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## RE: SUBMISSION OF MINIMUM-WAGE INCREASES IN THE SOUTH AFRICAN TABLE GRAPE INDUSTRY

### Introduction

South Africa's total area under table grape production currently amounts to 19 788 hectares, and:

- consist of 530 production units,
- 63 million cartons (4,5kg equivalent) exported in the 2022/23 season,
- a decline of 12 million cartons since the previous season,
- profitability varies due to exposure to exogenous factors such as the weather, input costs, and exchange rates.

The longer-term trend in the industry highlights a tendency towards a strong escalation in input costs, which is having an adverse impact on profit margins. A large share of the input costs is incurred before harvest, resulting in production costs that do not vary to the same extent as production volumes. The analysis of cost indices indicates that wages and salaries are the single biggest cost at farm level, making up 52% of direct production cost. These costs increased by 88% over the past eight seasons.

### Industry overview

- In 2011 SATI recorded 13,462 total hectares planted
- In 2019 total hectares planted peaked at 21,798
- In 2023 the industry contracted to 19,788 hectares planted, 2,010 decline in four years,
- The industry provides employment to more than 100, 000 employees,
  - About 15, 000 permanent and 87,000 seasonal employees,
  - Contributing to the livelihoods of over 400, 000 dependants.

Contraction in table grapes hectares planted over the last four years coincided with substantial global and local challenges which include the following:

- **Global**
  - Covid-19 pandemic caused supply chain disruptions accompanied by quality issues for perishable products.
  - The Russia-Ukraine war, which exacerbated already rising input costs such as fuel and fertiliser.

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South African Table Grape Industry NPC (registration no. 2002/024268/08)

Directors: Anton Viljoen Jnr, Chairman | A Dippenaar, Vice-Chairman | AJ Griesel, Chief Executive Officer | N Kirsten | GS Smit | GP Viljoen | B Gosling | PA Karsten | L de Kock | WC Bam | CA van der Merwe | E Scholtz | H Davids | M H Vorster | M Paxton | NL Greeff

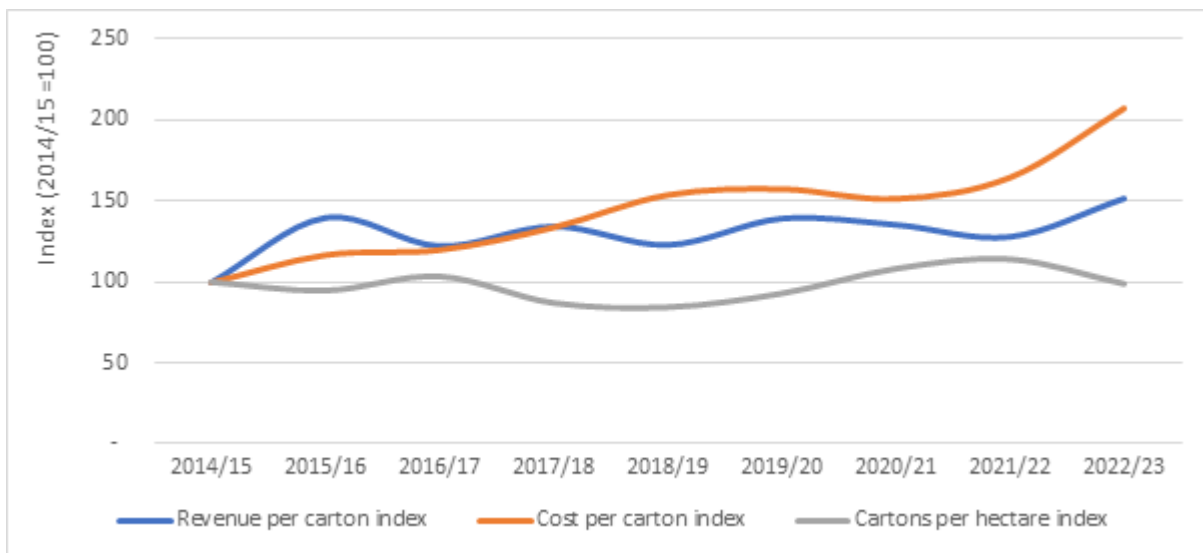
- **Local**

- Weather-related factors such as unseasonal patterns including higher than average rainfall and/or temperatures.
- Severe port congestion leading to export delays and quality issues.
- Persistent load-shedding.

**Financial pressure in the industry has been mounting over the last couple of seasons. This is concerning because it is an industry that a) sustains almost half a million livelihoods, and b) has been the fourth biggest contributor to foreign revenue earnings in the agricultural sector, on average, between 2020 and 2022 (ITC, 2023a).**

**Figure 1** illustrates how revenue per carton on an index base (in nominal terms) has not kept up with cost per carton for at least the last six seasons. The average number of cartons per hectare did not increase despite investment in higher yielding cultivars, due to adverse weather conditions. Since the 2018/19 season, the industry averaged a loss of R9 per carton at EBITA-level, or a loss of R43 per carton cumulatively over the five seasons.

**Figure 1: Major indices and profitability indicators in the table grape industry: 2014/15 – 2022/23**



**Source: Compiled by BFAP from Fruidata, 2022, ITC, 2023a & own data**

As stated, labour cost is a major component of input costs at the production level. The increase in the minimum wage is not the only contributing factor to the dire financial situation of many producers. Labour cost reduction is difficult as mechanisation in the industry cannot be fully exploited due to the nature of the product. Labour costs are a core driver and account for 40% of production costs.

**International competitiveness**

Peru, Chile, Namibia, and South Africa are the main exporters of table grapes in the Southern Hemisphere. All these export-orientated table grape-producing countries faced similar global challenges such as the impact of Covid-19, logistics challenges and costs, and rapid increase in production costs.

South African table grape exporters are largely dependent on the EU and UK market. Peruvian supply is the biggest threat to South Africa's position. The declared export (FOB) prices over time from South Africa

and Peru to the UK and EU show that Peruvian table grapes are shipped at a higher price per unit than South African table grapes, (CIF prices – not shown on graph).

Production cost and market access play a major role in the competitiveness and sustainability of an industry. In a comparison of the production costs, including the cost of labour, South Africa compares well with Peru.

Market access, specifically favourable access, plays a very important role in the potential returns from a market. **Table 1** indicates that South Africa significantly lags behind both Peru and Chile in terms of favourable access to strategic eastern markets for table grapes.

**Table 1: Overview of preferential trade agreements, tariffs, and regulatory requirements with strategic eastern markets**

|                   |             | South Africa's competitors |                              |                   |                              |              |                              |
|-------------------|-------------|----------------------------|------------------------------|-------------------|------------------------------|--------------|------------------------------|
|                   |             | South Africa               |                              | Peru              |                              | Chile        |                              |
|                   |             | Tariff                     | # of regulatory requirements | Tariff            | # of regulatory requirements | Tariff       | # of regulatory requirements |
| Strategic markets | China       | 13% MFN                    | 97                           | 0% Pref           | 97                           | 0% Pref      | 97                           |
|                   | India       | 30% MFN                    | 62                           | 30% MFN           | 62                           | 24% Pref     | 62                           |
|                   | Indonesia   | 5% MFN                     | 27                           | 5% MFN            | 27                           | 0% Pref      | 27                           |
|                   | Japan       | 7.8%   17% MFN             | 13                           | 0%   0%-3.2% Pref | 13                           | 0%   0% Pref | 13                           |
|                   | South Korea | 45% MFN                    | 47                           | 45% MFN           | 54                           | 0% Pref      | 53                           |
|                   | Malaysia    | 5% MFN                     | 0                            | 0% Pref           | 0                            | 0% Pref      | 0                            |
|                   | Philippines | 7% MFN                     | 48                           | 7% MFN            | 48                           | 7% MFN       | 48                           |
|                   | Thailand    | 35.64% MFN                 | 0                            | 0% Pref           | 0                            | 0% Pref      | 0                            |
|                   | Vietnam     | 8% MFN                     | 47                           | 0% Pref           | 47                           | 7% Pref      | 47                           |

Source: ITC, 2023b

Considering the favourable access in strategic eastern markets, the Peruvian table grape industry holds a considerable competitive advantage. South African producers are facing increasing difficulties in maintaining market share due to unfavourable trading terms and access.

### Implications for the South African Table Grape Industry

To determine how table grape producers plan to cope with the current situation, **SATI conducted a survey in August 2023**. A total of **104 producers participated** in the survey. Combined, these producers contributed **57% of the 2022/23 export volumes**. Of these participants:

- **54%** indicated that they **would decrease labour utilisation in the coming season**,
  - **95%** of those participants indicated that it is due to an above-inflation increase in the minimum wage over the past few seasons,
  - **85%** of those participants indicated that they intend to improve labour management practices,
  - **35%** of those participants indicated that they intend to stop exporting to markets that require more labour-intensive protocols,

- **35%** of those participants indicated that they intend to make use of automation and/or technology to reduce their labour use,
- **40%** of all participants considered shifting from table grapes to other less labour-intensive commodities (e.g., raisins). This potentially puts more than 2 600 hectares of table grapes at risk.
- **63%** of all participants indicated that the Cost of Labour has had the biggest influence on their profitability.
- **99%** of participants indicated that they provide services at a subsidised cost or as an extra benefit to employees. These services include i) housing and electricity, ii) water, iii) transport, iv) clinic or medical support, and/or crèche or childcare.

## In conclusion

With comparatively lower returns from traditional markets (than competitors), a general lack of preferential trade agreements with eastern markets, and the costs of imported inputs on the back of a weakening Rand, the industry is facing an increasingly challenging trade environment.

The risks and costs associated with load-shedding and poor performance in the ports are exacerbating the situation domestically. Whilst acknowledging the increasing cost of living in South Africa and the meagre living a single minimum wage affords a household, further increases in production costs, including the cost of labour, would likely accelerate the consolidation of the area. The reality in the labour-intensive table grape industry is that each uprooted hectare of vineyard ultimately revokes employment opportunities at a rate of 5 jobs per hectare, negatively affecting the livelihoods of more than 20 dependents.

SATI supports an increase in the minimum wage that is not higher than consumer price inflation.

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