting, research and information.

Aside from some promotion support there is virtually no government interference.

### 5.2.3 *Future trends*

The Chilean example shows that too much fragmentation can lead to inconsistency and finally bring down price levels on export markets. This can have an impact on the whole fresh produce industry. In addition to this, labour costs are rising, Chile has to conduct its marketing activities over relatively long distances, and the competition is getting tougher.

At present there is a tendency in Chile to seek cooperation and to join efforts. This is due to an increased awareness that the consumer sees Chilean produce as of the same origin. It is felt that brand marketing has its limits, while building the image and reputation of a country creates synergy and opportunities for all parties. A more secure future for Chilean exports is foreseen through co-operation. Because of stagnating growth, declining results and intensifying competition, Pro Chile, Asociacion de Exportadores de Chile and Fedefrutto have joined efforts to create a new marketing plan. The aim is to improve Chile's image, to increase sales, to raise price levels and smooth fluctuations in sales.

## 5.3 NEW ZEALAND

### 5.3.1 *Domestic marketing*

New Zealand's internal distribution and marketing structure is horizontal. There is no defined wholesale trade, but rather integration between wholesale and retail. The domestic market for fresh produce was deregulated in 1994, and the most common marketing method is direct trading.

### 5.3.2 *Exports*

Like Chile, New Zealand is an export-orientated country. Its success in terms of fruit exports stems from the following:

- ?? The country has one of the most developed infrastructures in the world for fresh produce production, logistics and packing.
- ?? It has an innovative system and is able to bring new varieties into production quickly.
- ?? Compared to other southern hemisphere producers, New Zealand is relatively late in the season and thus faces less competition.
- ?? It grows excellent quality produce.

New Zealand is the last fresh produce supplier that still has a monopoly marketing organisation, supported by the government's legal system, for apples, pears and kiwifruit. It has used its single desk marketing system for fresh produce since 1948. Under this system, private farmers and co-operatives can only export produce through the monopoly authority. For a number of years the system has been under pressure and both the government and the board feel that changes should be made. Discussions are being held to opt for market liberalisation and privatisation.

New Zealand uses different boards for the marketing of its main products. There is a board for kiwifruit and a board for apples and pears. Obviously keeping two organisations in place creates heavy overhead costs. Negotiations have been under way since 1995 to join the two boards and cut expenses but this has, so far, not been realised.

### 5.3.3 *Future trends*

New Zealand follows the deregulation process in South Africa closely in order to measure results and impact. The recent parliamentary elections have delayed the decision to abolish the export monopolies of the country's major produce marketing boards.

Growers are hesitant to support deregulation, as they fear that fragmentation will create competition. They are also afraid of the unknown situation after deregulation.

Recently, export licenses for small volumes have been given to some independent export companies, but this has merely been an exception.

However, investigations have shown that independent trading has given better grower results than the single desk system.

## **5.4 BRAZIL**

### *5.4.1 Domestic marketing*

Despite the fact that Brazil's production potential is enormous, the somewhat volatile environment (political, financial, labour market, etc.) is a major constraint and tends to limit growth. The lack of proper infrastructure has also delayed development.

There is a strong domestic market for fresh produce, which consumes the major portion of Brazil's production. While fresh consumption takes care of significant volumes, 70% of the country's production is used for processing purposes. Brazil also imports a large volume of fresh produce.

Distance from the different production areas and the concentrated population areas have determined the development of the main marketing model: the co-operative and the major wholesale markets.

### *5.4.2 Exports*

The strong domestic market is a major cause of the image of Brazil as an unreliable fresh produce exporter. The tendency seems to be to neglect exports when demand is strong on the local market.

### *5.4.3 Future trends*

Until 1993, the Brazilian fresh produce industry was dominated by Cotia, the world's largest co-operative organisation. This organisation was involved in a wide range of fresh produce and had several marketing offices abroad. The organisation went bankrupt due to crippling overhead costs and the economic turmoil that reached a climax in 1993. Even though there are still a considerable number of co-operatives in Brazil, the government is privatising more and more in order to appeal to foreign investment, which brings know-how and expertise into the country.

In 1993, the industry was reorganised along more flexible lines to improve cost-effectiveness and information. Although this reorganisation created more fragmentation, it also created opportunities. The country attracted the interest of the world's consumers and exports increased. This was also stimulated by the devaluation of the currency. At present, independent exporters or co-operative organisations do most of the exporting.

## 5.5 THAILAND

### 5.5.1 *Domestic marketing*

Thailand is the world's leading producer of pineapples (16,4% of the world's supply). Thailand's production is closely related to the canning industry. Production is still very fragmented and is not always done in a professional way. Fortunately, production methods and distribution have improved in the last five years due to better road conditions.

Over the past twenty years, domestic consumption of fresh produce has increased due to economic growth and the urbanisation process. The main outlet of the domestic market is Bangkok. This city has three main wholesale markets and plays a vital function in relation to both the domestic and export markets. The wholesale markets serve the local markets, caterers, retailers and supermarkets.

A fragmented marketing system co-exists with the wholesale markets. This informal traditional system accounts for most of the market share and is characterised by a number of small street markets, poor infrastructure and many agents trading fresh produce, mostly locally but also for export purposes.

The third fastest increasing distribution channel/marketer is the supermarket business. Traditional trade is likely to decrease significantly in the coming years due to economic growth, globalisation and education.

In general, prices are determined by fruit traders who offer farmers a buying price. Even though more than 60% of the trading is still done in a very traditional way, this form of trading has significantly changed the industry and is stimulating its development.

### 5.5.2 *Exports*

The main export markets are Hong Kong, Taiwan, Malaysia, Japan and Singapore. Since these markets are close and accessible, the Thai government encourages the export business as it provides the country with opportunities for diversification, employment and income. The Department of Export Promotion was established to this end. It is an independent institute that supports and stimulates exports, and provides funds for promotion.

Because of the fragmentation of the industry, the government has developed a system that retains freshness of fruit, the so-called "one stop" service policy, whereby handling, grading, packaging and quality control are done in one central market. Because of the rising competition from the other Asian and African countries, growers increasingly emphasise high-value lines with added value to the product and innovative packaging and mixes. Efforts are being made, in which the government plays an important role, to develop exports to European countries, the USA and the Middle East.

### 5.5.3 Future trends

Thailand is actively restructuring its banking system and is privatising the state industries. It is endeavouring to increase the competitiveness of its industries through, *inter alia*, removing trade barriers and foreign investment restrictions.

The government of Thailand realises that, in order to overcome the problems in the fresh produce industry and to become a reliable partner, significant investments need to be made in infrastructure. In the fresh produce industry itself, investment is required in production, packing and marketing level.

The Thai economy grew significantly during the twenty years before the beginning of the financial crisis in 1997. This stimulated urban demand, exports and supermarket and retail supply. All these developments needed a totally different approach towards marketing, distribution and production. The government has played an active role in providing infrastructure in the last 15 years.

Investments were made in infrastructure and packing stores to accommodate both producer and customer. Wholesale markets were also put in place to service the local and export markets. However, in 1997, some of the planned investments were cancelled due to the financial crisis and local consumption dropped considerably.

The agricultural sector has not received enough attention and has been declining ever since the crisis of 1997. Fortunately, exports have increased due to the lower exchange rates for Thai currency. However, domestic consumption has dropped considerably.

Having said all this, confidence in the present recovery will certainly encourage investment again. Experts believe that it will take at least another three to four years to overcome the impact of the crisis.

## 6 DISCUSSION AND FINDINGS

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### 6.1 INTRODUCTION

Marketing is recognised as consisting of seven factors - the well-known 4Ps - product, place, price and promotion - as well as processes, people and physical evidence. The Committee concentrated its attention on place (distribution channels), price (price formation mechanisms) and process (operational and logistical issues) in relation to fresh produce marketing in South Africa. The Committee believes that solving the principal problems of fair competition between distribution channels, transparent price formation and responsive ownership and management, will simultaneously solve many of the process or operational problems as well.

### 6.2 CHARACTERISTICS OF THE SOUTH AFRICAN FRESH PRODUCE MARKETING SYSTEM

The fresh produce marketing system in South Africa is characterised by the following traits:

1. South Africa is a net exporter of a large variety of fresh deciduous, citrus and subtropical fruits. A relatively small amount of fruits, such as kiwifruit, berries and melons, are imported. The marketing of **fresh fruit** is therefore mostly **export-orientated**.
2. South Africa is mostly self-sufficient in the production of fresh vegetables. Potatoes and tomatoes make up approximately 60% of total vegetable production, with potatoes contributing the largest share (approximately 45%). A relatively small amount of fresh vegetables is exported. The marketing of **fresh vegetables** centres therefore mostly on the **domestic market**. Between 53% and 58% of vegetables is distributed through local fresh produce markets.<sup>14</sup>
3. The marketing of fresh produce mirrors the dual economic system of South Africa, where a sophisticated, developed economy exists alongside a developing economy. Both the production and distribution of fresh produce are characterised by this **duality**. Fresh produce is **produced** by a small number of relatively large, established commercial producers on the one hand, and a multitude of fragmented, small-scale producers on the other. Fresh produce is **marketed** to a formal sector (consisting of a relatively small number of large traders) and an informal sector (consisting of a relatively large number of small traders). Seventy percent of the population (older than 16 years) earns 30% of national income and is mostly served by the informal sector, while 30% of the population (older than 16 years) earns 70% of the income and is mostly served by formal trade.
4. Small scale producers are confronted with the following **constraints** that impact negatively on their ability to market fresh produce (NAMC 1999):

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<sup>14</sup> According to figures supplied by the National Department of Agriculture. It should, however, be noted that no accurate figures are available on volumes sold directly to trade. This issue is dealt with in 4.3.3 and 4.4.2, and chapters 7 and 8 of this report.

- ?? Lack of transport facilities.
  - ?? A poor market infrastructure. A large number of small-scale producers are a long distance away from fresh produce markets.
  - ?? Poor infrastructure (*inter alia* road infrastructure) in certain regions.
  - ?? A lack of market information as well as a lack of capacity to interpret data.
  - ?? Lack of credit facilities.
5. Various forms of **legislation** impact on the marketing of fresh produce, e.g. the Agricultural Produce Agents Act of 1992 (Agents Act) and municipal bylaws (see 6.5)
  6. The export marketing of fresh fruit was **deregulated** in 1997. This implied the termination of the former single channel export system for citrus and deciduous fruit, whereby citrus and deciduous fruit had to be exported through either Unifruco or Outspan International. A large number of export agents have entered the market and producers are now free to opt for a number of distribution channels.

### 6.3 LESSONS TO BE LEARNT FROM INTERNATIONAL EXPERIENCE

#### 6.3.1 *Export marketing*<sup>15</sup>

The Chilean free-market system on the one hand, and New Zealand single channel system on the other, serve as two extreme examples of fresh fruit export marketing. In Chile 900 export agents export to various destinations in the world, while in New Zealand apples, pears and kiwifruit have to be exported through one monopoly authority that controls the exports of these fruits. (Only a small number of fruit exports is allowed through export licenses to other exporters.) The Chilean example demonstrates that too much fragmentation and decentralisation can lead to poor performance on export markets. Yet the pressure on the centralised New Zealand system in favour of liberalisation illustrates a need in New Zealand for opportunities, incentives and new consumers. Brazil also serves as an example of a country that has benefited from liberalisation and decentralisation through increased exports and foreign investment.

While fragmentation of the Chilean market may have resulted in the poor performance of fresh fruit exports, it has also caused the government to join forces with organised agriculture to create a new marketing plan aimed at improving the image of Chilean fruit exports.

Since deregulation of fruit exports in South Africa, the number of exporters has increased from two (Outspan and Unifruco) to approximately 70. Twenty of these exporters, however, handle most of the volume. There is evidence that South Africa's reputation as a reliable supplier of quality fruit is deteriorating, mainly due to the fragmentation of supply and a tendency for exporters to push for higher export volumes to the detriment of quality.

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<sup>15</sup> Currently mainly applicable to fresh fruit

### 6.3.2 *Infrastructure*

Brazil and Thailand both provide examples of the constraints that result from an unstable macro environment (e.g. political, financial and labour) and a lack of proper infrastructure, both of which inhibit the growth of the fresh produce sector.

Production of fresh produce in Thailand is similar to small-scale production in South Africa. The government of Thailand realised the importance of significant investment in infrastructure to overcome problems in the fresh produce industry and become a reliable partner in the industry. The government also realised the importance of private investment and initiative in the fresh produce industry itself.

The Committee believes that inadequate infrastructure, such as poor roads, lack of water and electricity and poor communication systems, which are all problems a number of small-scale producers have to contend with, is having a negative impact on fresh produce marketing in South Africa, and that investment in infrastructure is necessary to promote efficient marketing of fresh produce.

### 6.3.3 *Auctions, wholesale markets and other options*

Foreign experience with various price formation and marketing systems should inform the choices made by South African role-players in the fresh produce industry when choosing from the array of options available. Globally, wholesale markets tend to dominate the marketing of fresh produce, with an increasing tendency for large retailers to source directly from producers, using markets as a secondary support to their sourcing strategy rather than as their primary source.

This touches on the issue of concentration in the marketing chain, which is mentioned again in 6.4.3. The Dutch experience, in particular, illustrates a valuable point: systems evolve as the relative bargaining power of buyers and sellers shifts. The Dutch auctions were seen as not balancing the relative market powers of buyers and sellers as concentration in the buying sector increased. This perception led to the creation of alternative systems of marketing (e.g. the Greenery model) that sought to redress the balance between role-players by increasing the level of concentration in the selling and marketing sectors. These alternative systems have their detractors however, and the clock auctions and traditional wholesale markets are making a comeback.

It is interesting to note, from the international survey done by André Van Tuil and the anecdotal evidence given to the Committee during its meetings with industry role-players, that the out-of-hand commission agent system has not been widely adopted as a solution to the problems faced by producers worldwide.

## 6.4 THE PRICE FORMATION MECHANISM

### 6.4.1 *Classification of a marketing system*

Seitz *et al* (1994) define a marketing system as follows:

“All the product and resource markets of the economy and the relationships among them. It is a method that allows the prices determined in these markets to allocate the economy’s scarce resources and to communicate and coordinate the decisions made by consumers, business firms and resource suppliers.”

### 6.4.2 *Price determination*

The evolution of the price-making process appears to be a gradual process of reducing the time and energy spent on price determination while at the same time increasing the accuracy of prices.

Although price information is readily available at central markets, transport and handling costs are high due to the concentration of produce in small, congested areas. Less energy is therefore spent on price determination, but more time is spent on concentrating (handling and transporting) fresh produce.

In a decentralised market, handling and transportation costs are lower because produce does not have to be physically concentrated. However, more time is spent on price determination.

The following pricing methods could reduce the amount of energy expended on price determination in a decentralised system (Shephard *et al* 1982):

#### Price committee system

A committee representing buyers and sellers gets together once a week and sets prices.

#### Price contracts

Prices for commodities are agreed upon in advance of production through formal contract between buyers and individual producers or groups of producers.

#### Telephone and Teletype auctions

Sales are made on the basis of grades and standards, and communication between the auctioneer and potential buyers is by telephone or Teletype.

#### Computerised pricing

The computer fills the role of the central market. Offers to buy and sell are entered into the computer, with quantity, quality and location of product and price specified. A trade is completed when a bid equals or exceeds a seller’s offer (e.g. internet auction).

### 6.4.3 Concentration of market power

Seitz *et al* (1994) state that when one side of the market is characterised by competitive conditions and the other side not, the result will generally favour the participants with fewer competitive conditions. These will also be the participants with relatively more market power.

Since the consumer side of the market approximates the competitive norm and many firms that sell produce at consumer level are not perfectly competitive, the possibility of higher prices and reduced output exists. Also, since there are many farmers and some of the industries that sell to and buy from farmers are characterised by less than perfect competition, it is possible that farmers may be at a disadvantage. This perception of market inequality has been given to justify many agricultural policies over the years (Seitz *et al* 1994).

As was noted in 6.3.3, systems of price formation and marketing channels evolve as the relative market strengths of buyers and sellers wax and wane, and market intermediaries attempt to profit from shifting this balance.

In South Africa, as elsewhere, retail concentration is constantly increasing. As retailers are the most significant players between the producer and the consumer, concentration at this level could put producers under considerable pressure. One view is that as retailers move towards category management (the use of only one or two suppliers per category of product on their shelves) the NFPMs will play a smaller and smaller role in the retailer's sourcing strategy, to the detriment of all small producers – established and emerging.

There is, however, a danger in this line of thinking, in that it may lead to the use of statute or other non-market methods to entrench the role of the NFPMs, and concurrently the business practices that have led to these markets' decline, at the expense of allowing systems and practices to adapt in a way that ensures the survival and viability of a diverse buyer and seller population.

Care must be taken not to block the evolution of marketing channels and pricing mechanisms. Concentration in any sector of the marketing chain should not be used as an excuse for allowing concentration elsewhere in the chain.

## 6.5 LEGAL STRUCTURE OF FRESH PRODUCE MARKETING IN SOUTH AFRICA

### 6.5.1 Principal governing legislation

The marketing of fresh produce on the NFPMs is principally regulated by two sets of legislation, the APAC Act and the municipal bylaws. The Act applies to any person acting as an agent and does not in any manner deal with markets *per se*. However, certain practices are followed on markets to accommodate the requirements of the Act and, in that sense, it has a very definite influence on how markets operate (e.g. the requirement that agents must have trust

accounts). In this sense, it also has an effect where no bylaws exist. What is important is that this Act sets out the code of conduct on how a fresh produce agent is supposed to act in order to safeguard his principal, but it does not prescribe or regulate the place the agent operates from. The latter is governed through bylaws that differ slightly from city to city. Most of the bylaws have certain things in common, the most important for the purposes of this report being:

1. Only agents (and the market director) are allowed to offer a product for sale on the market floor. Sales to wholesalers and so on have to go through the agency process, in other words, no direct sales are allowed.
2. The market director determines the hours of sales, thus he or she controls the hours of business. Apart from having an influence on marketing *per se*, this also has secondary consequences, for example on after-hours trading and the rules that apply to such trading.
3. It is implied in the bylaws that sales may only take place between an agent and a buyer, in accordance with the principles underlying commission sales.
4. The bylaws set out various other aspects relating to the marketing of the products, for example the cleanliness of the premises, vehicles and containers, the use of the sales floor, other people on the market and so forth.

It follows that if the markets are opened up to other role-players, the bylaws will have to be amended. However, the APAC Act would remain and would continue to apply to agents, as it does not apply to markets in the first place. Although not restrictive in itself, the converse situation could apply, that the only actively regulated occupational group on the markets are the agents and that the others are left to their own devices. This should not be particularly problematic unless the operation of the APAC Act impacts negatively on the competitiveness of the agents. The requirements of the Act should be weighed up in terms of perceived and real benefits.

In much the same manner, the bylaws should be scrutinised as well, and if there is anything that prejudices one group against another it should be rectified. Competition does not mean that no rules apply, and the rules should be designed in such a way that they encourage competition.

## 6.5.2 *Other impacting legislation and policies*

### 6.5.2.1 The Constitution

The South African Constitution clearly defines markets as part of the responsibility of local authorities. However, although a local authority has the primary responsibility, the national and provincial legislatures may prescribe national or provincial standards and practices that should be recognised by municipal authorities.

#### 6.5.2.2 Marketing of Agricultural Products Act

The Marketing of Agricultural Products Act has an influence on the operation of markets in the sense that the NAMC advises the Minister on national marketing issues. Although not binding *per se*, the findings of the NAMC, if endorsed by the Minister, effectively becomes national policy and should in principle be recognised as such by authorities on provincial and local level. The role of the NAMC and other national authorities in this regard is thus of extreme importance to the market authorities.

#### 6.5.2.3 Agricultural Product Standards Act

In terms of this Act, standards may be prescribed in accordance with which produce has to be sold. It is of paramount importance that such standards be instituted for all products and enforced as such.

#### 6.5.2.4 New Municipal Systems Bill

In terms of the new Municipal Systems Bill, local authorities are deemed to be service providers that, either on their own or through service providers, provide services to their communities. The proposed corporatisation of the Johannesburg Market (and others that will doubtlessly follow) therefore implies long-term involvement by the local authority, as it is not allowed to divest itself of its powers as service authority. In turn, this implies that the authority will try to maximise returns on its assets (even if only as shareholder), which could have the effect of intentionally or unintentionally discouraging the establishment of competing markets in the same area.

#### 6.5.2.5 Zoning and traffic legislation

Zoning, traffic legislation and the like have a secondary but very important role to play in the marketing of produce. As illustrated, the market operates under bylaws that will need to be carefully revised if the markets are opened up to other players. However, the bylaws extend only to the area of the market, and the market authority has little control over what happens outside the market gates. If informal traders are allowed to restrict access to the market by clogging entrances, for example, or making it impossible to get to the market in the first place, it matters little what happens on the market as it is unduly influenced by what is happening on its borders. Accordingly other bylaws should be applied and amended where needed to ensure the effective operation of the market. For example, if the market operates efficiently and everybody is allowed to participate, there seems little reason for allowing the same practices outside the market parameters, but with no control over health, access, safety and the like.

## **7 CONCLUSION**

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The overriding objective of the Committee, on embarking upon this investigation, was to make recommendations that it believed would lead to the following:

- ?? a transparent pricing mechanism
- ?? equitable access for all existing participants and potential entrants to the fresh produce industry, with minimal barriers to entry
- ?? competition between role-players

A further objective was that its recommendations would be acceptable to a wide range of role-players, from producers to buyers, and would be possible to implement by removing existing interventions or, failing that, with minimal intervention.

Export marketing is briefly discussed in 7.1, while issues of equitable access and transparency are discussed in some depth in 7.2 and 7.3. The issue of risk is dealt with as an additional point in 7.4 and market access is discussed separately in 7.5.

### **7.1 EXPORT MARKETING**

The Committee is aware of the problems experienced internationally, where fragmentation of export marketing may erode a country's reputation as a reliable supplier. Since deregulation, a number of fly-by-night exporters in South Africa have harmed producers and tarnished South Africa's international reputation as an exporter of fresh fruit. The Committee believes that, to survive, the industry should resolve these problems, and that the image of South African fruit on the whole needs to be promoted.

The Department of Trade and Industry (DTI) and the NDA are in the process of establishing an Agricultural Export Council to co-ordinate agricultural exports and to deal with these issues at national level.

The Department of Agriculture is also continuously involved in increasing international market access for South African fruit exports through trade negotiations and agreements, such as the multilateral WTO Agricultural Trade agreement, and bilateral agreements such as the EU Trade and Development Agreement between the EU and South Africa. During negotiations between the EU and South Africa, lower tariffs were negotiated for South African fruit exports (excluding most citrus fruit) into the EU.

Although international health and safety regulations and sanitary and phytosanitary (SPS) measures are applied for health and safety reasons, they also act as non-tariff barriers (NTBs). These barriers can only be addressed through scientific research and evidence, and the Committee is of the view that the South African government should commit the necessary resources to SPS and NTB issues to ensure access to foreign markets for South African produce.

## 7.2 EQUITABLE ACCESS

### 7.2.1 *Agents vs. wholesalers argument*

The Committee has not heard any arguments that persuade it to review or withdraw its recommendation that the market floor be opened to all intermediaries. After hearing arguments for and against, the Committee is of the view that to open the market would benefit all parties involved in the marketing of fresh produce.

Increasing the levels and diversity of competition between intermediaries on the market floor will ease many of the problems faced by the producer, the buyer, the intermediaries and the market authorities. Competition must be intensified at the intermediary level of the marketing chain in order to ensure that as little inefficiency as possible is trapped in this level, to the benefit of the chain as a whole.

Of course other intermediaries, in addition to wholesalers, must be encouraged as well. The reintroduction of auctions on the market floor should be entertained as an option.

If this sort of competition and experimentation are not permitted, the NFPMs will continue to lose their relevance as alternative marketing channels expand or open up. However, care should be taken that measures intended to encourage competition do not have the opposite effect. An example would be where, in a free environment, platform traders or hawkers are allowed to crowd the market to such an extent that customers cannot reach the agents on the market floor. This could lead to a situation where the customer, although ostensibly “free” to choose his/her supplier, is in practice unable to buy from the agents. Another example would be where rentals are determined in such a way that one intermediary is at a distinct advantage over another. Such a situation is not conducive to the effective functioning of any system and should be carefully monitored. Similarly, the information system should be retained and all intermediaries should be compelled to give information to the market authorities for publication.

### 7.2.2 *Floor space*

In its first report, the Committee pointed out that the manner in which floor space is allocated on the Johannesburg Fresh Produce Market is a barrier to entry. To the Committee’s knowledge, nothing has as yet been done to modify the method of allocating floor space.

This issue is fundamental to the concept of equal access to and profitable use of the facility by all, and it cuts across more than just equitable access for different types of market intermediaries (as highlighted in 7.2.1). It is a matter of principle that any person should have an equitable opportunity to obtain and utilise floor space on the NFPMs. The current system of allocation is entirely *ad hoc* and is open to abuse as it makes new entrants subject to the “good will”

and intentions of the market authority. It could also result in sub-optimal use of the available space.

## **7.3 TRANSPARENCY**

### *7.3.1 Price formation process*

In a free market prices are determined by the interaction of supply and demand over time. It is in the interests of all market participants that the price formation process be as transparent as possible. This does not imply that everyone should know who is paying or receiving what price, but that the actual process and factors involved in determining prices should be transparent and understood by everyone. For example, the transparency of an auction system depends on knowing grades and market conditions, trusting that the system is not being undermined by the formation of buying rings and understanding the rules of the auction and all the costs involved in participating.

For any pricing system to be transparent and efficient, all role-players require information. In this respect, the NFPMs play an important role for direct sales in that they provide a reference point for price negotiations, bearing in mind all the other factors that must be taken into account. No system can be successful or transparent without information.

### *7.3.2 Information*

Price information generated by the NFPMs is a valuable resource to the industry. This information is currently not available to all role-players in a meaningful format, or in time to make informed decisions. In addition, the price information generated by NFPMs may be growing less relevant as these markets become residual markets in a system dominated by direct sales.

This particular problem may be resolved by the process of opening market floors to other intermediaries and capturing information from them. This would make a wider spectrum of information available, allowing comparisons between marketing channels as well as improving the relevance of market price information to end users. Product standards are particularly important to price information. All parties involved in the process should be confident that the standards they are transacting on are the same so that any other system that derives its price from the NFPMs can function properly and boost buyer confidence. The necessary legislation is already in place in the form of the Agricultural Product Standards Act and the Act should, accordingly, be implemented.

The issue of information in the agricultural sector was the subject of a national workshop hosted by the NDA, the NAMC and the Chair of International Agricultural Marketing and Development of the University of the Free State in March 2000. The purpose was to find a means of making more agricultural

information available to more users. Flowing from this workshop were recommendations to the Minister of Agriculture, one of which was that a body (working group, council, committee, forum) should be established to co-ordinate the development of an information system that will provide support to all role-players in South Africa's agricultural sector. This body would be led by the NDA and would consist of members representing producers, input suppliers, marketing associations, agricultural services, government agencies, researchers and other role-players. The fresh produce industry would also be subject to the recommendations, and it is hoped that more (and more relevant) market information will be more widely disseminated once this body becomes functional.

### *7.3.3 Ownership and business practice*

Transparency in the ownership of market facilities, management practices and business practices of all market participants is of crucial importance.

The recommendation in the Committee's first report dealing with the splitting of ownership and management of NFPMs found wide acceptance. This reflected the desire of all parties for clearer objectives in the running of the markets, as well as better and more transparent resource and financial management.

Transparency in the ownership and business practices of market intermediaries operating on the NFPMs is also highly desirable. A great deal of the trouble facing NFPMs, and agents in particular, results from a lack of trust between role-players as a result of non-transparent ownership structures and opaque business practices that make monitoring and control difficult at best and impossible at worst. This was also the subject of a recommendation in the Committee's first report, that the paper trail generated by transactions should be clearer, and records should be kept so that transactions may be monitored.

The Committee believes that if its recommendation to open the market floor to all intermediaries is implemented, the issue of transparency may be resolved to some extent, as producers demand clarity about the basis on which produce will be handled, whether on a wholesale or on a commission basis. It must be emphasised, however, that if producers do not take full responsibility for deciding how their produce is to be handled, and ensuring that this happens, transparency may continue to be an issue. This is a danger mainly with an agency system, where a full and final price is not paid to the producer on delivery.

## **7.4 RISK**

In an increasingly risk-prone world, it is perhaps not surprising that the out-of-hand commission-based system of marketing fresh produce has not been embraced elsewhere in the world. More surprising, in fact, is that it has survived for so long unchanged in South Africa. What cannot be ignored,

however, is that producers are starting to take responsibility for their own risk management.

In an economic activity where production risk is high and subject to the vagaries of the weather and other environmental forces, producers will want to reduce or eliminate as much price risk as soon as possible. Accepting the price risk well into the marketing chain (and paying for the privilege) may form part of an overall price risk diversification strategy, but exclusive reliance on such a system should not be encouraged for any producer – large or small, established or emerging.

## 7.5 MARKET ACCESS

The report on The Investigation into Market Access by the NAMC Market Access Committee (NAMC, 1999) and other previous reports (*inter alia* the BATAT reports) identified the following constraints that hinder market access and inhibit the viability of farmers:

- ?? transport
- ?? storage
- ?? market infrastructure
- ?? market information
- ?? extension services
- ?? poor condition or absence of roads
- ?? discrimination
- ?? distance from processing facilities
- ?? telecommunication
- ?? training and education
- ?? access to electricity
- ?? finance
- ?? a lack of capacity in representative organisations

The BATAT action was designed as the contribution of the NDA to the national Reconstruction and Development Programme (RDP). The BATAT Marketing Drive is responsible for implementing programmes to increase market access for small-scale farmers. Although not all of these programmes have been successful, some have succeeded in achieving their aims.

In its report (NAMC, 1999) the NAMC Market Access Committee recommended that the BATAT initiative should be continued and that a NAMC Steering Committee should be appointed to structure a process, with the assistance of the NDA, to ensure the revival of the BATAT Marketing Drive.

The view of the Committee is that the market access issues identified in this report should be resolved by existing structures. The Committee therefore refers the issues that hinder access to fresh produce markets to the NAMC Steering Committee.

## **8 RECOMMENDATIONS**

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### *Intermediaries operating on markets*

1. As expressed in recommendation 5 of the first report, the Committee firmly believes that fresh produce markets should allow other intermediaries such as wholesalers to operate on the market floor and to receive fresh produce directly from producers.
2. Measures should be enacted to ensure competition between intermediaries while safeguarding both producers and buyers.

### *Information*

3. If other intermediaries are allowed to enter the market, fresh produce markets should be responsible for capturing all the relevant information.
4. The fresh produce markets should supply real-time price and volume information, and disseminate it as widely as possible.
5. The market information system should be supported by improved grading and packing systems, and the various parties should be confident that they are all transacting on the same standards. This should be properly implemented through the Agricultural Product Standards Act.
6. All markets should disclose standardised and correct information. This should be the responsibility of the market masters.
7. Representatives of the fresh produce industry should be included in the proposed Information Council to ensure that relevant market information is more widely disseminated.

### *Market access*

8. The national government must commit itself and the necessary resources to achieve market access objectives.
9. The need for infrastructure, the availability of information to small-scale fresh produce producers, intermediaries and buyers and the monitoring of problems pertaining to market access for small-scale farmers, intermediaries and buyers should be referred to the NAMC Market Access Steering Committee.
10. IMSA should hold a workshop, facilitated by the NAMC, to review the system of floor space allocation and to devise practical and objective alternative allocation methods to facilitate market access.
11. Every market master should identify issues that impede access to the market and ways of overcoming these issues.

#### *Separation of ownership and management on NFPMs*

12. Ownership and management of all NFPMs should be separated in order to achieve efficient business practices. The role-players and market authorities of each market should determine which process might achieve this.

#### *Grading and food safety*

13. Market management should ensure compliance with grading and food safety requirements. The NDA Directorate of Plant Health and Quality should be approached to fulfill its responsibility in terms of the Agricultural Product Standards Act.

#### *APAC and the APAC Act*

14. The Minister should have direct representation on APAC (not necessarily by someone from the NDA).
15. The APAC Act should be applied to all agents dealing in agricultural produce.
16. The NAMC should continuously monitor the application of the Agents Act of 1992 and of municipal bylaws to ensure their continued relevance in the light of this report.

#### *Export marketing*

17. The government should commit the necessary resources to sanitary and phytosanitary and non-tariff barrier issues in order to ensure access to foreign markets for South African produce.
18. The NDA and the DTI must, as soon as possible, establish an Export Council in order to facilitate the co-ordinated promotion of South African produce.

#### *Fresh Produce Forum*

19. The Fresh Produce Forum should broaden its representation across the industry and the country as a whole.

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