

THE IMPACT OF THE SADC EPA ON SOUTH AFRICA'S AGRICULTURE AND AGRO-PROCESSING SECTORS

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EXECUTIVE SUMMARY

The EU–SADC economic partnership agreement (EPA) came into force in October 2016 and offers South Africa, Botswana, Lesotho, Swaziland, Namibia and Mozambique a number of tariff preferences in the EU market. These preferences become more significant the more processed a product is. The tariffs are supported by liberal rules of origin, and the implementation of the agreement will also be supported by EU development cooperation. However, South Africa does not fill the quotas it is awarded under the agreement and still struggles in some instances with standards certification. This policy briefing explores some of the reasons for this and makes recommendations on how the EU and South Africa could promote agriculture and agro-processing in the country, which will have a direct positive impact on women and youth employment and ultimately poverty alleviation.

RECOMMENDATIONS

- 1 The South African government and industry associations such as the South African Fruit and Vegetable Canners' Association should set up an information portal on the most attractive opportunities in the SADC EPA, recent EU consumer trends and new standards in fruit juice and processed products; and provide support and information on compliance, an EU company database, and special programmes to assist prospective SME fruit processors.
- 2 The stumbling blocks encountered in fulfilling South Africa's quotas can be addressed by explaining SPS requirements and capacitating producers to meet them.
- 3 The further processing of nuts should be supported with technical assistance to optimise efficient production and access financial support, as this is becoming an important niche market in the EU and could create real opportunities for small farmers and agro-processing SMEs. Progress should be tracked in order to provide lessons learnt for other SADC EPA member states on how to develop a relatively small value chain with South Africa in order to access the large EU market.

INTRODUCTION

Six SADC member states have negotiated an EPA with the EU. This sub-group of SADC – the SADC EPA group – consists of Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland. The agreement came into force in October 2016. The EU is the SADC EPA group's largest trading partner as a region, and South Africa is the largest importer and exporter to and from the EU within this group. The largest single commodity export is diamonds from South Africa, Botswana, Lesotho and Namibia. However, agricultural products hold a prominent place in the export baskets of the SADC EPA group, including beef from Botswana and fish and table grapes from Namibia. South Africa has the most diversified import and export portfolio, ranging from commodities to manufacturing and agricultural products. Lesotho lags far behind with almost no agriculture or agro-processed products destined for European markets.

This policy briefing examines how the SADC EPA can contribute to further developing South Africa's agriculture and agro-processing sectors, which will allow for the greater participation of small and medium enterprises (SMEs), women and youth.

SOUTH AFRICA'S AGRICULTURE AND AGRO-PROCESSING SECTORS

The South African agriculture sector contributed ZAR² 72,608 million (\$5,675 million) to the economy in 2016.³ Agro-processing has been identified in South Africa's national development plans as one of the key sectors that show promise in terms of growth and specifically employment creation, including in the [National Development Plan](#). As a sub-section of the manufacturing sector, it has grown more rapidly than any other between 2004 and 2014.⁴

The food processing value-add (in constant prices) in 2014 was 34% higher than in 2004, more than double the 15% increase in real value added by the manufacturing sector as a whole over the same period. Food processing is playing an increasingly important role in building manufacturing capabilities and driving growth.

The International Trade Centre's (ITC) Trade Map⁵ shows South Africa's relative global competitiveness compared to that of other fresh food and processed food exporting countries. It confirms that South Africa has good product diversification and good market diversification,

although the country remains a relatively small player in the global market, hinting at expansion possibilities. South Africa is ranked 79 out of 177 countries in terms of fresh food competitiveness and 114 in processed food. Much of the current South African agricultural and agro-processed products are destined for the domestic market, with the potential to expand production and export to the European market. The SADC EPA also opens up opportunities for SADC member states to export produce to South Africa for processing and export to the EU.

SOUTH AFRICAN GOVERNMENT SUPPORT SCHEMES

The South African government launched the [Agro-Processing Support Scheme](#) in 2017 in order to stimulate investment by South African agro-processing or beneficiation companies in the sector. To qualify for the scheme, companies must show that they will improve capacity, create employment opportunities, introduce modern equipment, increase competitiveness and productivity, or broaden participation. The scheme targets the food and beverage value addition and processing sector, including black winemakers; the furniture manufacturing sector; and feed and fertiliser production. The scheme particularly looks to support new, smaller entrants into agro-processing, differing from past agro-processing support schemes that primarily targeted the expansion of existing multinationals.⁶ This scheme then feeds into the Export Marketing and Investment Assistance scheme, which develops export markets for South African products and services and recruits foreign direct investment into the country.⁷

The Department of Rural Development and Land Reform has instituted the development of AgriParks, with an end-goal of one AgriPark in every district in South Africa. Important components of these AgriParks are AgriHubs, which centre on processing, packaging, logistics and equipment hire, innovation and training; and Farmer Production Support Units, which engage in capacity building and upscaling initiatives for small farmers.⁸ These parks are important cogs in the wheel for SME farmers to collectively produce enough for export to the EU. AgriParks also shift the bulk of the certification and standards burden away from SMEs, which is a key stumbling block in becoming an exporter.

The Industrial Development Corporation (IDC) also offers a unique agro-processing scheme, the Agro-processing Competitiveness Fund,⁹ targeted specifically at engaging

SMEs in agro-processing. The scheme provides financing to either give loans or establish equity or quasi-equity for local companies with established operating partners in value-added processing activities. The local company generally owns shares in the operation.

It is suggested that support programmes be tied to the SADC EPA in order to specifically target products with EPA potential.

SOUTH AFRICAN CANNED FRUIT AND FRUIT JUICE INDUSTRY

Canned fruit and fruit juice are key products in South Africa that will gain improved market access under the SADC EPA, with preference rates of between 12% and 22% for various products. Fruit and vegetable juices are one of the top five opportunities for increased product exports under the SADC EPA.¹⁰ These products, which fall broadly under the processed fruit and vegetables industry, present opportunities for value add in processing, as well as in branding, labelling, packaging and marketing.

In 2015 the total fruit and vegetable processing industry in South Africa was worth ZAR 14.6 billion (\$1.14 billion). Within the Southern African Customs Union region there were four fruit canning factories, two jam units, three fruit concentrate factories, one pineapple processor and more than 10 vegetable/related units.¹¹ In 2016 fruit and vegetable processors directly employed 15 000 factory workers, underlining the labour intensity of production, with 55 105 people employed overall in the processing industry.¹² The sector also supports rural development through linkages to farms, supporting approximately 100 000 farm workers. It is also noteworthy that in South Africa one-third of fruit growers are small-scale farmers.¹³ The current industry is export driven, with 82% of canned fruits exported in 2016. In total, 50% of total exports of processed fruit and vegetables were juice products.¹⁴ The processing industry is dominated by large national companies such as Tiger Brands, Pioneer Foods and the Rhodes Food Group, which also owns Swazican.

SMEs and larger processors looking to export under the SADC EPA will be entering a challenging environment in the face of changing consumer preferences. Campaigns to reduce sugar intake in export markets such as the EU have forced the fruit juice industry to adapt both its production process and its marketing. The EU Centre for the Promotion of Imports from developing countries (CBI) recommends liaising with the European fruit juice

industry to receive the best information on product marketing (eg, the inclusion of more health-conscious labels such as 'liquid fruit'), replacing added sugars with natural sweeteners and using fewer preservatives and ingredients, to satisfy the demand for 'clean labelling'.¹⁵ A particular bottleneck in South Africa is the lack of laboratories for more sophisticated product-specific testing to fulfil the above requirements, eg, for a fruit juice processor to test the percentage average sugar in its juice. Sending products to Europe to be tested adds costs and increases vulnerability to exchange rate fluctuations. Support in establishing industry-specific laboratories will assist existing exporters and remove one of the prohibitive barriers that prevent SMEs from exporting.

According to the CBI, the juice and puree sector in Europe is one of the most proactive sectors pushing sustainability considerations. The sustainability campaigns for these products refer in part to the inclusion of smallholders and organically produced products. The CBI suggests using tools such as the European Fruit Juice Association's fruit juice corporate social responsibility platform to improve compatibility with EU consumer demands.¹⁶ SADC EPA support programmes should be targeted to help small processors and farmers understand these initiatives and the opportunities they offer, and become certified. They can also assist local processors to subcontract to European processors, which are beginning to further vertically integrate and consolidate their supply chains owing to the increasing specificity of consumer requirements.

CHALLENGES FACED BY SOUTH AFRICAN PRODUCERS

General challenges in the industry include production costs (and processing costs, from imported packaging material), exchange rate volatility and, especially, uncertain climatic conditions, such as the current drought in the western regions of South Africa.¹⁷

According to the South African Department of Agriculture, Forestry and Fisheries, in October 2017, a year after the EPA entered into force in South Africa, 0% of the annual quota of canned tropical fruit, 5% of the apple juice quota, and 44% of the non-tropical canned fruit juice quota were used by South African exporters. The most successful processed fruit was frozen orange juice, where the full quota was used. This indicates that existing support programmes for the industry have not necessarily been extended to EPA export promotion, and/or the major focus was on a few products only.¹⁸

The reasons given by both EU and South African officials for the low uptake were a lack of awareness, sanitary and phytosanitary (SPS) issues, and the current drought in parts of the country.¹⁹ However, industry interviews also indicated that despite more favourable tariffs and increased quotas under the EPA, EU market opportunities in these industries are not growing at the same rate as in Asia, and South African industries are therefore shifting their focus to the East.²⁰ In fruit juice, for example, many finished packaged products are already produced competitively in the EU and there is less room for new entries. Growing oranges is not climate-conducive in much of the EU so this is where South Africa has an advantage in exporting concentrates; however, apples are grown more widely in the EU and thus there are fewer market opportunities for apple concentrate.²¹

SME involvement in fruit and vegetable processing is quite low in South Africa, especially women-owned companies. Generally, SMEs' primary focus is on selling to local markets, with export markets out of reach save for rare cases that involve a clear niche product. SMEs and even larger processors looking to export under the SADC EPA enter a challenging environment, considering the changing consumer preferences. Campaigns to reduce sugar intake in export markets such as the EU have forced the fruit juice industry to adapt its production processes, as well as its marketing.

CONCLUSION

South Africa is in a good position to take advantage of the opportunities that the SADC EPA presents. It already has extensive experience in using the previous Trade, Development and Cooperation Agreement to leverage growth in a variety of sectors. The SADC EPA augments these opportunities for South Africa. However, a number of challenges remain, particularly in encouraging small farmers and SMEs to play a role in exporting to the EU.

The EPA development component could be targeted to assist companies in integrating SMEs into their operations, beyond the basic farming level. For example, the Cape Peninsula University of Technology houses an [Agrifood Technology Station](#), which provides affordable technology to smaller enterprises in the agro-processing sector, including the juice and canning industries. EU support could be directed to institutions such as this both to help finance equipment and to disseminate technical knowledge and expertise (adding an export focus to the existing programme). This would help SMEs gain the

economies of scale necessary to begin looking outside domestic markets to the EU.²² Current support schemes for SMEs in agro-processing, such as the aforementioned grants from the IDC, could also be integrated.

ENDNOTES

- 1 Talitha Bertelsmann-Scott heads the Regional Observatory at SAIIA. Chelsea Markowitz is a Researcher in the Economic Diplomacy Programme at SAIIA.
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 - 17 Kriel G, *op. cit.*
 - 18 Fabricius P, 'South Africa fails to exploit free trade agreement access to massive EU market', *Daily Maverick*, 16 October 2017, <https://www.dailymaverick.co.za/article/2017-10-16-sa-fails-to-exploit-free-trade-agreement-access-to-massive-eu-market/#.WmsylqiWblU>, accessed 7 June 2018.
 - 19 *Ibid.*
 - 20 Personal interview, industry association representative A, 12 February 2017; personal interview, industry association representative B, 12 February 2017.
 - 21 Personal interview, industry association representative B, *op. cit.*
 - 22 *Ibid.*