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AGRICULTURAL OUTLOOK CONFERENCE 1985

**AGROCON
LANVOKON**

LANDBOU-VOORUITSKOUINGSKONFERENSIE 1985

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PRESENTED BY —

- Agricultural Economics Association of South Africa
- Co-ordinating Committee of Agricultural Marketing Boards
- Department of Agricultural Economics and Marketing
- Department of Agriculture and Water Supply
- SA Agricultural Union

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LANVOKON 1985

PREVIEW FOR CANNING FRUIT

1. Review of 1983/84 season (June 1983 to July 1984)

Thanks to the poor performance of the Rand against most foreign currencies, coupled with a crop failure in California during 1983, South African canners had little difficulty in disposing of the 1983/84 production. Larger volumes of canned fruit were sold in the USA, Canada and Japan, which to a large extent compensated for the loss of market share in Europe and the United Kingdom. South Africa's market share in respect of canned fruit sold within the EEC has dropped from 27% to 15% since 1978, chiefly on account of the competition experienced from subsidised products emanating from Italy and Greece. Although it was possible to increase the price of canned fruit by 15 - 17%, a very real danger exists that South African canned products, presently sold at a premium, may be priced out of the market.

During the past season it was alarming to learn that Spain, even without the benefit of EEC subsidies, is nevertheless in a position to increase its market share within the EEC. It is generally believed that the anticipated accession of Spain to the EEC in 1986 will have a marked influence on the self-sufficiency of the EEC in respect of canned fruit.

So far as overseas sales are concerned, the advantages offered by the weak Rand were to a great extent cancelled out by increased costs, the high interest rates on borrowed money and the fact that a large proportion of transactions are covered forward.

2. Production trends

Table 1 gives a review of the intake of fresh canning fruit during the past few years:

TABLE 1: Intake of canning fruit (ton)

Season	Fruit kind					
	Bulida apricots	Royal- & Peek-a- apricots	Cling- stone peaches	Bon Chretien pears	Other cultivars pears	Total
1973/74	8 804	2 329	118 394	43 662	4 974	178 163
1974/75	15 360	4 330	122 119	46 423	5 019	193 251
1975/76	10 848	3 318	121 168	53 413	3 072	191 819
1976/77	17 801	4 921	114 119	56 550	1 494	194 885
1977/78	16 428	3 093	99 388	41 347	5 691	165 947
1978/79	18 070	2 352	112 812	48 974	7 002	189 210
1979/80	24 179	3 686	137 552	52 632	13 395	231 444
1980/81	19 821	2 175	99 569	46 126	12 637	180 328
1981/82	23 909	2 930	91 519	38 327	4 566	161 251
1982/83	15 287	2 118	87 787	44 534	11 896	161 622
1983/84	22 298	2 418	88 884	46 759	9 784	170 143

From Table 1 it is apparent what influence the restrictive measures have had on the intake of canning fruit since 1979/80. A positive effort was made to bring supply into line with the potential demand for canned fruit and this prompted certain structural changes in the farming pattern of the Western Cape. Larger quantities of peaches, pears and apricots were diverted to the fresh markets or dried, while interest in wine, dairy and meat production increased.

It may further be concluded that the present production level of between 160 000 and 170 000 tons of canning fruit will satisfy the requirements of the remaining canners. The reasonably good apricot crop processed during 1983, in fact, created some problems in the market place and it was recommended that only 15 000 tons of Bulidas should be canned.

Table 2 illustrates the distribution of certain fruit kinds to the different disposal outlets.

TABLE 2: Diversification in the marketing of certain fruit kinds (ton)

	Actual intake		Anticipated intake 1984/85	Required intake 1984/85
	1982/83	1983/84		
BULIDA APRICOTS:				
Canned in standard slices	11 226	16 548	9 050	15 000
Juice and puree	4 061	5 750	5 000	5 600
Fresh: Locally marketed	1 800	2 000	2 000	2 000
Exported	19	40	50	50
Dried	2 668	4 052	3 500	4 700
TOTAL	19 774	28 390	19 600	27 350
ROYAL AND PEEKA APRICOTS:				
Canned in standard slices	1 006	1 093	1 150	1 100
Juice and puree	1 113	1 325	1 300	1 500
Fresh: Local (estimated)	2 000	2 100	2 100	2 100
Exported	219	344	450	500
Dried	10 000	9 300	10 000	24 600
TOTAL	14 338	14 162	15 000	29 800
CLINGSTONE PEACHES:				
Canned in standard slices	82 205	87 594	78 000	85 000
Juice and puree	5 582	1 290	1 000	5 000
Fresh: Locally marketed	18 750	15 000	15 000	15 000
Exported	11	-	-	-
Dried	23 500	16 600	16 500	19 600
TOTAL	130 048	120 484	110 500	124 600
BON CHRETIEN PEARS:				
Canned in standard slices	39 255	41 963	40 000	40 000
Juice and puree	4 475	4 796	4 500	4 000
Fresh: Locally marketed	5 204	5 600	6 000	6 000
Exported	13 364	10 130	12 000	12 000
Dried	6 989	8 157	8 000	8 400
TOTAL	69 287	70 646	70 500	70 400

From Table 2 it is apparent that the canning aspect continues to enjoy a prominent position in the marketing pattern of clingstone peaches, Bulida apricots and Bon Chretien pears. Because of unfavourable weather conditions a 30% decline in the Bulida crop and a 10% decline in the clingstone peach crop is expected this year. It may thus be anticipated that the processors will have to adjust their price for fresh canning fruit considerably in order to secure the required volumes. So far as Bon Chretien pears are concerned, the volume offered should be adequate for the respective disposal outlets.

Because of the anticipated decline in the production of canning fruit in the years ahead, the possibility that marketing quotas will ever be re-introduced is extremely remote. On the contrary, in view of the sharp decline in new plantings during the past four years, efforts will have to be renewed to encourage judicious expansion of plantings once again. In order to guide producers in respect of new plantings, the three Fruit Boards (Deciduous Fruit Board, Dried Fruit Board and Canning Fruit Board) jointly drafted planting guidelines, based on future marketing and production prospects for the three respective industries. This enables the producer, in the light of his own particular circumstances and natural resources, to decide which farming undertaking will be the most profitable in his case.

3. Trends in respect of producer prices

Table 3 gives a picture of the total payments to producers (minimum prices plus State aid) per ton of canning fruit during the past few years.

TABLE 3: Total minimum price for Canning Grade fruit over a number of years (Rand) *

Season	Bulida apricots	Clingstone peaches	Bon Chretien pears
1974/75	114	120	91
1975/76	107	117	91
1976/77	104	112	84
1977/78	112	120	91
1978/79	112	126	96
1979/80	126	150	115
1980/81	126	150	120
1981/82	126	150	120
1982/83	125	157	119
1983/84	155	210	152
1984/85	173	240	170

*Levy of R4 per ton imposed by the Board.

Because of certain marketing problems experienced by the industry since 1980/81, the State extended limited relief to the canning industry on condition that the industry should regain its footing and that the assistance should only be of a short-term nature. From Table 3 it is apparent, however, that the prices of canning fruit have remained virtually unchanged for about four years (1979 - 1983). This state of affairs, coupled with an inflation rate of more than 12%, is naturally catastrophic for any industry and has contributed to producers finding themselves caught up to a large extent in a cost-price squeeze and losing their confidence in the future of the canning industry.

As result of an improvement in the marketing situation, the prices of canning fruit were increased considerably during the past two years. It's hoped that this trend will encourage new plantings.

4. Marketing problems

Since the canning industry is dependent chiefly on the export market, its profitability is greatly influenced by market conditions within the EEC and elsewhere. The international market for canned fruit has improved considerably during the past two years because of a decline in exports from especially the United States, South Africa and Australia. The continued improvement in the market will, to a large extent, depend on the extent of Government aid and subsidies enjoyed by countries such as Italy, Spain and Greece.

Two aspects must, however, be seen in perspective. Firstly, State aid extended to the canning industry must not so much regarded as assistance to the producer but as support for sectors which are making a major contribution towards the total production costs of canned fruit. In this regard, it should be noted that fruit represents only 12% of the total production costs of a can of canned fruit and that ancillary inputs such as tinplate, sugar, cartons, rail transport, labour, etc, are promoted considerably by this type of State aid. Since the canning industry (both canners and producers) is a major employer of labour in the Western Cape, State aid has also benefited employment. This matter is of national importance, since the Western Cape is not well endowed with secondary industries and mining, and the economy is therefore chiefly dependent on fruit, viticulture and tourism.

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In the light of the relatively small influence of the fresh fruit-content on the final price of a can of fruit, it is logical to expect that a small increase in the price of canned fruit should benefit the price of the fresh product considerably. It has been calculated that a retail price increase of only two English pennies per 0,5 kg can of peaches would make it possible to increase the price of the fresh product by about R100,00 per ton. It is also no secret that the South African producer presently receives the lowest price in the world for canning fruit. Apart from Greece, our canners presently pay the highest price for tinplate, a higher price for cartons than Spain and harbour dues in Cape Town are higher than in Southampton. Apart from the import tariff of 17 - 24% on all imports of canned fruit into the EEC, the Greek canner also receives a subsidy of about R125,00 per ton peaches, as well as a subsidy on all exports to third countries. In total, it is calculated that the production subsidies and export incentives received by canners in Greece constitute a cost benefit of about R180,00 to R200,00 per ton of fruit, as compared with the South African exporter.

Our relatively high inflation rate against an inflation rate of 5,4% and 3,0% in the United Kingdom and Germany respectively, further militates against our competitiveness on the overseas markets. Our biggest problems are, however, encountered with the high interest rates payable on borrowed money and the sharp increase in production costs to both producer and canner. Against a prime overdraft rate of about 6% in Western Germany and 12% in the United States, our rate is at present about 25%. This problem is giving the co-operative canner, especially, a big headache since he is to a large extent dependent on borrowed money.

It would appear that agricultural industries in all countries receive some measure of State assistance and our local industry can therefore with justification lay claim to similar relief in order that it may continue to remain competitive in the world market.

5. Producers' production costs

The official calculation of production costs per ton of fruit is given in Tabel 4.

TABLE 4: Production costs per ton of canning fruit

Season	Bulida apricots	Clingstone peaches	Bon Chretien pears
1977/78	R 90,19	R113,00	R 66,06
1978/79	R 98,33	R123,90	R 72,14
1979/80	R116,47	R144,10	R 84,03
1980/81	R128,26	R158,90	R 94,24
1981/82	R109,49	R169,11	R126,87
1982/83	R126,13	R194,81	R146,15
1983/84	R144,46	R224,30	R167,94
1984/85	R157,35	R241,37	R181,83

From Table 4 it is apparent that the average production costs for peaches and pears are lower than the producer prices (Table 3) for the years under review. This has contributed to a great extent to the problems at present facing the industry.

6. Conclusion

Although there are some indications that the overseas market for canned fruit is beginning to firm, the industry is not yet out of the woods and the coming five years should determine the future course of the South African canning industry. Relatively few problems are being experienced at production level, but the canning sector will have to indicate by way of realistic prices how the industry must develop in the long term. The economic viability of the canning industry is not only of importance to the fruit producers of the Western Cape, but also of national importance because of the large number of workers and industries which are involved in making inputs to the industry.

Furthermore, it is also apparent that the continued existence of the canning industry in South Africa can only be assured if it is able to compete equally with other exporters who are provided with generous subsidies and export incentives. In the economic situation in which this country finds itself at present, it is accepted that State assistance is available only for essentials.

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If, however, the State regards the survival of the canning industry as earner of foreign exchange and provider of employment as a priority, positive efforts will have to be made to assist the industry on a more long term basis. The sub-committee charged with investigating problem areas in agriculture recently found that the existing export incentive measures do not meet the needs of agriculture. We trust that the Authorities will review and amend these export incentives as speedily as possible to give effect to the marketing objectives outlined in the White Paper on Agricultural Policy.

The next few years will indicate whether the relief given to the canning industry during the past few years has served the purpose for which it was originally intended.

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Abstract

Thanks to the weak performance of the Rand against most foreign currencies and the decline in the tonnage processed in South Africa, Australia and the United States, the international market for canned deciduous fruit has firmed considerably during the past year which enabled the Board to increase the minimum prices of canning fruit with 12 - 14%.

As a result of the competition from subsidised products emanating from countries such as Italy, Greece and Spain, South Africa has lost a considerable portion of its market share in Europe, but succeeded in disposing of larger volumes in markets outside of Europe.

Notwithstanding the benefits accruing to exporters from the weak Rand, escalating production costs and high interest rates on borrowed money have swallowed up a large proportion of this advantage. There is also a degree of uncertainty about the influence of Spanish competition once this country becomes a member of the EEC in 1986.

The tonnage of deciduous fruit used in the processing of various canned products has stabilised during the past four years at between 160 000 and 170 000 tons. Since very few new plantings have been made in the past four years, it is anticipated that the total production of clingstone peaches and Bulida apricots, in particular, will decline during the next few years. Although the canning industry absorbs the major portion of the apricot, peach and Bon Chretien pear crops, considerable adjustments have been made during the past year in the farming structure on fruit farms and considerable volumes of fruit are now being diverted to the fresh market or dried.

In view of the fact that the canned product also constitutes an outlet for other industrial products such as tinplate, sugar, cartons and so on, any State aid extended to the canning industry will also benefit the sale of these products.

The canning industry is also of the opinion that the survival of the industry as a major employer and earner of foreign exchange is of national importance and that a further recession in the industry could have serious socio-economic implications for the country as a whole.

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Inquiries into existing export incentive measures have revealed that the present concessions do not meet the requirements of agriculture. Since the possibility of further relief being extended to the industry is scant, the revision of these export incentive measures is now a matter of urgency. Without this the canning industry will find it extremely difficult to survive against the subsidised products of its competitors.