Regulating South Africa's Citrus Export Commodity Chain(s) after Liberalisation

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ABSTRACT

This paper discusses changes in the regulation of citrus exports from South Africa. It traces the changes from state regulation of the citrus chain to very recent forms of private regulation in the context of highly competitive global markets. The paper argues that while these forms of private regulation are positive in that they are encouraging the industry to shift its focus from volume to quality – in line with overseas market demands – there are also limits and problems with private market regulation. The evidence thus far suggests that private regulation is limited to certain export chains associated with specific overseas markets and that it serves particular private interests.

1. INTRODUCTION

South Africa's citrus industry, unlike much of the country's manufacturing sector, has always been outwardly focused and 'globally integrated'. Exports of citrus to the UK started in the first decades of the last century; by the 1960s, South Africa was exporting well over half of all southern hemisphere fresh citrus and was ranked amongst the top five fresh citrus exporters in the world (Dixie, 1995). By the mid-1990s, the 40 million cartons of citrus exported to over 60 countries represented one-third of the total local and export value of South African fresh fruit production.

Despite its longer history of global integration, changes in international markets and the domestic regulatory environment have had a serious impact on the industry. Global citrus consumption has been stagnant for more than a decade. In the most important fresh citrus consuming countries – including Germany, France and the UK – consumption has not increased significantly since the 1980s. Based on demographic changes and trends in consumer preferences, the Intergovernmental Group on Citrus Fruit (IGCF) predicted a slow increase in citrus consumption to 2005 (IGCF, 1998). Increasing competition has exacerbated the problem of stagnant demand, and northern hemisphere markets are regularly oversupplied. Indeed, while South Africa dominated southern hemisphere production for much of the post-WWII period, it now competes with Argentina, Australia, and Uruguay in northern hemisphere markets. Longer northern hemisphere production seasons have also contributed to the persistent problems of oversupply.

Changes in the domestic regulatory environment have also played an important role in reshaping the industry. Between the 1940s and the mid-1990s, citrus exports were controlled by a single desk exporter called the South African Cooperative Citrus Exchange (SACCE). In 1996, new marketing legislation was passed and despite vigorous attempts by the single channel exporter to maintain an export monopoly, exports were liberalised and growers were now in a position to choose an independent exporter. Given South Africa's position as an important southern hemisphere exporter, the industry expected a strong 'private sector response' (Bayley, 2000). The extent of this 'response' exceeded expectations: in the first year after deregulation, there were more than 200 exporters roaming the country trying to procure both citrus and deciduous fruit. Major multinational exporters – including Dole and Del Monte – also established a presence and invested in packing and cold storage facilities.

For growers, the impact of liberalisation since 1997 has been mixed. Although they can now select an export agent, returns have declined and also appear to have become more volatile from season to season. In the third year after liberalisation (2000), the fruit export industry as a whole lost an estimated R1 billion in export earnings and the industry declared itself in crisis. Poor returns were blamed on quality, oversupply and the existence of too many inexperienced export agents. Since the disastrous 2000 season, there have been various attempts to privately regulate several specific citrus 'chains'. These disparate efforts have culminated in the establishment of a national organisation, which is attempting to re-impose voluntary measures on growers and

exporters with a view to improving the quality of citrus exports, while at the same time preventing markets from being oversupplied.

Recent changes in the citrus export sector raise interesting theoretical and policy questions regarding the theme of this year's TIPS Forum: Global Integration and Sustainable Development. While the citrus industry has a long history of global integration, it currently faces enormous challenges in global markets, which are regularly oversupplied and increasingly demanding of higher quality fruit. Based on detailed research with exporters, growers and overseas retailers and importers, this paper examines changes in the regulation of citrus exports both before and after liberalisation. I argue that while the single channel had certain benefits, it also faced structural problems that manifested themselves long before formal deregulation. With regard to the period after deregulation, the paper focuses on recent attempts to privately regulate exports in a free market environment. In the conclusion, theoretical and policy questions are raised about private forms of regulation in a sector.

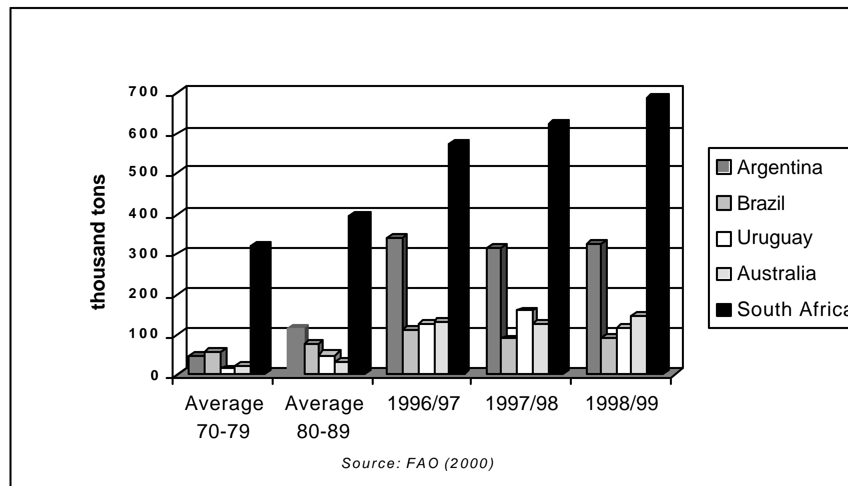
The paper is structured as follows: in Section One, the global citrus chain is described and South Africa's role in it is contextualised. In Section Two, the paper examines the single channel and the contradictions it faced during the late 1980s and early 1990s. The third section of the paper explores private forms of regulation and the establishment of Citrus Southern Africa, an organisation that it attempting to 'take back ownership' of the citrus industry. Finally, in the conclusion, theoretical and policy questions relating to the experience of this industry are considered in the context of the key theme of the Forum.

2. THE GLOBAL CHAIN AND SOUTH AFRICA

South Africa is an important player in the global citrus industry. While total world production of citrus is more than 60 million tons, only 11% is exported fresh; the rest is consumed domestically or processed for juice. The most important fresh citrus exporters are Spain and the US in the northern hemisphere and South Africa, Australia, and Argentina in the southern hemisphere. During the 1970s and 1980s, South Africa produced well over half of all southern hemisphere citrus. Increasing volumes of fruit from southern hemisphere citrus producers have more recently challenged South Africa's dominant position (Figure 1). Southern hemisphere exports are consumed north of the equator, where they have a counter-season advantage over northern hemisphere citrus producers.[1]

[1] Tariffs for most citrus varieties are lower during the southern hemisphere production season.

Figure 1: Southern Hemisphere Citrus Production

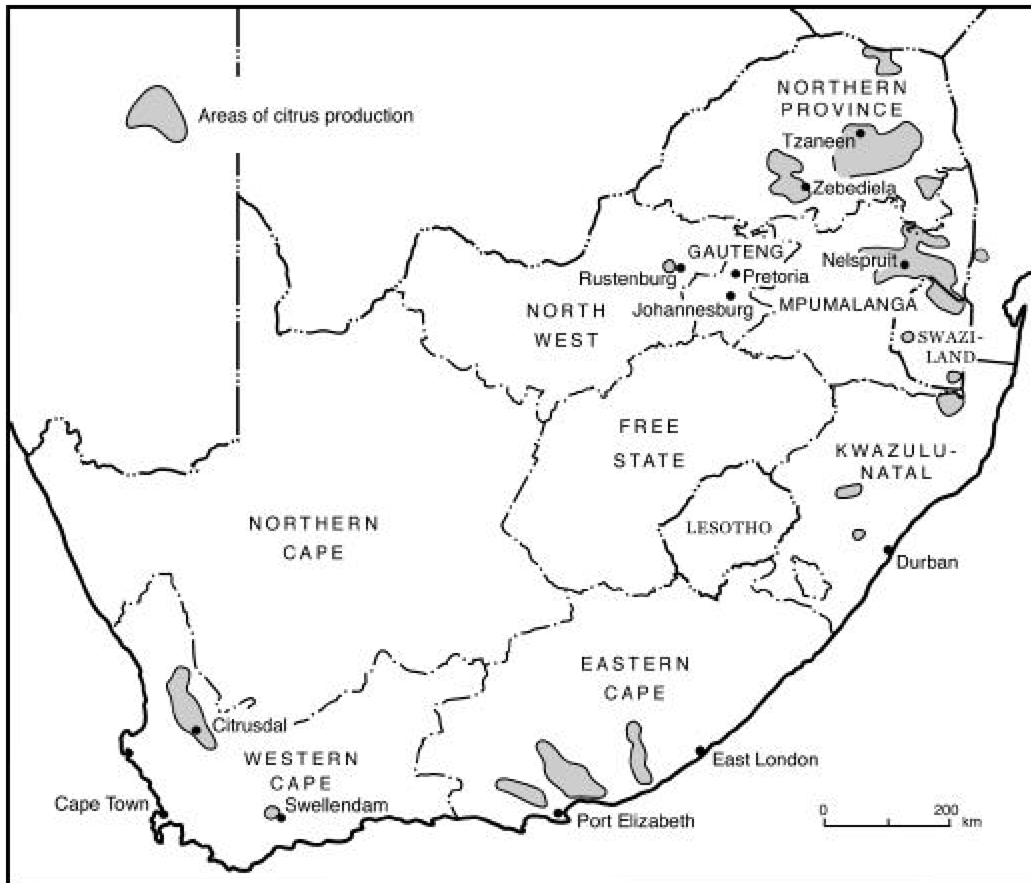


Citrus represents one of South Africa's most important agro-commodities by value and by volume. Production occurs mainly on white-owned farms in the Western Cape, the Eastern Cape, Mpumalanga, KwaZulu-Natal, and Limpopo provinces (Figure 2). Black growers have participated in the industry through projects in the former homelands of Bophuthatswana, Lebowa, Gazankulu and the Ciskei. Many of these farms, which always faced problems of economic viability, have collapsed with the incorporation of former homeland departments of agriculture into provincial structures. Within the region, Zimbabwe, Swaziland and Mozambique also produce citrus, although in much smaller volumes.

There are important differences between production regions in South Africa based on climate and farm structure. The Western Cape and Eastern Cape are considered to be 'cooler' citrus growing areas and production is focused on Navel oranges and lemons. The cooler climate has allowed farmers to respond to consumer demand for easy peelers like clementines and satsumas, and most of the country's easy peelers are produced in these two regions. Farm sizes are also smaller and most citrus in the Western and Eastern Cape is packed by privatised cooperatives in huge facilities that are amongst the largest in the world.

In Mpumalanga, Limpopo and KwaZulu-Natal, the climate is warmer and better suited to the cultivation of grapefruit and Valencia oranges. Farm sizes in these regions are larger and many more farmers pack in smaller privately owned facilities. In terms of volume, Mpumalanga and Limpopo provinces produce most citrus.

Figure 2: Citrus Production in South Africa



Source: Wits Cartography Unit, 2002

3. THE RISE AND FALL OF A PARTIALLY SUCCESSFUL 'PRODUCER-DRIVEN' CHAIN

From the early 1940s until the mid-1990s, South African citrus was exported through a single desk exporter known as the South African Cooperative Citrus Exchange. In the period after 1960, the Citrus Exchange used its monopoly over a large proportion of the southern hemisphere's citrus crop to improve the quality and quantity of fruit exported by investing both backward and forward of farm production. In South Africa, an impressive research and export infrastructure was built that included research stations, extension officers, and a citrus-tree (budwood) propagation farm located in the Eastern Cape.

By the late 1970s, there were more than 40 extension officers working throughout the country and 30 researchers (many with PhDs) at the Outspan Laboratory in Nelspruit (Cartwright, 1977). The Citrus Exchange's technical division was the largest of all other divisions with a staff of over 120 people. From the late 1970s, the Citrus Exchange focused its attention on improving the infrastructure for fruit export innovations in handling and pre-cooling facilities. The pace of investment accelerated

in the 1980s with the upgrading of port facilities, first in Maputo in 1983, and later at Durban, Port Elizabeth and Cape Town.

From the 1960s, the Citrus Exchange extended its reach to overseas markets. In his 1960 report, the chairman of the Citrus Exchange noted that while "it was always our policy to control the distribution of fruit down to the first point of sale…we are now adopting a policy which is designed to enable us to control the flow of our fruit right down to the ultimate consumer" (cited in Cartwright, 1977, 84). This statement opened the way for important changes in the coordination of fruit sales in Europe. Previously, fruit had been sold at wholesale markets or, in the case of Rotterdam, through an auction system.

In 1964, the Citrus Exchange decided to bypass both the wholesale market and the auction system – which they said was responsible for wild day-to-day swings in price – and appointed dedicated marketing agents called panellists. Panellists were encouraged to work closely with the Exchange's overseas office by estimating the demand for citrus in their designated 'market region' several months before the beginning of the citrus season. Once the level of demand was established, the overseas office would then match this information with production estimates from South Africa.

The goal of matching supply and demand was to prevent surpluses, which had a negative impact on prices and therefore returns for growers in South Africa. During the season, overseas offices monitored markets and competition and the daily sales of fruit through the panellist system. If market conditions were slow or oversupplied, the Exchange was able to store citrus – for limited periods, depending on the variety – until demand improved or competitors' stocks were exhausted. Panellists assisted the Exchange by decreasing prices to stimulate demand, particularly in oversupplied markets or when the quality of fruit was poor. In France, for instance, panellists were encouraged to compete for the 'Panellist of the Year', an award given to individuals who not only sold high volumes of fruit at recommended prices, but also "for other reasons such as unpopular varieties or counts sold at difficult times" (*Citrus Journal*, 31 July 1993).

Former Citrus Exchange employees pointed out several other advantages of the single channel. From the mid-1960s, South Africa and the Citrus Exchange gained the reputation of a reliable supplier of large volumes of citrus. With oranges, for instance, exports were highly structured around time and variety. In the beginning of the season, Navels were exported, first from the hotter northern growing areas and then from the cooler Cape citrus regions. When the Navel crop was exhausted, the Exchange would announce – via its panellists – the beginning of the Valencia season and exports would proceed in the same north-to-south pattern.[2] With a monopoly over a range of varieties and sizes, the Exchange was also able to supply different 'market

[2] The Exchange's ability to announce the arrival of new shipments and new varieties was an attempt to re-claim 'market information' from buyers. With a monopoly over market information the Exchange hoped to stabilise fruit prices.

segments' according to specific tastes. For instance, while French consumers appear to prefer larger sized fruit, in the UK, the demand is for smaller sized oranges and easy peelers.

Finally, the Citrus Exchange played an important role in monitoring quality, especially after the fruit was delivered to European and other overseas ports. Although fruit quality was assessed at cooperative and private packhouses by the Perishable Products Export Control Board and later at cold store facilities at the various South African ports, post-harvest diseases and other quality problems frequently manifested themselves after a two-week voyage in a refrigerated ship. The Citrus Exchange played a key role in managing these problems by re-sorting fruit to prevent decayed and damaged fruit from reaching retailers or wholesale markets.

Despite these advantages, the Citrus Exchange's ability to reap the rewards of a producer-driven chain always faced serious challenges and these intensified in the mid-1980s. Although it could manage South Africa's fruit during the northern hemisphere summer, it was unable to control the increasing volumes of fruit from southern hemisphere competitors and from unsold stock produced by northern hemisphere citrus producers.[3] This excerpt from the Citrus Board's 1984 annual report is typical of the situation it faced through the 1980s:

> A crop reduced by drought had first to face a record European overlap of unsold Mediterranean citrus. In Europe, South American fruit competed fiercely – often at prices at or below their freight costs. In the Far East and Canada the markets were flattened by the all-time record (US) Valencia crop (*Citrus Board*, 1983/4).

In the face of increasing competition from the southern hemisphere and larger 'overlap' volumes from northern hemisphere producers, the Exchange was finding it increasingly difficult to exercise its market power. When northern hemisphere production was more limited and there was less competition from the south, the single channel exporter did appear to be in a position to take advantage of favourable market conditions. Yet seasons where the Exchange was able to take advantage of lower supplies from its competitors with good quality South African fruit were increasingly rare.

Larger volumes of fruit in Europe exposed the persistent quality problems associated with South African citrus.[4] The Exchange's problem was not that South African fruit was generally of a poor quality. On the contrary, good quality South African fruit could be compared with the best from anywhere in the world, thanks in part to the

[3] It is fascinating to note that the single channel itself may have sown the seeds of its own destruction: the difficulty of dealing with the single channel, according to some service providers in the UK, led to buyers encouraging production in other southern hemisphere countries, notably Uruguay and Argentina. When these efforts began to bear fruit, and resulted in greater competition in European markets, it exposed key problems of the single channel, discussed in more detail below.

[4] This problem manifested itself as early as the late 1970s: "The 1978 season highlighted the changing market situation – it is becoming progressively harder to sell fruit of poor quality and condition, but the market is prepared to pay premiums for excellent fruit" (Citrus Board, 1979, 2).

resources spent on research and on improving the infrastructure for exports. It was instead the great *unevenness* in the quality of fruit exported by the Citrus Exchange's grower members.[5]

Here the 'pool' system, which rewarded growers for volume rather than for quality, appears to be responsible for the problem. Grower payments were based on the average returns to seasonal pools determined on the basis of size ('count') and variety. This system rewarded 'pool participation' rather than internal and external quality and as a consequence planting decisions were frequently guided by tree productivity rather than overseas market demand.[6] The pool, rather than individual growers, was also charged for fruit that could not be sold on arrival in a northern hemisphere port. In other words, poor growing practices were shared by all the contributors to the pool regardless of differences in farming practices. Although the single channel allowed the Exchange to manage a limited amount of poor quality fruit, in many seasons the scale of quality problems was beyond its control.

The situation of oversupply in European markets exposed an additional problem associated with the single channel: its inflexibility and rigidity. Retailers and former UK panellists expressed their great frustration with the single channel exporter's unwillingness – or inability – to provide fruit demanded by consumers in an increasingly competitive retail environment.[7] This frustration was not restricted to the Citrus Exchange's customers: interviews with senior employees of the Exchange's overseas office suggest that they were equally frustrated by the lack of the industry's response to 'market signals'. As one manager recalled:

> As the UK office we were really a branch of the head office based in South Africa. By implication we were grower driven. But we couldn't get growers to do what we wanted them to do. There were huge pow-wows over quality standards. We tried to set a common standard for the sugar acid ratio of grapefruit. This was one of Tesco's demands. But the growers couldn't agree so in the end we had to say to Tesco: do you want the fruit or don't you?

The South African industry was also slow in responding to the demand for easy peelers, despite the fact that consumption of this variety grew three times faster than for oranges and other citrus cultivars in the 1980s. At least part of the reason for its

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[5] The problem of varying quality, as one UK service provider noted, is that it is as bad as poor quality.

[6] The issue of tree productivity and its link to the single channel is revealed in a discussion held with a former high ranking Outspan employee: "Grapefruit is a case in point. It is over-produced. The writing was on the wall in the early 1990s. Grapefruit consumption was stagnating, but the single channel kept on managing volumes. As a consequence growers still got attractive returns. They kept on planting. I warned against it but the growers said to me: we produce the fruit, you must sell it. They kept on planting on rootstocks that gave high yields but low quality. The Japanese want high internal quality, that is the only way to sustain that market, but the farmers planted on rough lemon rootstock. It gives good yields, but the quality of the fruit is mediocre".

[7] This was the comment from Marks and Spencer's fruit buyer who had 20 years experience in the industry: "Whilst there was generally speaking a controlled marketing of fruit (in the single channel) in a disciplined and fairly sophisticated way, when retailers wanted specific requirements of size, varieties, different standards, it used to be extremely frustrating. We always found it frustrating because we couldn't necessarily get what we wanted. And that would be from a size point of view, an eating quality point of view, and from a varietal point of view."

inertia was that the infrastructure and marketing strategy were geared to harder varieties of citrus that could be packed in standard 15kg boxes and had the 'legs' to last a long journey in a refrigerated hold.

Indeed, the dominance of Valencia producing trees in South Africa is a consequence of their hardiness, the fact that they can be stored for several weeks in cold chambers before being sold, and their high yields. Yet the Valencia is not highly valued on overseas markets as an 'eating orange' and in most countries, Navels are preferred and consistently fetch higher prices. Easy peelers, on the other hand, are not only more complex to grow, with thinner skins they are more vulnerable to damage through handling and cannot be stored for any length of time in overseas cold stores. The infrastructure that was suited to growing and marketing Valencia oranges was simply not suited to easy peelers despite overseas demand and, as a result, the industry has lagged behind in the development of these new varieties.[8]

Challenges to the single channel were also emerging domestically: South African citrus growers were increasingly critical of the Citrus Exchange's performance on export markets. Growers in general were concerned about the poor returns on exports, particularly after the mid-1980s and the depreciation of the South African currency. There were other concerns about the bureaucratic nature of the Exchange and the inability or unwillingness of officials to answer a range of questions associated with export markets.

However, the most vehement criticism of the Exchange was reserved for the pool system. Growers in the Western and Eastern Cape felt that northern Valencia producers dominated the industry and that it failed to capitalise on the demand for Navels produced in the Cape. There were unconfirmed rumours that the Citrus Exchange sold Navels at cut prices as long as buyers were willing to accept large volumes of less popular Valencias. Growers who claimed to have better quality fruit complained that they were subsidising growers with poor agricultural practices. Many of these growers had identified the structural problems of the single channel and were urging the Exchange to respond to changes in overseas markets, a challenge to which it failed to respond:

> Even before deregulation we realised that niche markets need to be addressed. I had some new varieties that fit into my 'portfolio', but they weren't in the country's interest, they were in my own interest…They could have accommodated it but it wasn't in the national interest. There was also no research or any extension for that kind of thing.

Finally, smaller growers claimed – with justification – that the pooling system favoured growers with larger volumes of fruit. By the late 1980s and early 1990s, grower dissatisfaction with the Exchange had crystallised in the formation of a small, but very vocal, organisation demanding the deregulation of citrus markets.

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[8] Interestingly, Capespan (the private company that emerged out of the Citrus Exchange) and the larger cooperatives continue to suffer from the reputation of not being able to handle easy peeler varieties of citrus.

The Citrus Exchange's response to the structural problems of the single channel began several years before the formal deregulation of agricultural markets in South Africa. In 1992, the Citrus Exchange was transformed into the 'policy setting forum' of the industry and in its place a new cooperative called Outspan International was formed. Shares in the new company were distributed to cooperatives and individual growers based on the number of cartons exported in the previous five years. Two years later, Outspan International was privatised using a 1993 amendment to the Cooperatives Act, which sanctioned the privatisation of cooperatives. Shortly afterwards, the company announced its merger with Unifruco, the single channel exporter of deciduous fruit, to create a new company called Capespan. The new company has in turn established formal relations with a number of overseas companies including Fyffes, the Irish multinational fruit exporting company.

In the period leading up to the liberalisation of citrus exports, Capespan lobbied hard to convince the Department of Agriculture to maintain the single channel. Its arguments in favour of the single channel drew on research comparing its returns on overseas markets with those of its competitors. Returns for both Australian and Argentinean citrus growers were significantly lower, it claimed, because of the fragmented structure of the industry compared with South Africa (Stanbury, 1996). Capespan also pointed out that the establishment of new black citrus growers would be more difficult, if not impossible, in a deregulated market. Here the organisation promised to continue and expand its (very limited) efforts in assisting existing and new black growers in becoming competitive citrus exporters.

Despite these efforts, the Minister of Agriculture and Land Affairs, Derek Hanekom, declared on various occasions that he was unconvinced of the desirability of the single channel. A factor that influenced his decision was an African National Congress' pre-election policy guideline, which expressed concern over the 'hidden monopolies' that existed between the various agents in white commercial agriculture and the desire to see them broken.

4. LIBERALISATION AND PRIVATE REGULATION

The impact of liberalisation on South African citrus growers has been mixed. As in other African countries where agricultural marketing systems were liberalised, competition for fruit has increased significantly. In the first year after deregulation, there were more than 200 export agents competing for citrus. The intense competition for fruit was partly due to the large volumes of citrus, deciduous and subtropical fruit produced in the country and its proximity to Europe relative to other fruit producers in South America and Australia.[9] This explains why fruit multinationals like Dole and Del Monte have established a base in South Africa. The emergence of a large number

[9] The fact that the Rand is not pegged to the dollar – as was the case for other southern hemisphere citrus producers like Argentina – was an additional attraction to sourcing from South Africa.

of smaller export agents, many run by ex-Outspan employees, is largely a consequence of the structure of trading in Europe.[10]

While importers in the UK (now called 'service providers') demand programmes of fruit supply that last weeks and even months, importers in Europe are willing to accept small 'one-off' consignments of fruit. South African exporters in this category call themselves 'niche volume players' and operate exclusively in this market, as it would be very difficult for them to sell fruit anywhere else.[11] Amongst South African exporters, importers in Belgium and the Netherlands have the reputation of being excellent 'traders' and there are, of course, historical ties between South Africa and these fruit importing countries.

Competition for fruit has improved payment systems for all growers, a phenomenon also observed in other parts of sub-Saharan Africa after market liberalisation. During the regulated period, growers were paid an initial sum after delivery and then several additional payments as the season progressed. These additional payments were, however, slow and in some cases growers were harvesting the next seasons' fruit before the final payment was received. Liberalisation growers are paid more promptly and some have secured fixed payments and minimum guarantees from export agents willing to accept greater risk in return for fruit. Fixed prices and minimum guarantees are, nonetheless, usually offered to growers with larger volumes of fruit and with a reputation for good quality citrus. These terms were not normally offered to growers with smaller volumes and poorer quality fruit.

A more significant and long-term impact of Capespan's loss of the single channel has been grower exposure to different 'citrus chains' associated with specific overseas markets. When the single channel was in place, most South African growers were largely oblivious to different market segments and produced instead for the 'pool', which rewarded volume rather than the internal and external quality of the fruit. Although the pool system was adapted in the early 1990s, the incentive to produce higher volumes of fruit remained the key goal of most farmers. In the period since liberalisation, citrus farmers have become much more aware of the different citrus chains and are now able to distinguish between UK retailers who have 'unrealistic demands for quality' and other markets like continental Europe, West Africa and the Middle East, where the quality requirements are not as high. Since restrictions on exports to Japan and the US were lifted, growers are also far more cognisant of the phytosanitary regulations associated with these two 'very tricky' and risky markets. A key feature of the post-liberalisation era is the ability of both growers and exporters to describe the specific demands and requirements of different citrus export chains.

[10] Despite the existence of large multinational fruit trading companies, the structure of the industry is extremely fragmented. The top four multinational fruit companies – Dole, Del Monte, Chiquita and Fyffes – control only 6% of the wholesale value of world fruit (Rabobank, 2001).

[11] The strict phytosanitary requirements required in the US, Japan and other Far Eastern countries has discouraged smaller agents from these markets.

A second related development has been the emergence of a national organisation representing the interests of citrus farmers in Southern Africa. Citrus Southern Africa has enormous support from growers, not least because of the disastrous 2000 season, considered to be the worst in decades. Returns to growers plummeted from almost R2000 per ton in the 1999 season to just over R1200 per ton in 2000 (Department of Agriculture, 2002). In many cases, growers received no payment for fruit, or worse, an invoice from their exporter to cover transport and marketing costs. Low returns were blamed on deregulation and on the existence of too many small and inexperienced exporters, although the scale of the decline and the fact that 10 agents procure about 80% of the crop suggests that there were other contributing factors.

One of these factors was the large overlap of northern hemisphere fruit that remained available into the southern hemisphere season and large volumes from South America, both of which resulted in a situation of oversupply. A second factor was the generally poor quality of South African fruit, which during the regulated era might have been better managed. Despite the complexity of the cause of the poor 2000 season, the chairperson of Citrus Southern Africa declared the need to 'take back ownership' of the citrus industry, presumably from smaller exporters and overseas importers and retailers.

Since 2001, Citrus Southern Africa's efforts have focused on regulating citrus volumes, primarily by restricting lower quality fruit from being sent overseas. Although its efforts in this year were piecemeal, in the 2002 season Citrus Southern Africa established a joint marketing forum consisting of representatives of both growers and exporters. In this season, the organisation has embarked on an ambitious programme of regulating all citrus exports from South Africa by preventing the oversupply of citrus to specific markets.[12] By drawing up market demand projections and comparing them to South African production estimates, Citrus Southern Africa is hoping to prevent supplying markets with too much poor quality fruit, as occurred in 2000.

Where production estimates are likely to lead to oversupply and lower prices, the organisation is recommending that growers and exporters limit the crop by not shipping unpopular sizes and varieties of fruit. Since Citrus Southern Africa has no power to sanction growers or exporters who 'break the rules', it will instead expose the identity of agents who export lower quality fruit. Citrus Southern Africa's effort to privately regulate exports through the voluntary cooperation of growers and exporters does not, however, represent the first attempt to coordinate South African citrus. The organisation owes its origins to three specific attempts to privately regulate markets for citrus. A closer examination of these three attempts provides insight into the nature of private forms of regulation and the long-term sustainability of these efforts.

4.1 Japanese Grapefruit Chain

[12] Although it is a bit early to say, easy peeler producers appear not be interested in having their exports coordinated by Citrus Southern Africa.

The first attempt to privately regulate citrus exports occurred in the grapefruit chain. Returns for grapefruit farmers during the 1990s have been much worse than has been the case for the citrus industry more generally. In the 1997 season, export returns were lower than they had been in 10 years. In October 2000, grapefruit growers in KwaZulu-Natal coordinated a meeting of all Southern African grapefruit growers in Swaziland. Reasons for the poor return to this sub-sector of the industry were blamed on poor quality and the oversupply of key markets, especially Japan.

Since liberalisation, these problems have been exacerbated by a lack of coordination, which saw more than half of the grapefruit crop sent to Japan in one week. The result was a huge oversupply of the market and as a consequence much lower prices for growers. In an effort to improve quality and coordination, a decision was made to limit exports to Japan to three million cartons, considerably less than production estimates indicated. By restricting small-sized fruit, which are less popular in Japan, and by insisting on higher sugar levels, participants at the meeting agreed to the required volume. Exporters also agreed to coordinate shipments so that 300,000 cartons would go every week for the 10 weeks of the season.

4.2 US Chain

A second instance of private regulation was established in the late 1990s in the Western Cape for exports destined to the US. Prior to 1997, South African citrus exports to the US were barred through a phytosanitary trade barrier: citrus in South Africa is vulnerable to 'black spot', a disease that affects the fruit but poses no risk to the tree itself. The incidence of black spot is, however, geographically variable and in 1997 the Western Cape was declared 'black spot free'; fruit produced in this region could now be exported to the lucrative US market.

In the first year, export volumes were small and the USDA inspector based at Cape Town rejected much of the fruit. Volumes increased significantly in 2000 and more than 80% of the fruit passed the stringent testing procedures. Despite passing the phytosanitary hurdles, oversupply, poor coordination and uneven quality led to prices for oranges and easy peelers plummeting from between $25 and $36 dollars per carton to as low as $12 per 15kg carton. South Africa's main counter-season competitor in the US is Australia, and the lower prices for South African citrus also affected growers in this country. Indeed, with a stronger currency and higher cost structure due to transport costs and labour, the Australian citrus industry was faced with a crisis situation.

In 2001, representatives of the Australian Citrus Growers Association approached their Western Cape counterparts with a proposal to coordinate citrus exports to prevent oversupplying the US market. According to a prominent grower in the Western Cape:

> The Australians contacted us. They told us that they couldn't operate at these prices, that we were pulling the market out for them as well as for us. They said we can't control it but we can try to coordinate it and so we decided to export 1.2 million cartons each. They showed us the prices they got through DNE (their single channel) and they were between $23 and $36 per carton.

In order to coordinate exports with the Australians, growers in the Western Cape established the 'USA Navel Alliance', where it was agreed to limit the number of cartons exported to the US to between 1.2 and 1.4 million cartons for each exporting country. Since the volume of Navels produced in the Western Cape exceeded this quota, the USA Navel Alliance agreed to restrict fruit with low sugar levels, fruit that was too green, and fruit with a low juice content. The structure of the Australian citrus export chain raised some complications for the participation of South African exporters in this cooperative effort between citrus exporting countries. Citrus exports from Australia are coordinated by a number of agents within the country, but in the US they use only one agent, DNE, to facilitate better coordination of supply. While growers in the Navel Alliance were prepared to send all their fruit through DNE, Capespan balked at using a single overseas agent when it already had a presence through its offshore company Fisher-Capespan. Despite resistance from growers, agents and even former cooperatives, Capespan was able to convince the alliance to use two overseas suppliers, DNE and its own overseas company.

4.3 Middle East Chain

A third form of regulation has emerged for the Middle East and includes three varieties: lemons, Navels and Valencias. The Middle East market was, for various reasons, a very important one for the Citrus Exchange during the regulated era. Opened initially in the 1970s, this market played an important role in the 1980s as South African fruit became the target of sanctions and anti-apartheid protestors. Rather than using its famous 'Outspan' brand, the Exchange developed the 'Goldland' brand name for use exclusively in the Middle East. A second attraction of this market is that although wholesalers dominate the sale of fruit, four large companies control imports and they offer fixed prices to producers.

In the regulated era, the Citrus Exchange – and later Outspan International – established very close ties with these buyers and although it is not as lucrative a market as the UK or Japan, the Middle East was highly valued as an outlet for South African citrus. Following the liberalisation of the domestic citrus market, there was the real possibility that Capespan would lose this market to its competitors. However, in the late 1990s, the company established a 'club' of producers consisting of three large cooperative packhouses in the Cape and three large-scale growers in the northern citrus growing areas. With large volumes of citrus and a close relationship with the Middle East-based buyers, they have been able to limit competition from other exporters. Indeed, there is evidence that Capespan played a role in forcing out a smaller fifth buyer that established itself as an alternative route for South African citrus to the Middle East.

The governance structures of these three chains goes some way to explaining why private market regulation has been possible for exports to the US, Japan and the Middle East. The US and Far East are considered to be 'difficult' markets on two counts. First, the distance to these markets is considerably longer than is the case for Europe and the likelihood of fruit decaying en route is greater. Second, and probably more importantly, these markets have extremely strict phytosanitary regulations. Japan was opened to South African citrus exports in the mid-1990s after considerable effort. Exports to Japan must be cold sterilized, which involves cooling the fruit at a temperature of -0.5°C for a period of 12 days to destroy any insect infestation.

In the case of the US, as noted earlier, citrus exports were restricted due to citrus black spot. High rejection rates at the ports by the Japanese and USDA inspectors has discouraged smaller export agents from using what are considered to be 'tricky' markets and exports are dominated by the former single channel exporter (Capespan) and multinationals like Del Monte and Dole. The fact that exports to the US can only be produced in the Western Cape has also made it easier to coordinate exports, a task that would be much more difficult if exports were to come from the entire country.

Although grapefruit is produced in most citrus growing areas, production is concentrated in Mpumalanga, KwaZulu-Natal and Swaziland on large estates, which has also facilitated private regulation. For South Africa's other key markets – continental Europe and the UK – private regulation has been more difficult, and in the long term is unlikely to succeed due to the governance structures of these chains.

4.4 UK Chain

The role of UK multiple retailers in global fruit and vegetable chains has been the subject of several recent studies (Dolan and Humphrey, 2000). These have shown how the concentration of the retail industry has led to the consolidation of the supply base through the selection of a small group of 'preferred buyers'. Consolidating the supply base has allowed retailers to 'cascade' responsibility to service providers who are now expected to carry out 'due diligence' and grower audits, where facilities and working conditions are monitored. Service providers are also required to take responsibility for increasing market share, ensuring profitability and even product development. The consolidation of service providers in the citrus chain appears to have been more extreme than described by studies of fruit and vegetables more generally. It may be that slow growth in citrus consumption over the last decade has encouraged retailers to limit the number of suppliers, while at the same time demanding that they increase consumption through better quality fruit and newer varieties.

In late 2001, ASDA had only one citrus supplier, Tesco and Sainsbury's use between four and five suppliers, and Marks & Spencer has reduced its supply base to two. The extent to which these tasks have been passed down the chain does, however, vary between retailers. Marks & Spencer's two service providers are closely involved with the retailer's fruit buyer in marketing and procurement plans, in growing market share, and in monitoring the profitability of the citrus category. While Tesco now has

much closer relations with its supply base than before, it has not devolved what it considers to be 'critical aspects of its business':

> We aren't moving in the direction of category management: we won't devolve anything that we consider to be critical to our business. We won't allow price setting, marketing, promotions, ranging. etc. We consider these to be fundamental to our business.

Notwithstanding these variations in approach, fruit buyers all agree that there is a 'new partnership' between retailers and service providers. As noted earlier, the new terms of this partnership place many more demands on the UK-based service providers that have survived consolidation:

> So what do we expect in return (for being selected)? Instead of spending £20 million of our citrus business with 10 people, now 2 people share that business. That means that they have £10 million going through their books, it means that they can fund the right resource, it means that they can fund the right kind of plan etc. (M&S buyer)
>
> The change is that we now require a more rounded service. They will be looking at consumer research etc. The buyer used to be in a position of doing this and that; now that has been shifted to the service providers who are now much more mature businesses. They have their own technologists, their own marketing people, they have logisticians – they are a more mature kind of organisation (Sainsbury buyer).

They are also monitored much more closely in terms of a range of 'objective' measures called key performance indicators (KPIs) that monitor performance in terms of quality, market share and profit margins. In some cases, retailers demand that the percentage of fruit that is rejected is less than 0.5%. Fruit that is rejected is charged to the service provider, as are 'customer returns'.

While we must be careful of taking the discourse of partnership too far, it does have important implications for agents towards the production end of the chain. The small number of service providers involved in procuring citrus in South Africa have in turn established relations with a limited number of mostly new mid-sized exporters. Several are grower/exporters, which is considered to be an advantage as they will have control over some of the citrus they handle. Growers who are 'attractive' to these agents usually have larger volumes of fruit, they have a range of fruit varieties, they often have their own packing facilities and they are often considered to be high quality growers.

A second consequence of the 'partnership' is that UK-based importers and their South African agents procure citrus in 'programmes' rather than in small one-off consignments. These programmes run through the entire season and include specifications on volumes and varieties. The impact of this much closer relationship between retailers, service providers and growers is that it is now much more difficult for exporters and growers to supply retailers independently of their preferred service providers. As one service provider argued:

> It is not realistic to try and break into another retailer. We've spent a long time with them and a new agent can't just come in and replace us. If someone came to our buyer at Marks & Spencer he would refer them to us. Only in an extreme case would he listen to what they had to say.

The buyer for Sainsbury's argued that procuring the crop was the responsibility of the service provider and although he demanded 'due diligence' and good quality fruit, he would not become involved in sourcing fruit. These changes have significant implications for attempts to privately regulate exports from South Africa: the citrus chain to the UK is tightly controlled (driven) by retailers who have ensured that participation is limited to preferred suppliers who in turn select 'preferred growers' in South Africa. In this buyer-driven chain, the problems that Citrus Southern Africa is attempting to address – oversupply and quality – are not issues because both are determined by importers and retailers in the UK.

4.5 Continental Europe Chain

The chain to continental Europe is significantly different, but it also restricts the possibility for private forms of regulation. Although there are large retailers in continental Europe, the industry is highly fragmented and it is still dominated by large numbers of importers who can be identified through the Internet or through trade magazines.

As note earlier, the large number of smaller South Africa-based exporters who call themselves 'niche volume players' supply fruit almost exclusively to European importers. They often operate in only one region of the country and may also export deciduous fruit when the citrus season ends. Although this chain is not 'driven' from the north in the same way that the UK retailer chain is, South African exporters are at a distinct disadvantage. Fruit destined to Europe is sent on 'consignment', which means that the importer has no fixed market for the fruit. Importers refuse to negotiate prices beforehand and they will not consider any minimum guarantees or upfront payments. Returns to importers, and ultimately to growers, is determined by supply and demand.

Despite these disadvantages, Europe remains an important market for smaller exporters who supply niche volumes normally to Dutch and Belgian importers. Smaller exporters are less likely to send fruit to other markets, notably the US or Japan, where the risks are higher due to stricture phytosanitary regulations. At the same time, they are extremely wary of efforts by Citrus Southern Africa to manage volumes and quality: the organisation is seen to be representative of the large multinational exporters like Dole, Del Monte and Capespan. Their wariness is justified: on several occasions Citrus Southern Africa has argued that there are too many small exporters who lack the experience and the resources to compete in the global fruit industry. In these two important citrus chains – the UK and continental Europe – Citrus Southern Africa is likely to find it extremely difficult to privately regulate exports.

5. CONCLUSION: THEORETICAL REFLECTIONS AND POLICY IMPLICATIONS

This paper has traced changes in the citrus export chain both prior to and after liberalisation. An important development in the post-regulation period has been the

attempt to privately regulate the industry in an effort to improve its sustainability in highly competitive global markets. What does this important sector of the South African economy tell us about regulation and global integration?

First, there is little to be gained from 'strong' forms of state regulation, which in the citrus industry took the form of a single channel between the 1940s and mid-1990s. The single desk system was facing severe challenges at least a decade prior to deregulation. A key problem was its inability to respond to global markets that were increasingly oversupplied and demanding better quality fruit. In other words, it lacked the flexibility to adapt to significant changes in overseas consumption patterns and the consolidation of retail power. Recent attempts to privately regulate exports represent a positive step: the focus of these efforts is on reducing volumes by increasing the quality of the fruit exported. This approach represents an important 'paradigm shift' for the industry, which was always focused on producing volume, often at the expense of quality.

Private forms of regulation are not without their problems, primarily because they represent 'private' interests. In the citrus industry, blame for recent poor seasons has been levelled at smaller operators, who apparently lack the experience to export in a highly competitive environment. There is strong evidence to suggest that these private regulators would prefer to see a situation where five or six large exporters control the industry. My own research suggests that while there are some exporters who lack experience, many small operators are highly efficient. With smaller volumes, they have to be more careful about markets and many spend considerable effort reducing cost in the chain. If larger exporters begin to dominate private regulators, there is the danger that they will use resources to force smaller players out, when there is little justification for doing so.

A second problem for private regulation is that it is very unstable. At present, the extremely poor 2000 season has ensured that most growers support private regulation in the form of Citrus Southern Africa. At the same time there are growers and exporters who break the rules by exporting lower quality fruit in volumes that go beyond those prescribed by industry regulators. Underlying the action of 'renegade' exporters and growers is a reasonably convincing argument that it is possible to find markets where quality considerations are not as important. The third problem relates to representivity in the industry. As noted much earlier in this paper, citrus production in South Africa was not limited to white producers. Citrus production was established in former homelands of Bophuthatswana, Ciskei, and Gazankulu on estates closely managed by former homeland departments of agriculture.

In the 1990s, the single channel exporter for citrus was involved in transforming these estates into smallholder schemes for individual black farmers. The organisation was also involved in assisting farmers to produce fruit that met export standards. In the period since deregulation, responsibility for these projects has shifted to provincial departments of agriculture and most have collapsed due to a lack of financial and other support. The prospects for these farmers in a privately regulated environment are extremely bleak.

If private regulation has certain limits, should state regulation be reconsidered? This is an issue that is currently being debated within the agricultural sector. A recent discussion document that has emerged from the Department of Agriculture suggests that the free market has not benefited commercial farmers; it also appears to have hampered attempts to develop emerging farmers. Despite this debate, in the current context state regulation – even of a limited type – seems unlikely. In the period since 1994, the state has deregulated agricultural markets while at the same time regulating other aspects of the agricultural economy, notably through labour and land reform legislation. A reversal of this situation in the short term is improbable and the regulation of the citrus export markets by private interests is likely to continue for some time.

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