**Supermarkets wield power in farm market:**

Report advocates co-operation to capture gains

Ann Crotty

FOR South Africans who want to escape the stresses and complexities of 21st century living, there’s nothing quite so pleasant as driving through a region of the Western Cape such as the Hex River Valley. Steep hills and rolling fields intersected with a smattering of rich and well-cultivated farms makes for a delightful drive. And the average urban dweller looks to “get away from it all” for a few days. Of course the delight and peace of the rural setting are violently disrupted a few weeks ago when senseless firing at one of these cultivated areas was triggered by a series of thefts well in this apparent idyll.

The greenbelt area adjacent to the N1 highway linking the Cape with Gauteng was blocked at De Doorns by localities, burning tyres and the threat of more violent protests. It was possible, however, to sit in the middle of a grape farm and believe you were as close to paradise as is imaginable.

Well, so much for the idyll.

The reality behind this idyllic setting is one of extreme complexity and ongoing change with potential enormous implications for the future of the Western Cape region, and one of the key elements in this development is the supermarket chain.

**REALITY CHECK**

The report is the outcome of extensive research by Professor Vlassis ofUCT and Stephanie Barry of the University of Manchester, and will be presented at the Cape Town Global Summit on supermarkets and the Rise of Global Value Chains.

As the title of Vlassis and Barry’s report suggests, the core of much of what is unfolding in the Hex River Valley are to be found in the rapidly changing value chains that transport grapes from the valley to our tables, and a greater extent, to European consumers.

Adding to the complexity is that there are significant differences in these chains in the various countries that are being abandoned at a very rapid rate.

There is evidence that supermarkets are opening up to South African farmers, particularly following the post-1994 dismantling of the export boards, have limited competition and that some supermarkets on South African farms have very limited power and small supermarkets have actually no power.

But, as the report highlights, the seasonal workers do make a significant contribution and without them and the farmers and the permanent workers there would be no value chain for South African table grapes.

The complex challenge to this current situation is for all of the South African stakeholders, including farmers, workers, politicians, government and multilateral organisations, to work together to capture the same value from the supply chain chain and ensure that these gains are more equitably distributed.

Between the 1980s and 1990s, the proportion of value added increased from 18 percent to 20 percent of total agricultural output. In South Africa, the report says, the “current 5-10 percent share of the value chain is not reported and less than 20 percent goes directly into the domestic fresh produce market.”

The report notes that there are three key actors in the value chains – farmers, marketing channels and supermarkets, which are dominated by a few large supermarkets, with others being forced to merge into large entities.

There are also encouraging signs of small supermarkets emerging in Asia and the Middle East.

Ten years ago the main standards that prevailed in the industry were government and trade standards, but the “end-user standards” introduced by the European supermarket giants dominate. They fall into four main categories – health, safety, quality and social standards.

The report points out that the growth of supermarkets in Europe has meant that fragmented systems of production and drying are being replaced by more efficient and smaller and more powerful groups of supermarket buyers. These powerful companies “increasingly co-ordinate their suppliers through limited networks of crossborder agreements that are increasingly informal in nature. As a result, the proportion of the value chain that represents the supermarket is very high.”

While some South African supermarkets monitor their suppliers, there is no evidence of monitoring social standards in the country.

However, given that many producers sell all into different overlapping value chains, European supermarket standards are thus competing for attention within domestic and international supermarkets too. There is also growing concern that the emerging global standards are in fact reinforcing rather than challenging existing standards.

The report concludes that “there are significant differences in these chains in the various countries that are being abandoned at a very rapid rate.”

**Estimation breakdown of table grape cost chain SA to UK in 2011**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Hex River to UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail price per kg</td>
<td>100</td>
</tr>
<tr>
<td>Delivered prior to retailer</td>
<td>60.8</td>
</tr>
<tr>
<td>CIF (cost, insurance and freight)</td>
<td>35.44</td>
</tr>
<tr>
<td>FOB (free on board)</td>
<td>29.67</td>
</tr>
<tr>
<td>CIF (delivered in port)</td>
<td>26.98</td>
</tr>
<tr>
<td>Farm gate price</td>
<td>25.72</td>
</tr>
<tr>
<td>Delivered to packhouse</td>
<td>18.05</td>
</tr>
</tbody>
</table>

The primary standards are the facts entering into domestic and international supermarkets too. There has been a move in recent years to develop its own recognised social standards. On the employment front, the changes have been equally dramatic as South Africa has strong labour and social regulation that formally seems a higher standard.

However, the weakness of legislation is the lack of enforcement, particularly in agriculture. The report points out that agriculture was previously exempted from most labour regulation and that many of the regulations that have been put in place are not well recognised.

The introduction of a raft of new regulations after 1984 has meant that the employment process increasingly takes the form of a core of core workers being supplemented by the growing use of casual seasonal labour.

However, when many producers sell all into different overlapping value chains, European supermarket standards are thus competing for attention within domestic and international supermarkets too. There is also growing concern that the emerging global standards are in fact reinforcing rather than challenging existing standards.

The report concludes that “there are significant differences in these chains in the various countries that are being abandoned at a very rapid rate.”

**KEY RECOMMENDATIONS:**

- The value chain analysis undertaken by the authors of the report indicates that no one actor alone is able to make the changes necessary to ensure enhanced economic and social benefits. All actors within, and linked to the value chain, have a role to play including business, labour, civil society, the government and multilateral organisations. These roles, states the report, include:
  - Improved buyer/supplier relationships that reward quality and standards.
  - Sector-level pricing in the value chain price chain. Ensure producer margins are sufficient to cover these, and benefits are transferred to workers.
  - Link civil society initiatives (such as ethical and fair trade) with wider government and donor interventions.
  - Government and donor policies to support value chain upgrading by producers.
  - Provide more resources to the Agriculture Sector Education and Training Authority (AgriTec). More co-operation between AgriTec, the Department of Agriculture and industry bodies is needed to ensure these are not duplicated.
  - Support the training and education of youth, workers and small-scale producers that links: technical skills; social or ‘soft’ skills; and worker rights.
  - Implementation of labour legislation through better resourced labour enforcement.
  - Reward skills; possibly setting minimum wages for different job categories.
  - Increase gender equity more prominently in the sector.
- National government should take cognisance of value chain structuring and plan accordingly, bearing in mind the implications of expanding and contracting regulations for the provision of social and community-based services.
- Government should provide increased subsidies for childcare and aftercare facilities for schoolchildren (on farms and in local communities) by more farm areas where seasonal workers are sourced. Bring back subsidies for farmer housing or provide alternative accommodation systems for farmers. Provide mobile mobile clinics; government should set up out of work programmes for farmers at least once a year.
- Additional support, such as the support that accompanies the first year of a product being marketed. This support could include training and advice, as well as assistance with the development of marketing strategies and materials.
- Support the development of new products that are designed specifically for the local market, taking into account factors such as taste preferences, cultural differences, and consumer behaviour.
- Increase the availability and accessibility of financial services to farmers, including small-scale producers. This could include providing access to microfinance products, as well as training farmers in financial management and budgeting.
- Invest in improving infrastructure and physical facilities on farms, such as roads, irrigation systems, and storage facilities. This will help increase productivity and efficiency in the value chain.