Analysis of the Export Citrus Industry in South Africa: Profitability & Land Reform Fears

The South African export citrus industry is a vigorous self-regulated industry with strong producer representation, research, extension and market access services. It is very well positioned as the second largest exporter of citrus in the world - behind Spain and well in front of the United States. However, the king could lose his groove if fears of landlessness are not dealt with. This paper describes the structure that drives the South African export citrus sector and uses Michael Porter's framework of the five forces to analyze the industry with a special focus on how fears of land reform can negatively affect productivity and what industry leaders should do to mitigate fears of reform threats. Finally, I talk about my career choice in applied sociology in agricultural development and what skills and knowledge I will need to be successful in this field.

The Numbers.
In 2006, South Africa was the 3rd largest citrus exporter in the world behind Spain and the USA. Only four years later, the country is the 12th largest producer and 2nd largest exporter globally. While 45% of citrus is exported to Europe, South Africa continues to expand its access in the U.S. while breaking into new markets in the Far East and Middle East (Philp, 2006; CGA, 2010; Fresh Fruit Portal, 2010).

The industry consists of 1400 growers spread out throughout the country but mostly in the coastal provinces. There are approximately 58,102 hectares of land under citrus production in the country with the majority of production concentrated in Limpopo Province (18,146), Eastern Cape (12,162), Mpumalanga (12,050) and Western Cape (9,224) (CGA, 2010). Of total production, 58% is exported and includes oranges, soft citrus, grapefruit and lemons. In 2010, 1.1 million tons of citrus were exported and the USDA-FAS expects exports to increase by 4% in 2011 (Siphugu, 2010).

Competition in the Global Citrus Industry.
Rivalry Among Existing Competitors. The citrus export industry is very competitive but when it comes to Southern Hemisphere exporters, SA is definitely king. "SA dominates total southern hemisphere citrus exports (62 percent market share) and in particular the grapefruit (93 percent) and oranges (75 percent) while the lemon sector is dominated by Argentina" (Siphugu, 2010). There are two major reasons for SA's competitive advantage. First, South African citrus exporters have a very strong and capable network of organizations that make sure that the country stays ahead in terms of production, research, extension, lobbying and market access efforts. Second, the industry's efforts in popular variety adoption and quality-assurance management processes keep South African citrus strong in the increasingly competitive global market (Fresh Fruit Portal, 2010).

The network of organizations in SA's export industry is quite impressive. For many years, the citrus industry depended on a single entity for research, marketing and export called Outspan. In 1997, the government deregulated agriculture in the country and until 2000 research and technical services for the citrus industry were practically dead. During that period, the industry
floated on existing research and actually prospered but by year 2000 growers began to see the negative effects of the lack of technical transfer. The Citrus Growers Association (CGA) was created to fill that void (CGA, 2010). In 2001, citrus growers agreed to start paying a levy on each carton of citrus exported to fund Citrus Research International (CRI). The CRI is grower-controlled which gives South African citrus farmers control over decisions that affect them. The Fresh Produce Exporters' Forum (FPEF) is the organization of exporters that have managed to create "some innovative...marketing arrangements" that even the Australian citrus industry envies (Philp, 2006). The CGA, CRI and FPEF along with the very impressive cold-chain services provided by the government-run Perishable Products Export Control Board (PPECB), keep the industry performing at its best (PPECB, 2011).

In a telephone interview, the CEO of CGA, Mr. Justin Chadwick, said that competition among Southern Hemisphere countries is fierce, especially with Uruguay, Chile, Peru and Argentina. In lemon export, SA "accepts that Argentina is king" but South Africa has niche markets where quality (and not necessarily price) give it an advantage. Eastern markets, for example, are very quality-conscious and "quality differentiation is what sets us apart.” USDA confirms Mr. Chadwick's comments. In 2009, Chile was giving South Africa a run for its money in the U.S. navel market. However, even though SA navel prices were higher than Chile's, it was quality, timing, packaging and regular shipment that gave the African country the advantage over the South American (Siphugu, 2009).

The threat of new entrants into the citrus export industry that directly compete with South Africa is thwarted by the same factors that give SA an advantage over existing competition. Added to these factors is buyer loyalty sustained by quality, constant supply ensured by legislative standards and good infrastructure and growing research and development funds.

Limpopo Province citrus grower, Mr. Abe de Villiers, recalls his visit to China in which he noticed many people buy citrus from the markets and resell them on the streets. Mr. de Villiers said that “these people can’t afford a single bad citrus because their livelihood depends on it so they recognize your brand and recognize your PUC number and continue buying from you and not some other country... in the end, you’re in competition with yourself” (personal communication). While countries like Peru and northern hemisphere countries like Morocco are threatening to break into markets dominated by South Africa, it is government-mandated programs that require growers to meet minimum standards that keep citrus quality high (Mr. Justin Chadwick, personal communication). Reliable infrastructure like roads and good ports allow South Africa to ship a constant supply of citrus that attracts buyers and keeps them loyal. Funding for research and development conducted by the CGA through CRI is a key component keeping the threat of new entrants low. Growers in the country recognize the power of R&D and lobbying done by these organizations and pay a statutory levy of 39 cents per 15 kilogram carton exported. This levy will increase to 41 cents in 2012 making the R&D even stronger (CGA, 2010).
The power of buyers of South African citrus is relatively low- at least when it comes to power that can drive down profitability. South Africa exports to many different countries and is currently breaking certain types of citrus into new markets like the U.S. thanks to changing phytosanitary restrictions specifically citrus black spot (Siphugu, 2010). This means that the buyer pool for the country is quite big and lessens buyer ability to play one vendor against another. Again, quality matters to citrus buyers which makes them less price-sensitive as Michael Porter would explain. Buyers of South African citrus are getting high quality and are willing to pay for it.

However strong the South African export citrus industry might be it is not without a threat of substitutes. In Europe, SA’s biggest buyer, locally-grown deciduous fruit represent serious competition. The huge popularity of sweets and potato chips over every type of fruit (which has huge implications for obesity in many countries) also threatens the profitability of the industry. Increasing demand of fruits like citrus over sweets and other unhealthy snacks is now the responsibility of governments in countries where obesity is a problem. For the industry in South Africa, advertising the consumption of citrus is the responsibility of companies like Dole and Capespan due to the fact that there is no industry-funded marketing to consumers (H. Le Roux, personal communication).

Suppliers have power to decrease profitability. Sappi, the global paper and pulp company based out of Johannesburg, has an almost complete monopoly over the packaging available to producers. There are only 8 container companies in South Africa for exporters to ship through. This is damaging to the export citrus industry because producers and exporters have less bargaining power. The cost of labor is also a burden on producers. The labor pool in South Africa is quite large and unemployment is around 25.3% (Statistics South Africa, 2010). However, the rising minimum wage is increasing producers’ costs which forces them to hire less labor and intensify management oversight to keep productivity high. The HIV/AIDS prevalence rate among adults ages 15 to 49 in South Africa is approximately 17.8% (UNAIDS, 2009). As delicate and sad as the subject is, the extremely high HIV/AIDS rate also affects labor because workers are much more likely to get sick or die which means that employers often have to retrain new labor (J. Chadwick, personal communication).

Many citrus producers in South Africa are worried about the high price of petroleum and the repercussions the rising prices have on their own costs. The cost of fertilizer, herbicides as well as transportation to and out of ports is increasing and producers are expecting an increase in electricity prices between 5% and 30% (A. de Villiers, personal communication). The growing strength of South African currency is also bad for producers. "The strengthening of the ZAR against major fruit trading currencies continues to negatively impact the ZAR valued return to growers... red flags for the moment are on the ZAR - US$ exchange rate and the price of Brent Crude increasing beyond US$100 per barrel (Brooke, 2011)."
Land Reform Threatens Profitability.

When talking about threat of new entrants into an industry, Michael Porter says that “it is the threat of entry, not whether entry actually occurs, that holds down profitability” (3). In a similar way, the fear of the threat of land reform for citrus growers in South Africa (the majority of whom are white) could hinder profitability.

Porter makes it clear that government policies are not necessarily a "sixth force" affecting an industry but stresses the importance of analyzing how government policies affect each of the five forces individually (10). In the case of the South African export citrus industry (and the agriculture sector as a whole) land reform is a very important factor. Under apartheid, millions of black people were forcibly removed from their land. In an effort to restore some of this land to the landless, the South African government since 1994 has implemented market-led reform policies to buy land from white farmers. However, many believe that the government has completely failed to make a positive impact on South Africa's black poor by providing farms but not providing skills transfer and other resources for them to engage in agricultural production (Lahiff, 2007).

There is real fear among white South African farmers that at any time claims can be filed on their land and they become land-less. Many farmers cite the economic chaos in neighboring country Zimbabwe that President Robert Mugabe has ignited by seizing white-owned farms over the past 10 years. The SA government plans on transferring 30% of white-owned land to black South Africans by 2014 and this is causing predictions of a crisis in agricultural production and "severe food shortages" (Dugmore, 2011). Reinforcing these fears, government has been talking "ominously of other ‘practical strategies’ to acquire land ‘more quickly and inexpensively’ sending shudders through South Africa's 40,000 white farmers" (Economist, 2009).

Citrus grower, Abe de Villiers, spoke to me during an interview at his citrus farm in Limpopo Province about his and other farmers' fears that South Africa might be the next Zimbabwe. "The government takes your land and where do you go?" Mr. de Villiers that farmers really are fearful of government but it was interesting to hear him talk about the future of the citrus industry and agriculture in South Africa with hope. He said that while citrus growers are trying to remain positive and continue producing, “the government is not making it easy.”

What is worse is that citrus growers in South Africa might be driving down their own productivity waiting on a land claim that might never come. During a telephone conversation, the CEO of the CGA, Mr. Justin Chadwick, explained what he believes might be a future problem for the export citrus industry. Since land reform policies began to be instituted, some farmers have developed a short-term outlook on their farms, "shorter-term than farming should be." Mr. Chadwick has noticed that many farmers who feel threatened by land reform (especially those whose farms are in the land claim process) are neglecting their trees and neglecting proper pest and irrigation practices. He does not believe this is a problem at the moment because the industry
has enough trees to be profitable in the export market for the next 30 to 50 years but he does believe that the CGA is going to have to address the issue "at some point."

**Industry Leaders Can Help Mitigate Fear and Land Reform Threats.**

There are plenty of cases that prove that white farmers and black claimants can reach consensus on land issues to sustain productivity in agribusiness. An excellent example is the agreement that the Tsitsikamma Mfengu people reached with white dairy farmers operating on land that had been taken from them in the 1960s. When the Mfengu people successfully recovered ownership of their land, they understood that allowing the white dairy farmers to rent their land and continue the dairy operations would be much more profitable than attempting to run a communal subsistence farm (Dugmore, 2011).

"For land redistribution to succeed, the total institutional structure has to be adjusted" so that small farmers have access to inputs and knowledge (Szirmai, 2005). Unfortunately, it takes only a conversation with a few South African university researchers and government extension agents to realize that there is virtually no funding for research and extension and that most money is going toward failing projects. In this regard, the citrus industry has the ability to do some good for the emerging or small black farmer in the country and position itself in good standing with the government and the people by providing training and extension services.

To stay strong and competitive the export citrus industry in South Africa must continue to show real interest in the government's *transformation* agenda. Perhaps the future of the export citrus industry in RSA relies on the CGA's ability to appease growers' fears of land reform and to actually lobby the government for real market-led land policies that boost social transformation without hurting agricultural production. Producers facing land claims must also be willing to take initiative to forge out agreements with land claimants that satisfy both parties and positively affect productivity and long-term profitability.

**About my career choice: plenty to see, plenty to learn.**

My career choice is in applied sociology in international agricultural development. I am interested in working with farmers in countries all over the world and especially interested in seeing how different socio-political dynamics affect them. The focus on land reform of this paper is proof of how fascinated I am with this topic. As I am working in South Africa, the history of race and the racialized political atmosphere that has effects on agriculture and all other aspects of South Africans’ lives is what interests me most at the moment.

To be successful in this field I must broaden my understanding of the dynamics in agriculture to include *economic* factors. My skills and abilities must extend beyond being able to identify sociological factors at play to being able to identify *all* issues at play. When I first started working in international agriculture in Guatemala (with the Borlaug Institute) I met someone who told me to “never stop the revolutions.” He was referring to my energy and my drive. I believe that my inquisitive personality coupled with continued research (especially applied in-field research) will help me prepare well for the type of work that I want to do.
Literature Cited


