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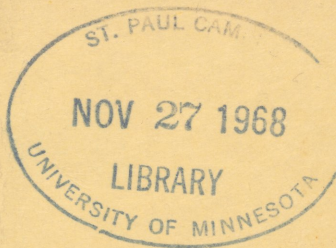
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Vol. 7, No. 3
July 1968

PRICE 20c



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QUARTERLY JOURNAL
ON AGRICULTURAL
ECONOMICS

Issued by the Department of Agricultural Economics and Marketing, Pretoria

Canned fruit - the probable consequences of the United Kingdom joining the European Economic Community

by

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THE PRESENT POSITION

Canned fruits represent two-thirds of the total sales on all markets by the South African canning industry. Of this quantity about 88 per cent is exported, of which 75 per cent is destined for the U.K. The varieties exported are apricots, peaches, pears, pineapples and mixed fruits like fruit salad. Of the total quantity of fruit exported to the U.K. more than 50 per cent consists of canned peaches. At present these canned fruits from South Africa enter the U.K. free of duty and this also applies to the products of Commonwealth countries like Australia. Excluding pineapples the U.K. import duty on similar products from other non-Commonwealth countries amounts to about 12.625 per cent. This is the present position.

BRITAIN IN THE EUROPEAN ECONOMIC COMMUNITY (E.E.C.)

What will happen if Britain joins the E.E.C.? All products from countries not members of the E.E.C. will then be subject to the common tariff of the Community, while between countries within the E.E.C. lower rates of duty apply and these will ultimately disappear. The only large producer within the E.E.C. of products which South Africa exports to Britain is Italy, which mainly supplies canned pears. Against third countries the E.E.C. imposes duties on these products which amount to 23 per cent.

The impact on South African canned peaches, pears etc. of the charges and customs tariffs which will result from Britain's membership arises from various sources:

- (a) Firstly our competitive position vis-à-vis certain of our non-E.E.C. competitors changes.
- (b) Secondly we and they are confronted with the common tariff of the E.E.C.
- (c) Thirdly we and they have to face direct and indirect competition against the products of the E.E.C. countries.

Let us briefly consider how these various aspects affect the South African product.

(a) Our competitive position vis-à-vis the non-E.E.C. countries

Here we are concerned with Commonwealth countries like Australia and Malaysia and producers of peaches and pineapples not members of the Commonwealth like California, Hawaii and Formosa. In respect of the Commonwealth countries our relative position does not change. Similarly against California, Hawaii and Formosa our position regarding pineapples does not change, but on peaches our competitive position deteriorates by 12.625 per cent.

South Africa exports about 3 million standard cartons of peaches to the U.K. (total U.K. imports 5 million). At present the U.S.A. exports about 4½ million cartons, mainly to the Continent and particularly to the present E.E.C. members. Although the U.S.A. might again enter the U.K. market after Britain joins the E.E.C. where the preference now enjoyed by South Africa and Australia prevents the U.S.A. from competing, this might not cause concern since the rapidly growing home market in the U.S.A. could reduce exports which might ultimately fall away. In these circumstances the U.S.A. will not be able to enter the U.K. market without reducing supplies to the Continent and thereby providing an opening for South Africa. Should this happen prices will harden and we will be able to view the Continent as a reasonable alternative to the U.K. market.

The competitive result of British entry into the E.E.C. can therefore probably be viewed with a fair measure of confidence in so far as the non-E.E.C. competitors are concerned, unless the increase in orchards in California is such that the U.S.A. can continue to market on the Continent and still have a sufficient surplus to sell in the U.K.

(b) The common external tariff of the E.E.C.

This tariff wall will, under the circumstances now being considered, also include Britain. Canned fruits from present suppliers will then be 23 per cent more expensive and the demand for these products in the U.K. is very sensitive to price.

The cost of the fruit constitutes about 20 per cent of the selling prices, and even if fruit prices to South African growers were reduced by 25 per cent this would only result in a difference of 5 per cent in the selling prices of the canned products. Furthermore the canner's profit margin is only about 3 per cent. It is thus clear that the South African industry can do very little to counteract the price increases which will result from the imposition of a customs tariff of 23 per cent. It must thus be accepted that the U.K. market for our products will shrink.

(c) E.E.C. competition

At present there are no large producers of canning peaches within the E.E.C. and pineapples are not produced. Indirect competition can however harm our trade with the U.K. and for this reason an increase in price of 23 per cent is very important. If a tin of peaches or pineapples for which the British housewife now pays 2/0 increased to 2/6 she will not only buy less to keep within the budget, but she will also be inclined to purchase alternative products like jellies instead of canned fruit. In other words it is not only a matter of four instead of five tins of fruit being purchased every week, but fruit purchases might be reduced to two tins and more alternative products used for desserts.

Obviously we are faced with a problem which cannot be solved solely by reducing our profit margin and the prices of fruit to producers. These measures must certainly receive attention, but by themselves they are not sufficient and in any case if they are not compensated for in other ways they cannot be accepted in the longrun. In brief the canning industry cannot over time manage without the profits which it has thus far obtained in the U.K. and ultimately these will have to be recovered elsewhere.

(d) Kennedy Round

Although the possibility of the U.K. joining the E.E.C. has brought the issues into prominence, they are already with us.

During the Kennedy Round of G.A.T.T. negotiations our preferential advantage of 12.625 per cent vis-à-vis the U.S.A. for example has in any case been reduced to 6 per cent and it might ultimately disappear. This is a danger signal for us in the U.K. market. Furthermore, even if the size of the U.K. market is not threatened because of membership of the E.E.C., our production of peaches is increasing more rapidly than the ability of the British market to absorb output at current prices. Measures which would have to be considered to meet the position should the U.K. join the E.E.C. must in any event be adopted even if the French Government succeeds in keeping Britain out of the E.E.C., and the sooner active steps are taken the better. It is sound policy to deal with weaknesses and to remove these if possible even if immediate danger

is not threatening. That we are dependent upon the U.K. market to too great an extent, is an obvious weakness which is merely emphasised by the danger which we see in the present efforts of the U.K. to join the E.E.C.

What is to be done to place the canning industry on a sounder footing?

1. Alternative markets must be found, studied and where possible developed economically even over the long-term. We know, for example, that Europe imports six million cartons of peaches every year and very little comes from South Africa. We should make it an objective to secure 50 per cent of this market.

2. The Government should pay attention to the conclusion of trade agreements with countries which offer potential outlets for our canned fruits.* During the past four years the Canadian market has for example increased its intake of peaches from 600,000 cartons a year to 1¹/₄ million - an increase of more than 100 per cent. South Africa does not share in this because Australian peaches enter Canada under a tariff advantage of 1¹/₂c a pound or about 36c (Canadian) per dozen A2¹/₂ cans. South African canners have proved that they can compete successfully with their Australian colleagues when they do not enjoy this type of advantage. This has been proved in the U.K., and as far as Canada is concerned one may refer to pineapples, where South Africa sells 200,000 cartons compared to Australia's 180,000.

3. Containerisation. - Australia is years ahead of us in the development of the shipment of canned products in large standardised containers. Use of these containers facilitates handling at each stage, saves time and labour and also results in savings through preventing damage to tins. Here the collaboration and assistance of the State is essential. Ships which are designed to transport these large containers incur lower costs at the ports. Research must be undertaken immediately.

4. Costs of production must be curbed. - Sugar, tins, cartons, labels, railway rates, harbour fees, shipping rates, salaries and wages all increased sharply during the past year. These increases weaken our competitive position and we are forced out of the export markets. Our costs of domestic distribution also require attention.

5. Long-term planning. - The stir caused lately by reports of a likely surplus of peaches brings the lack of long-term planning in South Africa under the searchlight. Peaches are not the only example - not so long ago there was a large surplus of guavas for canning and pineapples have

* G.A.T.T. does not permit new tariff preferences. Any tariff reductions would be on a m.f.n. basis. Editor.

frequently been over-supplied. Growers do not receive guidance in long-term planning. When a shortage occurs high prices encourage them to plant trees and to expand production. Plantings are however not planned and when the trees come into bearing there is a surplus. Trees are pulled out, production is curtailed and soon a shortage develops. The planting of trees must take place on a planned basis in the light of future marketing prospects and production must be co-ordinated on a long-term basis.

The problem must be approached in a positive manner. "Positive" is important. It is useless

to state that there is a temporary surplus problem and then the canners curtail production and the growers destroy part of their crops. It is of no avail to organise a marketing arrangement for canned fruits on the export markets and the participating canners see to it that it merely provides for price fixing with clauses by which delinquents can be pulled up. Price fixing is necessary and it is essential that participants accept it, but this is only the beginning. Marketing covers much more - promotion and advertising of our canned fruits on overseas markets is essential. Here our canners - and the State - must act without delay.

SUBSTITUTES FOR FARM PRODUCTS

Finding new uses for farm products has long been a popular subject for articles and speeches for farm audiences. Such writings and talks often tell of the wonderful new products and benefits that will result from the use of farm products in industrial processes.

On the other hand, the development of substitutes for agricultural materials has never been a popular subject. Yet, perhaps we should recognize that much of our economic progress since pioneer times has come directly from the production and use of substitutes for plant and animal products.

Farmers are among the biggest users of substitutes. Their tractors are replacements for horses. The fuel used in tractors has replaced the grains, hay, and pasture formerly required by the horses. Automobiles and trucks - used by farmers and others - are also substitutes for farm products, as is the fuel used in these machines. Fifty years ago, the production of 90 million acres, one-fourth of our cropland, was used for producing the feed for horses and mules.

Commercial fertilizers are another substitute for farm products. Each year, farmers spend millions of dollars for nitrogen and other fertilizer materials. The nitrogen is obtained from the air by industrial processes. Fifty years ago, farmers obtained most of the nitrogen that they needed by growing clovers and other legumes.

In pioneer times, wood was the principal building material - in town as well as on farm. Many modern buildings use little or no wood, being made of steel, aluminum, concrete, brick and glass.

The furnishings in early homes were made largely from plant and animal products. Most of the furniture was made of wood. Other articles were made of cotton, wool, linen, silk, horsehair, and feathers. Now, much of our furniture is made of steel, aluminum and plastics. The feather bed was replaced by a cotton mattress - replaced in turn, by steel springs, sponge rubber, and plastic foam. The plant and animal fibers have been replaced by rayon, nylon, polyesters, and other synthetic fibers.

There are also substitutes for feeds and foods. Farmers use urea, an industrial product, as a substitute for farm-produced protein in the rations of beef and dairy cattle. They also use synthetic vitamins in animal feeds.

In some cases, cheaper farm products have been substituted for more-expensive ones. An outstanding example is the use of margarine in the place of butter. Margarine is made largely from soybean and cottonseed oils, which cost less than one-fourth as much to produce as butterfat. Today, we also have substitutes for cream and milk - even for meats, such as pork and chicken.

The coming of cheaper substitutes always hurt some people, but the losses are more than offset by the gains for the nation as a whole. - L.H. Simerl, Extension Economist,
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