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PROSPECTS FOR CANNING FRUIT

1. Review

Up and until about 1979/80 the canning industry enjoyed a fair degree of prosperity and producers were also encouraged to expand their activities. Since then, various factors have combined to change the situation drastically, amongst others the relatively high level of inflation and interest rates locally, sharply escalating production costs, fluctuations in exchange rates, and increasing competition in traditional overseas markets, resulting from protective policies. At the same time, all of the producer countries enjoyed excellent crops with a consequent oversupply of canned fruit on world markets and price reductions to below the level of production costs.

This resulted in canners experiencing difficulty in processing the available tonnage of canning fruit and they were also not able to pay a realistic price to the producer for the raw material. It was consequently decided to introduce marketing quotas so that a portion of the crop could be diverted to other markets, such as the drying of fresh fruit. Fortunately, the three most important fruit kinds, namely Bulida apricots, clingstone peaches and Bon Chretien pears, to some extent lend themselves to diversification.

2. Production

Table 1 reviews the total intake of canning fruit by canners over a period of years:

TABLE 1: Intake of canning fruit

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

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According to Table 1 there is a clearcut declining tendency in deliveries of clingstone peaches, Royal and Bulida apricots. The gross total farm value of canning fruit delivered, furthermore, declined from R31,4 million in 1979/80 to R21,7 million in 1982/83 (State assistance included).

During the past two years, the Board has transferred the application of marketing quotas from the producer to the canner and, in so doing, eliminated a considerable number of administrative problems. The production of canned fruit declined by more than 45% after 1979/80.

Guidelines for planting

So as to assist producers in their decision-making about the planting of new orchards, the three Fruit Boards recently drafted guidelines for planting, based on marketing and production projections. So far as canning fruit is concerned, the indications are that there will be an increasing demand for Bulida apricots and clingstone peaches, whereas adequate quantities of Bon Chretien pears may be expected in the foreseeable future. Every producer will, however, have to take his own decision in the light of available resources on what to plant and to what degree he should diversify his farming undertaking so as to reduce the element of risk.

3. Producer prices

TABLE 2: Fixed minimum prices and assistance provided from Board and State funds over a period of years

Season	Bulida apricots		Clingstone peaches		B.C. Pears	
	Minimum price	Aid	Minimum price	Aid	Minimum price	Aid
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	84	42	100	50	80	40
1982/83	97	28	123	34	92	27

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Because of the problems experienced by canners after 1980/81, representations were made to the Authorities and R4,2 million was placed at their disposal during that season. This relief was largely applied by them for promotion purposes. A further interest subsidy of R5 million was approved for the rationalisation of their factories.

Since the cost of the fresh fruit represents such a small proportion of total processing costs, the Authorities decided in seasons subsequent to 1981/82 to pay out relief monies direct to producers so that they could make the necessary adjustments to their farming concerns. According to Table 2 the price of canning fruit (assistance included) remained fairly static after 1979/80. This meant that producers were obliged to re-examine very carefully the profitability of their various farming undertakings. Unprofitable undertakings, practices and orchards were immediately dispensed with.

In the meantime, the Jacobs Report was published and note was taken of the recommendation that no justification exists for subsidising any industry in the long term. The Authorities might, however, be persuaded for socio-economic reasons to provide further relief.

4. Marketing of canned fruit

In the light of the problems experienced by the canning industry, producers were encouraged to seek alternative outlets. Table 3 (appended) indicates what alternative outlets were utilised.

Table 3 reveals a clear increase in the quantity of clingstone peaches and apricots dried or marketed as fresh fruit. Although marketing opportunities for fresh and dried fruit exist, it is important that the increase in the supply should take place systematically and be sufficient to enable newly-developed markets to be retained. A sudden switch to alternative products, whether they be deciduous fruit kinds, wine, tobacco or mutton, would only succeed in transferring the marketing problem to these products.

4.1 Local market

Table 4 (appended) sets out the sales of canned fruit on the local market during the past few years. From this, it is evident that, seen against the total production of about seven million basic cartons, the local market plays an insignificant role as an outlet for canned fruit.

It is also evident, furthermore, that this market remains fairly static, notwithstanding the fact that surveys indicate that considerable potential exists in the non-white market.

4.2 Export market

Table 5 gives an indication of the exports of canned fruit to the EEC and other European countries over a period of years.

TABLE 5: The export of canned fruit to different destinations
('000 cartons of 24/2½ or equivalent)

Year	EEC	Europe & Other	Total
1976	7 695	1 504	9 726
1977	7 250	1 103	8 825
1978	6 099	1 119	8 150
1979	6 899	1 294	9 289
1980	6 379	1 507	8 862
1981	5 285	1 212	7 697
1982	2 074	2 500	5 665

Source: The South African Canned Fruit Export Board

Table 5 indicates very clearly the decline in export to the traditional markets within the EEC, which included the United Kingdom. On the other hand, there is a marked improvement in exports to other European countries.

Similar declines in the exports of canned fruit from the United States and Australia were experienced. This decline in exports must be ascribed chiefly to the protective measures imposed by the EEC in respect of imports from third countries. As a retaliatory measure the United States recently made available 15 million dollars for the promotion of canned fruit overseas.

5. Input costs

5.1 Production costs of canning fruit (fresh)

According to a production cost survey of canning fruit for the 1981/82 season by the Department of Agriculture, in collaboration with the Canning Fruit Board (see Table 6 appended), the production costs of clingstone peaches, apricots and pears per ton, were as follows:

Fruit kind	Interest inclusive	Interest excluded
Clingstone peaches	R155,50	R169,11
Apricots	R 97,65	R109,49
Pears	R114,45	R126,87

At a yield of about 17 tons per bearing hectare, clingstone peaches had a negative net gross income of R154,32 per hectare.

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From the 1981/82 survey, furthermore, it appears that inputs such as non-White labour, tractor costs, pesticides, fertiliser, and orchard establishment, represent the most important cost items in peach production.

The adjusted production costs for the 1983/84 season were consequently estimated as follows (interest excluded):

Fruit kind	Per ton	Per hectare (estimated)
Clingstone peaches	R206,57	R3 500
Apricots	R128,96	R2 200
Pears	R151,82	R4 400

Calculated at the prices recently paid for canned fruit, a producer must achieve a yield of at least 22 tons of clingstone peaches, 19 tons of Bulida apricots and 38 tons of Bon Chretien pears per hectare, to break even. This once again illustrates the importance of adapted cultivars in the optimal utilisation of available resources in a specific area. It may also be anticipated, in the light of relatively static fruit prices, that orchards planted on marginal land will be replaced with other adapted fruit kinds, or pastures.

Calculated as an average of the 60 producers in the sample, the farming results for 1981/82 were as follows:

Gross farm income	R144 967
Directly-allocatable costs	R 46 409
Indirectly-allocatable costs	R 60 890
Net farm income	R 37 668
Net gross return per R100 invested	R 5,88

5.2 Processing costs

According to a survey by the Division of Economic Services the cost of processing clingstone peaches during the 1981/82 season, was as set out in Table 7.

TABLE 7: Processing costs of clingstone peaches for 1981/82

<u>Cost items</u>	<u>Rand per ton of fruit</u>
<u>Delivered cost of fruit:</u>	
Cost of fruit utilised	99,986
Transport costs	1,622
Fruit Containers	<u>2,735</u>
	(a) <u>104,343</u>
<u>Cost of production and sales</u>	
Cold stores	1,601
Sugar	63,030
Glucose and other sweeteners	4,804
Other ingredients	2,782
Cans and jars	214,157
Cartons	26,256
Labels	16,709
Direct labour	27,792
<u>Overhead costs:</u> Factory	150,861
Administration and sales	65,641
Damage allowance at 0,5%	<u>3,390</u>
	(b) <u>577,023</u>
<u>Allowance for return on capital</u>	
Fixed capital at 15% (including cold store)	17,901
Working capital at 15%	<u>83,152</u>
	(c) 101,053
<u>Special replacement capital:</u> On fixed capital, excluding land and buildings at 16,49%	(d) <u>10,144</u>
Totals (a) plus (b) plus (c) plus (d)	<u><u>792,563</u></u>

From Table 7 it is evident that fruit costs represent only a small percentage, namely 17,3% of the total processing costs of R577 per ton (interest and depreciation excluded). An increase of, say 15% in the price of fruit would thus result in an increase of only 2% in the total processing costs. Cans and labour, which represent about 63% of total processing costs, are the biggest cost items.

If an average increase in input costs of 14% is allowed for over the two years 1982/83 and 1983/84, the processing costs (interest and replacement costs excluded) for 1983/84 are estimated at about R878 per ton of fruit. If interest and replacement costs are added, the total processing costs amount to about R1 000 per ton of fruit.

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6. Prospects for the coming season

Very little has been observed thus far of the anticipated upswing in the world economy and locally we are still battling with a double-digit inflation rate, while our most important trading partners, namely the United Kingdom and West Germany, can boast of inflation rates for 1983 of as little as 4,7% and 3% respectively. Because of the protective measures applied within the EEC, amongst others import tariffs and production aid to canners, Greece has assumed the role of chief supplier of canned peaches and apricots to the United Kingdom, while Italy is currently the most important supplier of fruit mixtures.

Since the price of canned fruit on the European markets has, in fact, declined in real terms since 1979, canners decided very prudently to bring production more into line with marketing prospects. Based on the 1981/82 production of canned fruit, there was a decline of about 46% in Australian production, a decline of 32,9% in Californian production and a decline of 12,4% in South African production of canned peaches during 1982/83.

It is reported that Spain marketed canned fruit at profitable prices in the United Kingdom and Europe during the past season even without the subsidy to which she will be entitled after entry into the EEC.

So far as the South African canners are concerned, their estimates of the required tonnage of fruit for the 1983/84 season are very realistic and differ only slightly from the previous season's requirements. The total tonnage required during 1983/84 is estimated at 24 000 tons of Bulidas, 36 300 tons of clingstone peaches and 47 500 tons of Bon Chretien pears.

With the exception of Bulida apricots, the new season's crops appear reasonably promising and, should a realistic price be negotiated for canned fruit, it may be anticipated that the eight surviving factories will be able to obtain sufficient fruit.

So far as prices for 1983/84 are concerned, producers recently indicated that they would like to receive a price of R200 per ton for canning grade clingstone peaches, R160 per ton for canning grade Bulida apricots and R150 per ton for canning grade Bon Chretien pears. Since the State has already extended financial aid in respect of the 1983/84 season, this means that the canners must pay a minimum price of about R166 per ton for clingstone peaches, R145 per ton for Bulida apricots and R123 per ton for Bon Chretien pears. The final minimum price will, however, only be announced during November, 1983.

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7. Favourable and unfavourable aspects of the Industry

7.1 Unfavourable aspects

- 7.1.1 The relatively small local market and shrinking export markets remain our biggest concern.
- 7.1.2 The effect of the admittance to the EEC of Spain, and possibly Portugal, on the supply of canned fruit, is unpredictable.
- 7.1.3 Political pressure is being applied to EEC countries to employ subsidies to achieve self-sufficiency in respect of agricultural produce.
- 7.1.4 The relatively high local inflation rate, compared with our trading partners, makes us less competitive in the export market.
- 7.1.5 The drastic fluctuation in exchange rates complicates the fixing of prices for specific periods.
- 7.1.6 A gradual improvement in the quality of canned products from Greece and Italy is detectable.

7.2 Favourable aspects

- 7.2.1 There is evidence that the quality of South African canned produce is, in general, superior to the European products.
- 7.2.2 Our canning industry is well organised and the pooling system introduced recently for marketing, promotes orderly marketing on overseas markets.
- 7.2.3 There are indications that Greek canners are experiencing financing problems and, at their inflation rate of about 22% annually, they will be obliged to increase their prices.
- 7.2.4 There are indications that the formula for the calculation of production aid within the EEC may be amended in the foreseeable future. The production aid extended in respect of canned pears has already declined by 25% this year in Italy.
- 7.2.5 Marketing opportunities to countries outside of the EEC, such as Canada, Japan and even the United States, have presented themselves.
- 7.2.6 There was an increase in the per capita consumption of canned fruit, in the United Kingdom in 1982 as compared with 1981 consumption figures.

8. Summary

In all the traditional fruit-producing countries, such as the USA, Australia, South Africa and the Ivory Coast, scores of factories have been obliged to close in recent years because of the unprofitability of their respective canning industries. These traditional canning countries prudently decided, however, to bring their production into line with local and export requirements, and to increase prices. California this year delivered the smallest pack of canned peaches since the Second World War, while Australia intends producing only for its internal market. There is thus a possibility of an improvement in the export market for canned fruit, BUT several questions still await an answer, amongst others the reaction of EEC producers to the decline in production aid, the effect of Spain (and Portugal) being admitted to the EEC, and the reaction of consumers to the recent price increases for canned fruit.

There are sound reasons why the local canning industry cannot be permitted to collapse, namely:

- 8.1 The recovery of the South African economy is closely linked with an increase in exports.
- 8.2 Should a quota system be considered in the near future by the EEC, South Africa must possess the necessary bargaining power.
- 8.3 Lost market share is extremely difficult to recover.
- 8.4 The ripple effect of an increase in unemployment on the economy of the Western Cape and its people, is difficult to quantify.
- 8.5 The deleterious effect on service industries, such as tinsplate (Isacor), cartons, South African Transport Services, shipping lines and the sugar industry, can hardly be tolerated.

The State, especially, is interested in the following questions: for how long will State Aid still be required and, how much will be needed?

These questions are difficult to answer since, so far as canned fruit is concerned, a free market based purely on supply and demand does not exist in international trade. At present our competitors are subsidising and protecting their individual canning industries to a greater or lesser degree, either by means of tariffs, production aids, or subsidised promotion. Justification, therefore, exists for the State also to come to the aid of our local canning industry, albeit at a far lower level than that extended to our competitors. This relief will have to be extended (according to a formula) possibly for another three years, in any event until clarity is obtained about the imponderables listed above. The scope of State Aid, which could amount to about R4 000 000 annually, will definitely be less than the total State involvement which might follow further factory shut-downs.

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TABLE 3: Deciduous fruit marketed through different outlets during 1981/82 and 1982/83

Variety	1981/82	1982/83
<u>BULIDA APRICOTS:</u>	t	t
Canned in conventional cuts	17 805	11 226
* Juice and pulp	6 104	4 061
Fresh: Locally marketed	700	1 800
Exported by air	2	19
Dried: (17% drying ratio)	3 005	2 829
TOTAL	27 616	19 935
<u>CLINGSTONE PEACHES:</u>		
Canned in conventional cuts	79 848	78 670
* Juice and pulp	11 672	9 117
Fresh: Locally marketed	15 000	18 750
Exported by air	13	11
** Dried: (13% drying ratio)	22 069	23 500
TOTAL	128 602	130 048
<u>BON CHRETIEN PEARS:</u>		
Canned in conventional cuts	30 112	38 120
* Juice and pulp	8 215	6 414
Fresh: Exported	15 000	13 364
Local market	8 528	10 500
Dried: (17% drying ratio)	5 182	7 888
TOTAL	67 037	76 286

* Includes Canning Grade fruit delivered to juice factories, Manufacturing Grade and Undergrade fruit.

** Includes dried peaches sold privately.

TABLE 4: Distribution of canned deciduous fruit on the local market

(A canning year is from November 1 to October 31 the following year)

Figures are given in basic cartons (each carton is equivalent to 24 x A.2½: Net weight 20,40 kg)

Fruit kind	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Apricots	38 694	43 171	36 851	37 112	34 429	40 214	32 612
Clingstone peaches	515 981	494 561	471 530	488 097	599 943	590 086	483 287
Bon Chretien pears	190 625	179 669	148 568	171 903	167 860	203 778	186 195
Fruit Cocktail	131 207	104 092	93 406	97 185	102 047	112 132	126 983
Fruit Salad	71 408	72 122	69 108	82 468	81 609	76 510	76 774
Two Fruits	5 953	4 177	5 315	10 917	14 939	7 013	10 374
Total	953 868	897 792	824 778	887 682	1 000 827	1 029 733	916 225



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TABLE 6: Production costs of canning peaches in the South Western Cape for 1981/82, adjusted for 1983/84

Cost item	Cost survey for 1981/82	Index for 1983/84	Adjusted costs for 1983/84
	R/ton		R/ton
1. White labour	<u>7,89</u>	133,9	<u>10,56</u>
2. Non-White labour	<u>36,40</u>	129,4	<u>47,10</u>
3. Seasonal labour	<u>7,44</u>	137,2	<u>10,21</u>
4. Tractor	<u>13,50</u>		<u>17,85</u>
Depreciation	3,94	137,0	5,40
Repairs	5,22	139,1	7,26
Licence, Insurance and third party	0,10	133,2	0,13
Fuel	4,24	119,3	5,06
5. Lorries, motor-car and pick-up	<u>8,99</u>		<u>11,55</u>
Depreciation	<u>2,48</u>	130,3	<u>3,23</u>
Repairs	2,61	138,4	3,61
Licence, insurance and third party	0,79	126,4	1,00
Fuel	3,11	119,3	3,71
6. Engines and pumps	<u>5,28</u>		<u>6,88</u>
Depreciation	<u>1,42</u>	131,9	<u>1,87</u>
Repairs	2,10	138,4	2,91
Fuel	1,76	119,3	2,10
7. Trailers	<u>0,58</u>		<u>0,79</u>
Depreciation	<u>0,41</u>	133,0	<u>0,55</u>
Repairs	0,17	138,4	0,24
Insurance	0,00	136,1	0,00
8. Orchard equipment	<u>2,04</u>		<u>2,70</u>
Depreciation	<u>1,62</u>	131,1	<u>2,12</u>
Repairs	0,40	138,4	0,55
Insurance	0,01	133,2	0,03
9. Cultivation implements	<u>1,13</u>		<u>1,53</u>
Depreciation	<u>0,57</u>	131,1	<u>0,75</u>
Repairs	0,49	138,4	0,68
Insurance	0,07	136,1	0,10
10. Spraying equipment	<u>1,18</u>		<u>1,58</u>
Depreciation	<u>0,79</u>	131,1	<u>1,04</u>
Repairs	0,39	138,4	0,54
11. Diverse equipment	<u>0,56</u>		<u>0,74</u>
Depreciation	<u>0,51</u>	131,1	<u>0,67</u>
Repairs	0,05	138,4	0,07

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	Cost survey for 1981/82	Index for 1983/84	Adjusted costs for 1983/84
	R/ton		R/ton
12. Fixed improvements	<u>7,30</u>		<u>9,13</u>
Depreciation	<u>6,82</u>	124,7	<u>8,50</u>
Repairs	0,36	132,4	0,48
Insurance	0,12	125,3	0,15
13. Fencing materials	<u>0,15</u>		<u>0,20</u>
Depreciation	0,15	135,1	0,20
14. Water costs	<u>1,70</u>	131,1	<u>2,23</u>
15. Pesticides	<u>11,36</u>	151,3	<u>17,19</u>
16. Herbicides	<u>2,85</u>	122,9	<u>3,50</u>
17. Young trees	<u>0,05</u>	117,4	<u>0,06</u>
18. Fertiliser	<u>14,00</u>	130,9	<u>18,33</u>
19. Hired services	<u>0,32</u>	133,9	<u>0,43</u>
20. Establishment and costs for non-bearing period	<u>16,79</u>	135,5	<u>22,75</u>
21. Hired vehicles	<u>2,75</u>	128,5	<u>3,53</u>
22. Orchard maintenance	<u>0,13</u>	135,1	<u>0,18</u>
23. Diverse expenditure	<u>13,11</u>	133,9	<u>17,55</u>
Subtotal (interest excluded)	155,50		206,57
24. Interest on fixed improve- ments at 10%	<u>5,78</u>		<u>7,29</u>
25. Interest on machinery and implements at 10%	<u>7,83</u>		<u>10,42</u>
Total (interest included)	169,11		224,28

- Note: 1. Marketing costs excluded
 2. Production costs calculated at an average yield of 14 tons per hectare

