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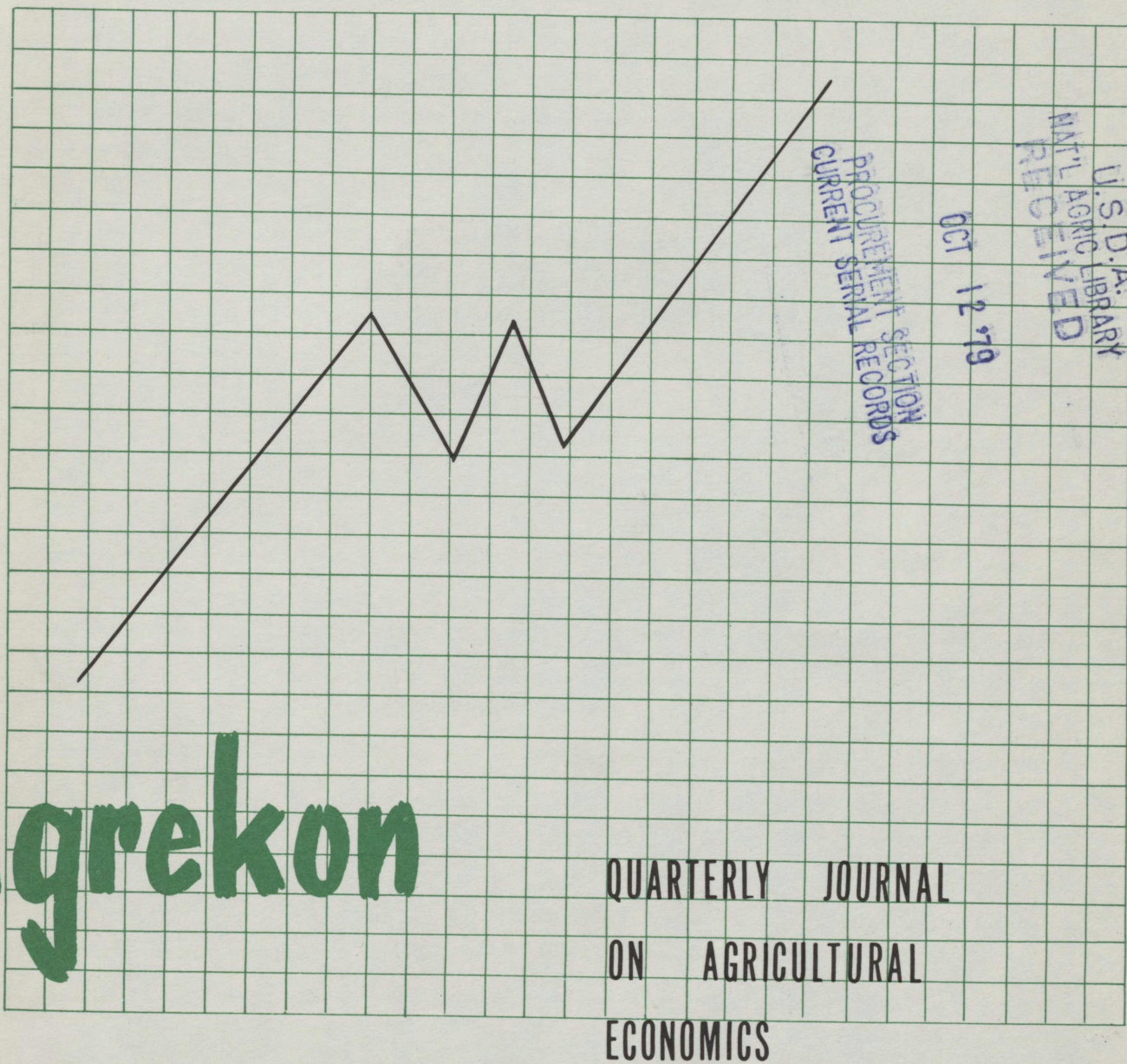
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THE EXPORT OF PERISHABLE PRODUCTS BY AIR AND ASSOCIATED PROBLEMS

by

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1 It is generally agreed that the prime aim of agriculture in a country must be to feed the population of that country. (This stems very simply from a subsistence-orientated agriculture which is prevalent in South Africa). Agriculture in our country is no exception, and although an estimated 13 000 tons of perishables were exported by air to overseas markets during 1978, South African agriculture is not fully geared to exports. The main reason for this is most probably the low cost of inputs, especially labour, which farmers enjoyed in the past. I emphasize, in the past. This together with the sustained demand for fresh fruit and vegetables within the country led to a complacent situation in which farmers made a comfortable living. Note that I am talking about farmers actively involved in producing those products falling within our definition of perishable products. Today the story is a different one. Producers have been forced to increase efficiency, realise higher prices and look for other markets. Thus, the export market grows in importance.

However, the marketing of South African farm produce abroad is by no means a modern phenomenon. Sea exports began before the turn of the century - it is recorded, for instance, that in 1892 the first 14 boxes of peaches were taken to England aboard the Drummond Castle. The air export of perishables began much later, with the pioneers of the industry first using air transport in the 1950's. Today it is the use of air transport which is growing by leaps and bounds despite the introduction of the reefer container sea service, hence the concentration of this paper on the export marketing of perishables by air.

The determining factor for this growth of air exports is tied up in the word, perishable. Air transport has opened up the export market to products that fifty years ago would hardly have left the district to make it to the Saturday morning market in town. The spectrum of products includes over 50 different products.

The major products as regards tonnage handled by air are avocados, cut flowers, capsicums, onions, apples, tomatoes and grapes. During 1978 over 2 500 tons of avocados left South

Africa by air destined for overseas markets. Interesting to note is that for the same period over 700 tons of capsicums and 400 tons of onions were exported by air. Not only has air transport broadened the spectrum of products that are exported, but it has also opened up new destinations. During 1978 South African produce landed in a total of 21 countries.

From a survey conducted by the Division of Agricultural Marketing Research it was established that of 30 major exporters, 22 started exporting by air after 1970 and all 22 are experiencing a growth trend in volume handled. Only 5 of the 30 firms covered in the survey started exporting by sea since 1970. Of the 30 firms, 4 indicated a decreasing trend and 9 an increasing trend in sea exports.

2 Export marketing by air is undertaken by basically two groups of people. Number one is the farmer who grows a pineapple, packs it in a flashy container and via a forwarding agent exports it himself. Number two is the export agent who either buys the pineapple from the farmer or working on a commission basis packs the pineapple and again through a forwarding agent exports it. The problems to be discussed are generally encountered by both number one and number two, although due to the specific functions of the two groups, separate problems are inevitable.

2.1 The first problem facing the growing industry of the air export of perishable products is a crucial one, namely the shortage of sufficient freight space. It is said that a good product will always find a market, but that is true only if the product reaches the market. The problem of insufficient air freight space is critical during the period December to April, for not only is there an abundance of fruit, vegetables and flowers to be carried, but tourists like to travel abroad during this period. Of the 30 firms covered in the survey mentioned earlier, 11 indicated that insufficient air freight space was the major obstacle limiting an increase in air exports. Agents abroad are also concerned with this problem which leads to haphazard and inconsistent supplies.

At first glance the problem may seem a simple one but the following contributing factors make it very complex indeed:

- Available freight space is reduced by SAA's need to carry extra supplies of fuel;
- the seasonal nature of agricultural products make them a poor substitute for general cargo as regards consistency;
- human cargo is top priority, followed by general cargo with perishables languishing at the bottom - this is also the order as regards tariff;
- the temperature, climate and wind changes often mean a last minute reduction in freight space which in turn means that perishables are often left on the runway;
- when and if booking takes place, the goods do not always materialise - man does not plan the weather;
- exporters are only entitled to receive the Department of Commerce's subsidy if they use SAA or prove that SAA was unable to carry their goods - you have a concentration on SAA and the alternatives take time and administration;
- available freight space on other airways cannot always be fully utilised due to agreements that bind the airways to provide services to those countries which provide landing and refueling privileges; and
- the introduction of charter flights would alleviate space problems but would introduce other problems which make them inefficient in the long run.

These are a few of the factors which complicate the issue. The system used in the past was one of allocating space to agents and reshuffling at the last minute. Since January this year a new system whereby agents ask for definite reservations as regards product, volume and weight at least ten days before take-off has been introduced. The reservation is subject to cancellation if it has not been confirmed by at least 2 days before take-off. It is hoped that this attempt at better organisation as regards booking will lead to the provision of a better service regarding air freight space.

2.2 The second problem is inextricably related to the first namely that of the air freight tariff system. As already stated, perishables hold the lowest tariff of all cargo, but even this low tariff makes exporting perishables difficult due to the low unit value of farm produce. A general opinion expressed by many exporters is that the reduction in air freight tariffs for perishables would be the greatest stimulus that the industry could receive. However, SAA are at present complaining and tariff increases are imminent.

At present tariffs take into account only mass. The problem arising under this system is that air freight has two limiting factors. Firstly the mass is limited and secondly the capacity is limited. An improved tariff system, and one which SAA is working towards, is a system that includes both

mass and volume. Take for example cut flowers. During 1978 South Africa exported close on 2 500 tons of cut flowers by air. Cut flowers are exported in special cardboard containers which each need 0,1 cubic metre of space. This means that 25 000 cubic metres was necessary to transport cut flowers by air during 1978. The subsidy offered by the Department of Commerce takes this into account and the subsidy offered per kg of cut flowers is less than that offered to the exports of other perishables. Yet a third factor should be considered, namely that of value earned per container. Should not tariffs take into account value earned, mass and volume? This is a problem for the agricultural economist.

A possible solution at this point which would alleviate the problem to a certain extent would be to determine which products could carry higher tariffs and in that way subsidise the other products. The obvious drawback of this is that one producer would end up subsidising another producer - something that would not be accepted with open arms by farmers in South Africa.

2.3 A third problem is the lack of co-ordination within the export marketing industry. During 1976 there were 83 individual exporters who exported perishable produce by air.

Of the total mass exported over 50 % was exported by 10 major exporters. This illustrates the concentration or, on the other hand, the wide diversification of interests when it comes to co-ordinating air freight space. During 1976 over one half of the exporters, that is over 40 exporters, individually exported less than 10 tons during the year, and much of that was seasonal.

In November 1973 a foreign representative of the Department of Agricultural Technical Services in Paris wrote as follows in a report: "The greatest single stumbling block which hampers at present the creation of a stable export market for fresh agricultural products is the lack of effective co-ordination between producers, exporters, government departments and other parties concerned with production and marketing." This opinion endorsed that of a research team of the Transvaal Agricultural Union which had undertaken a study tour a year earlier. They had concluded that the potential for increased marketing of fresh vegetables and subtropical fruits was evident, but that the unco-ordinated manner by which South Africa's export industry operated mitigated against possible success within the markets. They stressed that co-ordination within the industry would benefit all concerned and that such co-ordination was long overdue. I would remind you that this tour was undertaken in 1972.

The success of a rugby team depends largely, not upon the individual flair of the players, but on the co-ordination of the team. The air export industry of South Africa is such a team, playing for agriculture and ultimately for South Africa. The lack of co-ordination is the root problem. Better co-ordination would help alleviate the freight space

problems and would enable a control body to negotiate more advantageous freight tariffs.

3 Co-ordination, and the word is easier to say than to bring into operation, must be the ultimate solution. The problem lies, however, in convincing all parties concerned that it is the answer. Whilst there are certain producers and agents that advocate some form of organisation to facilitate co-ordination, there are those who strongly oppose co-ordination on the grounds that they will have to sacrifice personal contacts that have been built up over the years and perhaps lose a trade name which has a strong market abroad.

The answer lies in the type of co-ordination. That co-ordination is necessary is a fact, but the crux of the matter lies in the extent of co-ordination. It is interesting at this point to "shop abroad" and examine types or systems of co-ordination used by our competitors. It is the common practice in many countries to maintain a co-ordinating body responsible for the marketing functions of the export industry. In France we have SOPEXA, in the Netherlands CKH, in West Germany HLBS, in Israel AGREXCO, in Morocco OCE and in Kenya HCDA. We take a closer look at the latter three organizations due to the similarity of the countries to South Africa.

3.1 Israel - AGREXCO

I quote from an article dealing with agriculture in an American publication, *Foreign Agriculture*, August 1978:

"Israel's agricultural exports, which 30 years ago consisted entirely of citrus fruits and some of their products, have reached undreamed of dimensions. During the winter months, Israel has become Europe's truck garden and its fruits, vegetables and flowers can be seen anywhere on that Continent. What was once an outlet for surplus produce is now the focus of a minutely planned production and marketing system". That system is AGREXCO.

The various product boards together with the Department of Agriculture constitute the central exporting organization in Israel - "Agricultural Export Company". Each group holds 50% of the shares and the Secretary of Agriculture chairs the organisation. The members of each product board are elected by the producers and the boards meet under a chairman appointed by the Department of Agriculture. Weekly group discussions are held between AGREXCO, the boards and producers to ensure that all the functions are effectively co-ordinated.

AGREXCO co-ordinates all functions related to the export of deciduous and subtropical fruit, fresh vegetables and cut flowers. This includes market research, production planning and control and the export functions of quality inspection, transport facilities, marketing and promotion. The organisation presently staffs nine marketing offices in Europe and has a main co-ordinating office on the Rungis market in Paris. The offices are in daily

contact with each other and a complete market report must be submitted at the end of each day to the head office in Tel Aviv by the office in Paris. The market intelligence in the report determines the following day's distribution in regard to products, volumes and destination. All information is disseminated to the offices in Europe by means of a computer. Information regarding produce ready packed for transport is continually transmitted from the packhouses in the production areas to local AGREXCO offices. The various product boards, which are financed by levies, serve as contact between the producer and AGREXCO.

Production is planned by means of contracts with producers. The production contracts bind the producer to plant a certain area to a certain crop and to deliver the total yield of that crop to the respective product board. Upon receipt of the produce, the board delivers the export quota, determined by weekly meetings, to AGREXCO and handles the local distribution of the remainder. Producers who do not meet the quota laid down or who do not throw their weight behind the scheme are subsequently penalised by AGREXCO. Trade promotion is extensively carried out under the trade name CARMEL which already enjoys the confidence of exporters, wholesalers, retailers and consumers in all the major centres of Europe.

According to the article referred to earlier, AGREXCO plans to double exports in the next 5 years, that is from 185 000 tons to 360 000 tons.

In order to make this possible AGREXCO expects to increase air capacity to 8 or 9 jumbo jets weekly and spend over 30 million on improved facilities.

3.2 Morocco - OCE

Like AGREXCO, the Office for Commercialisation and Export in Morocco is responsible for production planning, packaging, standardisation, transport and marketing. Production control is exercised by means of district officers working in conjunction with producers in those areas. The produce is packed at controlling stations and delivered to the OCE. These stations serve as a link between the producer and the co-ordinating body.

The foreign marketing function is carried out by 16 strategically placed marketing offices in Europe which are co-ordinated by the liaison office situated on the Rungis market in Paris. All produce is exported under the name MAROC, which like CARMEL, enjoys good support in Europe.

3.3 The third body to be discussed is the Horticultural Crops Development Authority (HCDA) of Kenya. This body functions on a similar basis to that of AGREXCO and the OCE, being responsible for the production planning and marketing of approximately 80 different products. The HCDA are authorised to determine and fix prices, to impose levies and to control exports. The marketing function is facilitated by a number of marketing offices abroad.

3.4 The advantage of the above three systems is obvious. Control over production leading to control over exports which ensures a steady supply of a high quality standardised product at the right time and at the right place. The disadvantage is the strangulation of private enterprise and individual initiative. As stated earlier, the degree of control is the crux of the matter. Control as exercised in AGREXCO, the OCE or the HCDA will not be welcomed by all producers in South Africa, although it might well be the ultimate answer.

One solution is that which is at present enjoying some success in South Africa, namely a product-based association which co-ordinates the exports of a specific product. The examples here are the South African Avocado Growers' Association, the Mango Growers' Association, the Garlic Growers' Association and SAPPEX, the Protea Association. These bodies are made up of voluntary members and are managed by elected representatives from the producers. They promote their product jointly from funds accumulated from a levy and regulate the flow of exports. Without the producer losing his individual identity, an attempt is made at standardisation and the use of a brand covering name for marketing purposes. Over 90 % of South African avocados are marketed under the name "Summer Avo's".

Although such organisations allow a more effective operation for specific products, they cover only slightly more than 30 % of air exports. Such organisations offer a restricted solution, and it is impractical to have 50 or so separate organisations dealing with individual products.

What then is the answer? Co-ordination is essential - co-ordination that is producer-based and

which regulates both production and marketing to a certain extent, but co-ordination that allows the individual to remain an individual. Such co-ordination must evolve from within the agricultural sector. It is in this area where the challenge to the agricultural economist lies. The determination of the most efficient and most effective method of co-ordination will be a major break-through for the perishable products air export industry. Without co-ordination the problems mentioned will only be aggravated and South Africa will be forced out of a lucrative and rewarding market.

4 In conclusion it is both interesting and necessary to look ahead. At present the air exports of perishable products represent less than 1 % of perishable products sold on local markets in South Africa. Does that mean that the export market is unimportant compared to the local market - certainly not! In actual volume it does seem relatively unimportant, but in potential the export market is of extreme importance. The local market is relatively static whereas the export market could, and I emphasize could, blossom and ripen into a dynamic and valuable outlet for South African produce.

It has been stated that whereas Israel has an aggressive marketing policy in respect of fresh fruits and vegetables, South Africa has a passive policy. Change this to an aggressive policy, iron out infrastructural problems and co-ordinate and South Africa and not Israel will become the "market garden" of Europe.