

CAPTURING THE GAINS



*economic and social upgrading
in global production networks*

¹ University of Manchester, UK

² University of Cape Town

email:

s.barrientos@manchester.ac.uk;

Margareet.visser@uct.ac.za

Capturing the Gains 2012
ISBN : 978-1-907247-88-0

South African horticulture:
opportunities and challenges for
economic and social upgrading in value
chains.

Stephanie Barrientos¹ and
Margareet Visser²

September 2012

Working Paper 12

Abstract

Horticulture value chains in South Africa are undergoing a process of rapid transformation. The sector is significant in the generation of agricultural GDP, employment and exports. European supermarkets have long been an important destination for fruit. Supermarkets source through coordinated value chains, with stringent requirements and have driven the rise of private standards. These improve quality but increase the commercial pressures and costs for growers. The expansion of South African supermarkets and of South-South trade in Sub-Saharan Africa, Asia and the Middle East are providing new channels for fruit and vegetables. These markets also require standards that are generally less stringent than European supermarkets and are paying comparable prices (taking cost into account), mainly focusing on product quality. Social standards are largely demanded by European supermarkets alone. Growers now have a wider range of buyers, and European supermarkets can no longer be assured of automatic availability of quality produce. Employment in the fruit sector is segmented between regular and casual workers. Regular workers have seen improvements in working conditions. In parallel casualisation has increased. It reduces labour costs but workers have greater insecurity of employment, lower remuneration and rights. Growers and packhouses need better educated and skilled workers to manage complex quality requirements of different supermarkets and improve efficiency. Agricultural work has low esteem, and the sector faces a serious shortage of skilled labour despite rural unemployment. Current public and private provision of training is insufficiently resourced to generate an adequate pool of skilled labour. Growers and workers need better returns to ensure the resilience of quality horticulture value chains to supermarkets. Public and private policy needs to enhance the skills and empowerment of workers, and support social provision to increase the appeal of working in horticulture.

Keywords: Horticulture; Value Chains; South Africa, economic and social upgrading; workers.

Stephanie Barrientos is Associate Director of the Brooks World Poverty Institute and Senior Lecturer in Global Development with the Institute for Development Policy and Management, University of Manchester, UK.

Margareet Visser is a Researcher in the Institute of Development and Labour Law, University of Cape Town, South Africa.

Disclaimer: *The views presented in this paper are those of the authors alone, and do not reflect those of Capturing the Gains research funders or collaborating institutions.*

1. Introduction

Important changes are taking place in production and employment for horticulture (fresh fruit and vegetables) within South Africa, both for domestic and export markets. Traditionally fresh produce value chains linked African exports primarily to Europe, where dominant supermarket buyers set key commercial criteria and standards applied to producers and workers. Expanding markets across Sub-Saharan Africa, Middle East and Asia are opening up new destinations (albeit from a low base) for South African fresh produce. Within South Africa supermarkets have expanded rapidly, and are also spearheading the growth of modern retail across Sub-Saharan Africa. The increasing diversity of markets and standards has implications for horticultural trade, production and employment. This paper examines the implications of this shifting terrain for economic and social upgrading (and downgrading) of producers and workers within fruit and vegetable value chains.

The research for the paper was undertaken as part of the Capturing the Gains research programme. The paper draws on the analytical frameworks of global value chains and production networks, and related concepts of economic and social upgrading (see Barrientos, Gereffi and Rossi 2011). Section two examines changing trends in horticultural production, employment and exports. Section three sets out the analytical framework of global value chains and the research methodology for this study. Section four considers the complex changes taking place with the continued expansion of global, regional and domestic supermarkets and expansion of new markets in Sub-Saharan Africa, Asia and the Middle East. It examines the rise of standards of private standards and evolution of 'standards packages' for different markets. Section five considers the implications for economic upgrading and downgrading of producers as buyer strategies, standard requirements and bargaining positions become more diversified. Section six considers the implications for social upgrading and downgrading of regular and casualised workers as the demand for more skilled labour increases. Section seven considers the policy implications for promoting economic and social upgrading of producers and workers. Section eight concludes.

2. Horticultural production, employment and export trends

South Africa has undergone an important process of transformation and integration into global markets since the end of apartheid in 1994. This has involved two dimensions (a) opening up the economy to competition in international markets and the expansion of export sectors and (b) social, economic and political transformation, involving the introduction of a raft of legislation particularly in relation to disadvantaged groups (including labour). In this section we examine each in turn.

Horticulture production

Horticulture is an important sector within South African agriculture, and between 1980s to 2007 horticultural production increased from 18 percent to 26 percent as a share of total agricultural output, while field crops production has declined during the same period (Kirsten et. al. 2010). Fresh fruit in particular is a prominent export sector, whilst vegetable production is largely for the

domestic market. As shown in Table 1, fruit production remained fairly stable over the past decade (although 2011 was a bad harvest with a slight reduction in tonnage that year).

Currently, over 50 percent of fruit produced is exported, and less than 20 percent goes directly into the domestic Fresh Produce Markets (NFPM). The value of fresh fruit exports has increased significantly over the past decade (2001-11). Industry informants indicate that there has been a switch in varieties grown to those with higher value export appeal, but 2011 was a poor year, with a decline in output. Vegetables by comparison, have experienced an increase in volume of output. Only a very small share of vegetables are exported (3 percent in 2011), but there has been an increase in exports from a small base. The largest share of vegetables are sold in NFPMs (45 percent in 2011), although the share going to NFPMs has declined over the past decade. NFPMs have experienced a decline in the share of both fruit and vegetables they receive. As will be discussed later, this reflects a period of stagnation and rise of South African supermarkets, many of whom source directly from horticulture producers.

Table 1: Fruit and vegetable production, exports and sales

Variable	2001	2007	2011	% change 2001-2011
FRUIT				
Total Production ('000 tons)	4481.228	4510.859	4392.453	-1.98
Exports (USD Million)	515.152	1421.619	2072.608	302.33
Export Vol (' 000T)	1579.461	2482.475	2366.915	49.86
% of production exported	35.25	55.03	53.89	52.88
Quantity of Fruits sold in Fresh produce markets('000T)	871.242	631.31	849.852	-2.46
% of total produce sold in FPM	19.44	14.00	19.35	-0.48
VEGETABLES				
Total Production ('000 tons)*	3838	4335	4722	23.03
Exports (USD Million)*	16.60	40.14	64.93	291.23
Export Vol (' 000T)	66.00	109.16	142.50	142.50
% of production exported	1.72	2.52	3.02	75.48
Quantity of vegetables sold in National Fresh Produce Markets('000T)**	1959.3	2009.8	2122.9	8.35
% total produce sold in NFPM	51.05	46.36	44.96	-6.09

Source: calculated from ITC trade database, 2012;

*<http://www.nda.agric.za/docs/statsinfo/Ab2012.pdf>

http://www.nda.agric.za/docs/statsinfo/Trends_2002.pdf

The South African fruit sector underwent a major shift in 1997, when the government disbanded the regulated single marketing channels for fruit exports (Unifruco and Outspan), allowing private exporters to operate through a free market. This opened South African fruit producers up to the direct forces of global competition, particularly with Chile and New Zealand which are major producers in the same seasonal window (Tregurtha et. al. 2010; Symington 2008). Prior to deregulation the fresh fruit export sector was more akin to producer-driven trade discussed below in relation to Global Value Chain (GVC) analysis. Under a regulated system, Unifruco and Outspan negotiated en bloc on behalf of producers with overseas importers and supermarkets (which at the time were smaller). Since deregulation, there has been a relative shift towards buyer-driven value chains. This has been influenced by two factors. Deregulation of the industry by the

South African government increased competition between growers and exporters.¹ At the same time, consolidation of supermarket chains in the main export destination of Europe meant that fragmented growers were now facing a more powerful group of supermarket buyers (Barrientos and Kritzing 2004; Symington 2008).

Within deciduous fruit, the main exports from South Africa are stone fruit and pomme fruit. We also add table grapes to this group. As shown in Table 2, the export value of fresh grapes increased by over 200 percent between 2000-11. In the same period, the exports of stone fruit increased by 265 percent and pomme fruit (apples pears and quinces) by 367 percent in value. In 2011 South Africa was ranked as the world's 5th largest fresh grape exporter, 10th largest exporter of stone fruit, and 9th largest exporter of apples, pears and quinces (ITC 2011).

Table 2 – South Africa fruit exports (US\$ '000)

Product	2001	2007	2011	% change 2000-2011
Grapes, Fresh	134233	313140	427233	218.28
Stone Fruit*	29632	50315	108256	265.33
Apples, pears and quinces, fresh	97964	331051	457376	366.88

Source: calculated from International Trade Centre Trademap (2011); SATI (2011)

*Apricots, cherries, peaches, nectarines, plums & sloes, fresh

Employment profile

Employment in the South African horticulture sector has undergone important changes since 1994. Agriculture was previously exempted from most labour regulation which existed, and farm workers had few recognised rights. Under apartheid most coloured farm workers lived on farm. Farm work involved a gender bias, with male farm workers largely employed on a permanent basis on the condition that their partner or female relative worked seasonally. In the Western Cape coloured workers were employed on farm, and migrant black African workers used as additional seasonal labour when required. Employment in dedicated packhouses has long been largely female, with much better pay and conditions than field workers (Kritzing and Vorster 1996; Barrientos and Kritzing 2004).

The transition to democracy saw the introduction of a swathe of regulation now fully applied to agricultural workers. These included Sectoral Determination 13 (SD13), which regulates farm workers' basic conditions of employment, the Labour Relations Act (LRA), the Unemployment Insurance Act and the Extension of Security of Tenure Act. Regulatory reform was introduced about four years before the fruit sector was being opened up to market forces through dismantling of the single marketing channel and increasing competitiveness within the sector.

A consequence of these changes has been a change in agricultural employment relations. The employment profile increasingly takes the form of a core of on-farm labour force supplemented by the increasing use of casual seasonal labour. Casual workers either live on farm (particularly where migrant labour is used), or are transported in from nearby towns. Many are directly employed, but increasingly growers use labour brokers to provide seasonal labour (du Toit and Ally 2001; Theron et. al. 2005). Overall, the core workforce is better skilled, receives training and enjoys better employment conditions. The casual seasonal workers are less skilled, receive little training, and have poor employment terms and conditions (particularly if recruited through less scrupulous labour brokers). In some locations there has been an increased use of casual migrant labour from other African countries (particularly Zimbabwe and Mozambique).

¹ Despite the growth of independent commercial exporters, in reality there is a high level of concentration amongst them. For example, the South African Table Grape Industry estimates there are 122 registered grape exporters of whom the top 5 have 42 percent of market share, top 20 have 82 percent market share and top 40 have 94 percent of the market share (SATI 2011).that

Reliable estimates of the size of the wage labour force in horticulture are difficult to obtain. In 2008/9, the total number of workers in commercial agriculture was estimated to be 849,782 (Agricultural Survey 2009). Aggregate data from all industry bodies estimates a total fruit labour force of 400,000 workers with 2 million dependents (including deciduous, grape, citrus and tropical fruit).² Table 3 shows the number of workers (full time equivalent) employed according to different deciduous fruit varieties for 2005 and 2011. This shows a slight increase in the number of wage workers to 104,011, supporting four times as many dependents. The fruit sector is thus an important agricultural employer helping to sustain a large number of rural households.

Table 3 – Deciduous fruit employment estimates and dependents

Fruit	Labour (2005)	Dependents (2005)	Labour (2011)	Dependents (2011)
Apples	28540	114158	27 492	109 969
Grapes	33435	133471	39 125	156 499
Pears	14921	59684	14 604	58 416
Peaches	10872	43489	9 556	38 225
Plums	5443	21770	6 718	26 870
Apricots	4745	18981	3 819	15 274
Nectarines	1822	7827	2 698	10 792
TOTAL	99778	399110	104 011	416 045

Source: Hortgrow_ industry overview , Feb 2012;

<http://www.namc.co.za/dnn/LinkClick.aspx?fileticket=f5YrULogNuc%3D&tabid=72&mid=542>

Export markets – emergence of South-South trade

Continental Europe and the UK have traditionally been the main export destination for South African fruit, taking approximately two thirds of exports (Symington 2008).³ An important change taking place over the last five years (especially since 2007) has been a relative shift away from exports to Continental Europe and the UK towards growing markets in Africa, Asia and the Middle East. The growth of South-South trade is shown in Table 4. Since 2001, the share of grape exports to the EU fell by 14 percentage points, with smaller declines in other fruit. The share of exports to the UK remained steady for grapes, but declined by 12 percent points for apples. The biggest increases (albeit from a low base) were the share of exports going to Africa, Asia and the Middle East. Grape exports to the Asian Economic Community (AEC) countries increased by 15 percent points, whilst the export of pomme fruit to Africa almost doubled to nearly a quarter of total exports.

Whilst Sub-Saharan Africa (SSA) has always been the main export market for vegetables, it is rapidly becoming the sole destination for some vegetables. As seen in Table 4, nearly all tomato exports go into SSA, and a significant proportion of onions etc. There has been some increase in Asia as a destination (from a low base) and a decline in the quantity going to Europe. Apples, onions and tomatoes are more easily exported to SSA because they are less perishable (tomatoes are picked green to withstand bruising), whereas grapes and stone fruit require better cool chain facilities which are less likely to be available in SSA.

² [Citrus Growers' Association \(CGA\)](#), [Hortgro \(deciduous fruit\)](#), [South African Table Grape Industry \(SATI - table grapes\)](#) and [South African Sub-tropical Growers' Association](#) cited in <http://www.fruitsa-ethical.org.za/who-is-fruit-south-africa.php> accessed July 2012.

³ FFV imports into the EU are subject to seasonally differentiated tariffs that vary by specific product, but generally rise in the EU summer months to protect European producers, and fall in EU winter months. For example table grape duties seasonally peak between July to October and are less during January-June and November-December. For products such as fresh grapes, Brazil, China, India, Kenya and South Africa receive a preferential tariff for GSP countries (6.7 percent), and the EPA regime applies to SSA countries (WTO trade database, 2012).

Table 4 – Export destinations fresh vegetables and fruits (% value of total exports from S.Africa) 2001-2011

Country	Grapes		Apples, pears & quinces		Stone fruit		Tomato		Onion, garlic, leeks	
	2001	2011	2001	2011	2001	2011	2001	2011	2001	2011
EU(Ex-UK)	63.83	49.94	14.13	9.69	46.71	40.94	2.39	0	21.34	14.6
UK	20.30	20.65	32.97	20.66	37.68	32.69	9.04	0	4.33	3.33
AEC*	4.11	19.21	11.93	20.55	3.59	6.43	0	0.96	0.72	1.35
Africa	1.15	2.25	12.45	22.98	2.13	2.66	88.3	98.76	70.28	79.02
Middle East	2.73	5.72	2.51	7.41	9.29	16.38	0	0.9	0.24	1
Other	7.88	2.23	26.01	18.71	0.6	0.9	0.27	0.28	3.09	0.7

Source: calculated from ITC trade database, 2012

* AEC- Asean Economic Community – Hong Kong, China, Malaysia, Russia, Singapore, Indonesia, Philippines, Vietnam, Brunei, Japan, Thailand, Rep. of Korea

The shift in markets was also reflected in the export figures of one of our case study companies. The percentage they sold to traditional markets in Europe, UK and Ireland declined from 68 percent in 2000 to 54 percent in 2010, with the main shift following the recession in 2007. In contrast, the main rise recently (2007-10) was in sales to Africa (from zero to 8 percent), and Far and Middle East which rose from 15 percent to 21 percent in the same period (with growth in China and India being the main drivers).

The expansion of exports to emerging markets has been fuelled by shifting consumer patterns over the past decade. This has involved a relative growth in consumer incomes in the BRICS,⁴ and relative decline in consumer spending in Europe, particularly with the onset of the global recession in 2008. However, more recent analysts have identified the growth of consumer spending within sub-Saharan Africa. According to Accenture (2011), this has grown at 4 percent per annum over a decade reaching nearly \$600bn in 2010 in Africa. Growth in consumer spending is helping to support greater demand for fresh produce in emerging markets. At the same time, changes are also taking place in the role of supermarket value chains as a channel for fresh produce within emerging economies (Reardon et. al. 2007). We will examine the implications for South African horticulture of changing patterns of supermarket sourcing, both by global retailers as well as supermarkets within South Africa and across the region.

3. Value chain analysis and research methodology

The rise of global value chains and production networks (GVCs/GPNs) lies at the heart of contemporary transformation in global trade, production and employment. The rise of supermarkets involved in multiple retailing (food and non-food) has been an important facet of this transformation. Leading companies increasingly coordinate their sourcing through interlinked global networks of cross-border suppliers, rather than operating through fragmented agents within market-led trade channels. Lead buyers govern their value chains through the application of

⁴ Goldman Sachs (2001) identifies Brazil, Russia, India and China—the BRICs—as the rising economic powers in the global economy driving future consumption growth. All are now part of the G20 group of countries.

sourcing requirements and standards, and are able to acquire economic rents through the 'capture' of value at the consumer end of the chain (Gereffi 1994; Kaplinsky and Morris 2002; Gereffi et al. 2001; Gereffi et al. 2005).⁵

Global value chains (GVCs) have opened up new opportunities for employment to millions of workers, often women and migrants from poor rural households. UNCTAD (2011) estimates that outsourcing in manufacture and services accounted for an estimated US\$ 2 trillion in sales globally in 2010. In addition, there has been a rapid rise of value chains in agriculture led by supermarkets and food manufacturers (World Bank 2008). Millions of workers and smallholders are employed in global and regional food value chains, often through sub-contracting and outsourcing. Reliable data for employment in agrofood value chains is not available, but they are increasingly recognised as an important source of rural job creation in many developing countries (Dolan and Sorby 2003; World Bank 2008).

A separate body of academic studies have examined the position of workers in value chains, particularly the gender dimension (Barrientos and Kritzinger 2004; Dolan and Sorby 2003; Hale and Wills 2005; Smith et. al. 2004; Tallontire et al. 2005; Barrientos 2007; Barrientos et al. 2011; Pelger and Knorringa 2007; Coe and Jordhus-Lier 2010; Selwyn 2012). Civil society reports have also examined issues around workers' rights and protection and the challenges facing the most vulnerable categories of worker, such as women, migrant, contract, and casual workers (Oxfam 2004; ActionAid 2007; Human Rights Watch 2011). However, generally these studies provide limited analysis of the commercial context in which employment takes place.

A more systematic analysis of the linkages between the economic (commercial) and social (worker and smallholder) dimensions of value chains has been developed by Barrientos, Gereffi and Rossi (2011). The linkages are analysed through the concepts of economic and social upgrading and downgrading. Economic upgrading is defined as 'the process by which economic actors – firms and workers – move from low-value to relatively high-value activities in global production networks' (Gereffi 2005: 171). This can involve four different dimensions: process upgrading (doing the same better), product upgrading (producing new related products), functional upgrading (taking on new value chain functions) and chain upgrading (moving to a different, more high-tech value chain). Social upgrading is defined as the process of improvement in the rights and entitlements of workers as social actors, and enhances the quality of their employment (Sen 1999; 2000). Here we focus on two aspects of workers' wellbeing: enhancing measurable standards (such as wages, contracts, health and safety); and enhancing empowerment (including freedom of association and no discrimination). Improving the wellbeing of workers can also help their dependents and communities. For more in-depth discussion of the analytical framework that informed the research see Barrientos, Gereffi and Rossi (2011). This combined analytical approach informs this paper.

Research questions and methodology

The research for this paper was undertaken as part of the Capturing the Gains research programme.⁶ It was one of a number of parallel studies undertaken in horticulture within Sub-Saharan Africa (South Africa, Kenya and Uganda), as well as India, China and Brazil. The research questions in all the studies, adapted to South Africa, are:

- How are changing global, regional and domestic supermarket trends affecting the sourcing of horticultural produce within South Africa?
- What are the implications for social and economic up/down grading for producers and workers in horticultural value chains?

⁵ The complementary approach of global production networks (GPN) has facilitated more in-depth analysis of the power relations, social and institutional embeddedness of sourcing in different local contexts (Henderson et al. 2002; Dicken et al. 2001; Coe et al. 2008). In this paper we use the generic term 'value chain' to cover all aspects of global sourcing, given it is more commonly used in the FFV industry.

⁶ For more information see www.capturingthegains.org. Funding for this research was provided by the UK Department for International Development and Sustainable Consumption Institute.

- To what extent are these trends leading to improvements (better value chain access, commercial terms, and decent work) for local producers and workers?

In this paper we present preliminary findings from the South Africa research alone. The aim of this working paper is to illicit feedback and comment before publication of final outputs.

Research was undertaken in South Africa between January 2011 and March 2012. Key research activities were carried out in three phases.

- *Phase One:* Meso level research involving value chain mapping and 23 interviews with key stakeholders (commercial, government, trade) and key supermarket and suppliers (lead firms). Research activities included convening a stakeholder workshop to identify key issues (14 stakeholder participants) from supermarkets, exporters, trade unions, non-government organisations, and industry bodies.
- *Phase Two:* Comparative case studies within selected value chains supplying fruit and vegetables through different supermarket channels. The key criteria for selection were to ensure a contrast of: (a) different types of value chain (integrated, modular and market) and (b) different end markets. We selected four case studies involving producers and related commercial actors linked to them in the value chain. The research took place in the Northern Cape, Western Cape and Limpopo regions. In each value chain, interviews took place with key management personnel and workers at the levels of export/import, company management, packhouse and farm. In total research took place on six sites (farms and independent packhouses), involving: 35 interviews with management, human resource officers, and key personnel (e.g. health and safety officers, workers committee members and trade union representatives); 26 individual interviews with workers and 18 worker focus group discussions. In total, 127 workers were involved in the research.
- *Phase Three:* Follow up and new interviews with 16 key informants in the sector, involving both a sub-set from the first round, and key policy actors (government, industry bodies, and civil society organisations). Ten key informant interviews were also undertaken with supermarkets, key suppliers and related stakeholders within Europe. Three in-depth case studies were also undertaken with farmers who had downgraded and exited the fruit industry.

The case studies were selected to represent different profiles. Value chain A was an integrated group of farms that had functionally upgraded to include packing and distribution, and primarily produced table grapes for export. Value Chain B was a modular value chain sourcing from its own and independent farms, with a separate packing and distribution arm, that mainly produced deciduous fruit (including apples, pears, stone fruit and table grapes – but not citrus) for export. Value chain C primarily produced vegetables (mainly tomatoes, onions, potatoes and avocados) for the domestic market with a varied sales portfolio (National Produce Markets, local FFV agents and sale direct to supermarkets) with a small amount of exports (mainly avocados via an agent). These were comparative value chain studies and were not statistically representative samples of the fruit and vegetable sectors. We recognise a bias towards growers and companies that have upgraded, given an important aspect of the study was to examine the opportunities and challenges upgrading involved. Individual interviews with growers that left the value chain provide a contrasting perspective of downgrading.

4. Supermarkets and changing value chain dynamics

Supermarkets are an important driver of changing global dynamics in agrofood trade, production and employment. Supermarkets coordinate value chains that link production, processing, retail and consumers, leading to a decline in traditional wholesale and wet markets in many countries. They are consumer-oriented, and strive for quality, low cost and consistency, governing their suppliers through application of strict standards (Coe et al. 2009) Supermarket sourcing and retailing is well established in the global North, accounting for 75-80 percent of food retailed in developed countries (Reardon et. al. 2007). Supermarket retailing is expanding rapidly across Latin America, Asia and now Sub-Saharan Africa (Emongor and Kirsten 2009; Singh et al. 2011). They are

responding to the rapid rise of middle income consumers and urbanisation in the global South. They account for over 50 percent of food retail in some emerging economies Coe et al. 2009).

The horticultural sector is currently witnessing important changes with the expansion of new value chain channels for the sale of fruit and vegetables coordinated by supermarkets within emerging markets. There has been a rise in domestic supermarkets within South Africa and increase in the number of producers supplying direct into their distribution centres (DCs). The largest South African supermarkets are also leading the expansion of modern retail across Sub-Saharan Africa.

Figure 1 provides an overview of these different production networks. In all channels some exports go through value chains, which are coordinated by supermarkets or their sourcing agents, and some exports still go through more traditional 'market trade' dominated by fragmented buyers and sellers. The purple represents markets dominated by global retailers (such as Walmart etc.). The green and blue the emerging markets within Sub-Saharan Africa (green are the countries CtG focused on). The pink represent the rest of the world. CGS represents Centralised Global Sourcing discussed below.

The traditional pattern of GVC trade for fruit and vegetables from S. Africa was to sell direct, either through coordinated supermarket value chains or through export/import agents – primarily into continental Europe and UK (over two thirds of exports). Therefore it was primarily one way south to north trade as indicated by the line from S. Africa to Europe in Figure 1.

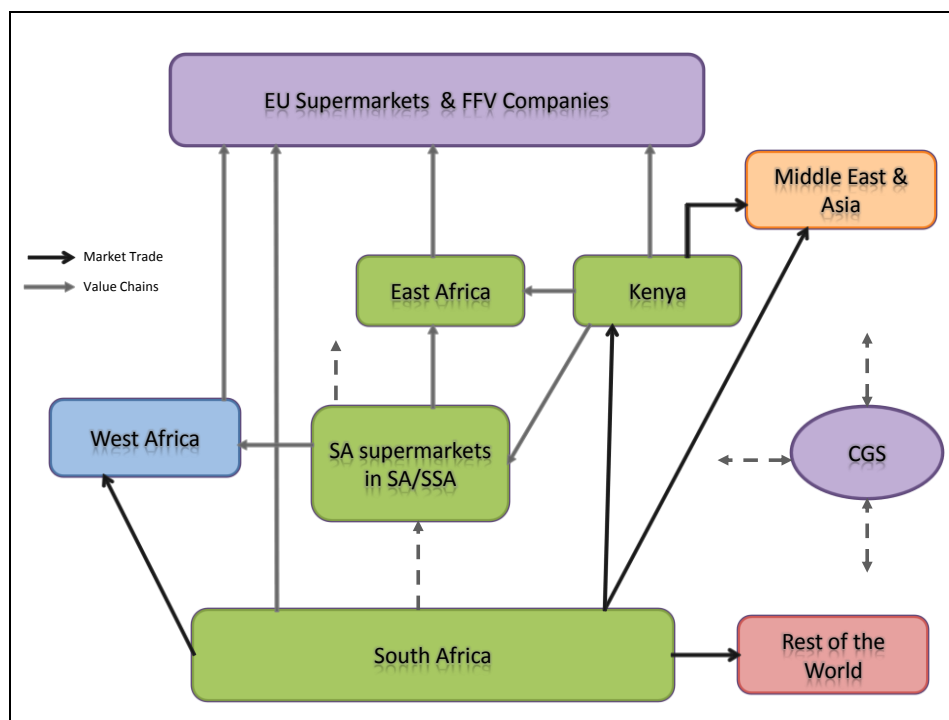
The key features of European supermarket buying predominant since the 1990s for fruit & vegetables are:

- Pre-programming (approx. 6-9 mths in advance for fruit) – providing an indication of requirements. Technologist agrees product specification
- No contracts, but relations built on trust and 'gentleman's agreements'.
- Trade coordinated by supermarket 'category managers' or 'preferred suppliers' who use designated import/export agents
- The bulk of fruit bought on a consignment basis; no fixed price, no minimum price guarantees. Payments with cif (customs, insurance & freight) included once fruit had reached supermarket distribution centre, with payments 30-45 days later.
- Standards including: GlobalGAP, HACCP, supermarket own standard such as Tesco Nurture or M&S Field to Fork, ETI code of labour practice or equivalent (discussed further below).

Some global supermarkets, which until now have had separate preferred suppliers and agents, are taking over functions at the centre of the value chain themselves. For example Asda/IPL and Tesco have introduced more integrated global sourcing systems in Africa, Asia and Latin America (Fresh Produce Journal 2012).⁷ They are buying more produce directly from farm gate in larger volume and managing distribution themselves through to different distribution centres globally (the reasons for this are discussed below).

⁷ See Fresh Produce Journal <http://www.freshinfo.com/index.php?s=p&ss=jn>

Figure 1 – Simplified value chain mapping for South African fruit



Rise of South African supermarkets

A significant change for South African fruit and vegetables has been the rise of South African supermarkets over the past 15 years. The biggest South African supermarkets (and their respective market share as percent of sales in 2010) are Shoprite (21 percent), Pick and Pay (18 percent) and Spar (12 percent) (Euromonitor 2011). As shown in Table 5, Shoprite increased its number of outlets within South Africa from 718 in 2007 to 1357 in 2011, with other leading S. African supermarkets following suit. This has been spurred on by increasing urbanisation and rise in middle income consumers. Accenture (2011) estimates that South African consumer spend will increase from US\$215 bn. in 2010 to an estimated US\$315 bn. in 2020.

Table 5 – Number of supermarket outlets within South Africa

Year	Shoprite	Pick'n Pay	Spar	Woolworths	Massmart
Total Stores S. Africa 2007	718	552	675	320	n/a
Total Stores S. Africa 2011	1357	847	859	n/a	352
Total Stores MEA* 2011	1730	941	1628	400	n/a

*MEA - Middle East and Africa. Sources: Emongor & Kirsten (2009), and author web search May 2012.⁸

The rise of supermarkets has contributed to a relative decline in the amount of produce going to traditional wholesale markets over the past 15 years, as indicated in Table 1 above. There are 18 National Fresh Produce Markets (NFPM) in South Africa with the four largest (Johannesburg, Tshwane, Cape Town and Durban) representing 74 percent of NFPM turnover and volume. Annually, more than 2,860,000 tons of fresh produce is traded through these markets. Since 1996, NFPMs have shown little growth at a time when the production of fresh produce in the country has increased dramatically (Tregurtha, Vink and Kirsten 2010). The national fresh fruit market has not had sufficient investment in terms of cool chain facilities, which holds it back (another reason for supermarkets to use their own DCs). But many customers are now asking for standards within the national fruit market. Interviewees indicated that standards, such as GlobalGAP are preferred if they are available by some buyers in NFPMs, even if not required.

There are various other outlets for fresh fruit and vegetables sold domestically, including: (a) hawkers and wet markets – the traditional route; (b) independent supermarkets; and (c) into the food service industry e.g. hotels and restaurants.

Data on supermarket retailing of fresh produce within the country is very difficult to obtain. Only individual growers know what percentage of their fruit sold domestically goes straight into supermarket DCs and this data is not available. However an estimate provided by one prominent industry body indicates that in 2000 approximately 40 percent of fruit sold domestically were retailed through supermarkets, and that figure had risen to 60 percent by 2011. The South African table grape industry estimates that 34 percent of table grapes go direct to retail and 64 percent to NFPMs (SATI 2011). Supermarket sourcing strategies appear to be mixed. Some (such as Woolworths) only source directly. Some have their own dedicated procurement company, such as Freshmark which is an independent company within the Shoprite Group (Van Deventer 2006). Others use a combination of sourcing strategies (e.g. part of Spar supermarkets' fruit and vegetable sales go through Spar's Freshline DC, part through independent sourcing), or use varied procurement agents depending on product availability and consumer demand.

South African supermarkets are also leading the expansion of modern retailing across Sub-Saharan Africa as indicated in Table 6. This expansion has been led by Shoprite, which now has operations in 15 African countries, reputedly with plans for further expansion. Both Shoprite and Pick n Pay sell fruit and vegetables in their stores across SSA. This is helping to spur the increased sale of fruit and vegetables into sub-Saharan Africa. Often they supply their outlets in SSA via their distribution centres within South Africa, and growers are not necessarily aware that their produce is being exported. Woolworths and Massmart have not sold fresh produce in their SSA outlets, Woolworths because of difficulty ensuring quality of perishable produce, and Massmart because they have not been a significant fresh food retailer until recently.

Table 6: Selected South African supermarkets operating in Africa

Supermarket	Africa (No. of Countries)	Total No. Countries World (including RSA)
Shoprite	15	16
Woolworths	12	18
Pick n Pay	7	8
Massmart	14	15

<http://www.shopriteholdings.co.za/pages/1019812640/about-our-company/history.asp>

http://www.picknpay-ir.co.za/financials/annual_reports/2012/geographic-spread.php,

http://www.spar.co.za/Uploads/7bce474a-d3e2-4fb7-bbfb-2304b2dc8d95/2011_Annual_Report_ONE.pdf

http://www.massmart.co.za/corp_profile/geo_profile.asp

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Retail%20Foods_Pretoria_South%20Africa%20-%20Republic%20of_1-5-2011.pdf

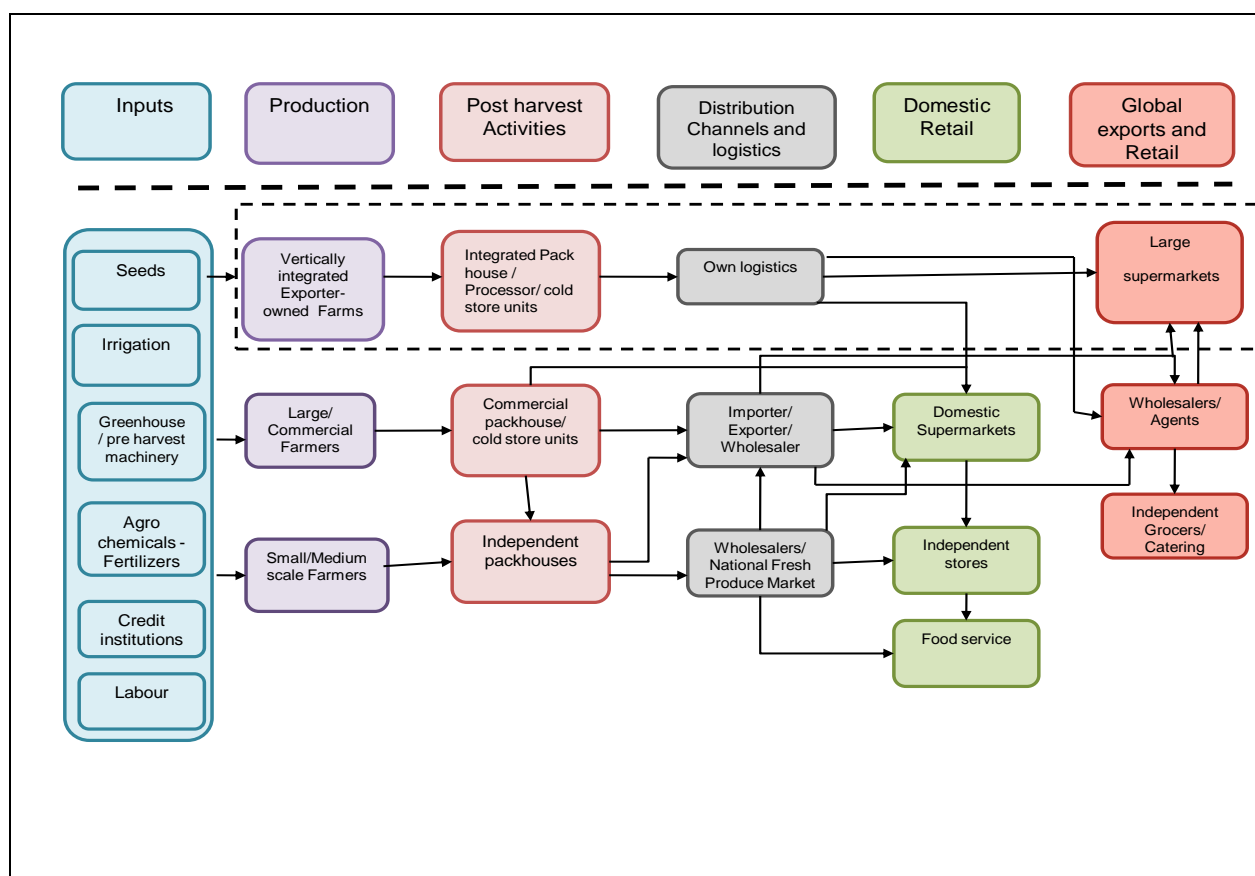
Sources: Deloitte 2011; Emonger; Authors research

The big shift in South African supermarkets has been the purchase of 51 percent share in Massmart by Walmart in 2011 (with other global retailers also rumoured to be eyeing up the market). This was a highly contended take over, with strong opposition from a coalition of unions and some sections of Government. After a prolonged process, it was approved by the Competition Commission in 2012 subject to certain conditions. These were to freeze job cuts for the first two years, honour union bargaining agreements for three years, and invest 100 million rand (\$13.37 million) in a supply-chain program to improve the competitiveness of local industry and support small-scale producers.⁹ Massmart Holdings is made up of a number of companies (including Massmart and Game). Until recently, these did not sell fresh produce. However, that is changing, and key informants indicate that they are likely to expand fresh produce retailing across their stores. Massmart operates in 14 countries across SSA, and its acquisition doubles the number of countries Walmart operates in to 28 globally.

A simplified value chain for fresh fruit and vegetables is shown in Figure 2. Each of the interconnected nodes of the chain is highlighted in the first row. This shows the stages of fruit production from initial inputs (including labour), through production, packing, into logistics and distribution through to final retail. Below that we have identified three key simplified value chains (in reality they are much more complex and overlapping). The first is an integrated chain, in which a single grower/exporter is also integrated into logistics functions and supplies directly into the distribution centres of large supermarkets abroad and in South Africa. The second is a modular chain, with close connections between different companies at each node, linking them from farm through packhouse to importer/exporter or direct into South African supermarkets. The third is an arms-length chain, with more market-based commercial relations between actors, that mainly sell through agents, wholesalers and NFPMs who in turn might supply both domestic supermarkets and export.

Figure 2. Simplified FFV value chain – South Africa

⁹ <http://online.wsj.com/article/SB10001424052970204603004577270942176432300.html>. Accessed September 2012.



Trade and private standards

Ten years ago the main standards that prevailed were government and trade standards (particularly in the EU and North America). Private standards applied by supermarkets were minimal, but have grown over the past decade. The EU (South Africa's main export market) has strict trade standards covering food and agricultural products, which fall into 4 main groups:

- Health control (food law, hygiene, microbiological criteria, contaminants, pesticides);
- Plant health (phytosanitary) control (harmful organisms);
- Marketing standards (general or specific);
- Other requirements (food additives, food contact materials, food irradiation, novel foods, radioactivity, quick frozen foods, GMO's, labelling and organic products).

EU regulation provides the marketing standards for all FFV (unprocessed).¹⁰ The regulation provides general marketing standards (GMS) and specific marketing standards (SMS) for export of FFV. GMS compliance is equivalent to the UNECE Codex Alimentarius standards¹¹. There are stipulations as to minimum quality requirements related to basic hygiene, maturing requirements, Tolerance levels of consignments, presentation of product, origin of produce and labelling including class labelling (CBI, 2012). A number of export products (most fresh fruits- including apples, peaches, nectarines, pears, table grapes) in our study come under specific marketing standards. SMS include product-specific requirements of minimum quality; class labelling ('Extra' class, Class

¹⁰ Regulation (EC) 1234/2007 in conjunction with Regulation (EC) 1580/2007.

¹¹ The CODEX ALIMENTARIUS international food standards, guidelines and codes of practice contribute to the safety, quality and fairness of this international food trade. While being recommendations for voluntary application by members, Codex standards serve in many cases as a basis for national legislation. There are a provisions concerning quality that must be adhered to. These also include classifications Extra class, Class 1 and class 2. There are also size, packaging, making and labelling, contaminants and hygiene specifications <http://ftp.fao.org/docrep/fao/010/a1389e/a1389e00.pdf>

I, Class II)¹², sizing, uniformity, tolerances etc (CA 2007). Adherence to the SMS requirements provides a Certificate of Conformity (CoC)¹³ in for these products to enter the EU.

The Perishable Product Control and Export Board (PPCEB) in South Africa is a para-statal organisation responsible for overseeing quality and adherence to standards in the export sector. It tests produce either at the port or in the packhouse for produce shipped in containers. PPCEB has played an important role in maintaining South Africa's reputation as a high quality fruit exporter.

Private standards started to be introduced by individual supermarkets in the 1990s, and have gradually proliferated since (Henson and Humphrey 2008). In export markets, private standards tend to be more stringent than most trade standards (CBI 2011). Private standards can be divided into three groups: (i) product standards; (ii) process standards; and (iii) social standards. Private standards took off when leading European supermarkets combined to promote a single European process standard covering good agricultural practice (EurepGAP renamed GlobalGAP in 2007). There was a flurry of EurepGAP certification by growers in South Africa during 2003-4, and most export growers are now GlobalGAP certified. Social standards resulted from civil society advocacy and campaigns for improved working conditions in global value chains, and most UK supermarkets adopted the Ethical Trading Initiative (ETI) base code after it was formed in 1998. However, implementation through social auditing was slower to reach producers in South Africa, and only took off in 2007 (discussed later). Private standards have been applied in the South African horticulture sector in the following order:

Table 7 – Introduction of key standards by year

Year	Standard
2001-2	EurepGAP (changed to GlobalGap 2007) ¹⁴
2003	HACCP, Fairtrade
2004	British Retail Consortium (BRC) Tesco introduced Natures Choice (changed to Nurture 2009) Woolworths packhouse audit
2007	ETI social audits (ETI base code introduced 1998)
2008-9	Leaf (Waitrose)

Producers are particularly concerned about the rising costs of implementing private standards and audits. They have helped to raise quality, but are normally born by the growers/packhouses (with few exceptions). Informants told us that GlobalGap and most supermarket audits cost R6,000 per farm per audit excluding auditor transport and food. BRC costs R12,000 per packhouse. Ethical audits cost about R8,000 per farm (industry source). With the advance of standards, three of our case study growers have appointed a full-time manager who deals almost solely with standards (technical and social). The manager is responsible for all accreditation, writing standards

¹² . For instance in the case of Table grapes – Extra class represents grapes of superior quality, class 1 also represent good quality grapes, class 2 do not qualify for inclusion in the higher classes, but satisfy the minimum requirements.

¹³ A document certified by a competent authority indicating that the consignment meets the quality and labelling standards set by a marketing standard. It is usually the EU importer arranging a CoC with the authorities of the importing EU Member State.

¹⁴ Global GAP is an initiative from major internationally sourcing supermarkets to monitor food safety, pesticides residues and health & safety procedures for workers handling the food items. As a private governance initiative, spurred by impending European legislation, it is now generally seen as **the** standard for both public and private standards within food related segments. For more information see: www.globalgap.org/.

procedures, and overseeing that supermarket demands are met on all farms. They are also responsible for centralising information on farm blocks and what are planted, so everyone works on the same information.

An important aspect of our research was to investigate the extent to which domestic supermarkets apply standards within South Africa and the implications of the rise of emerging markets. We found it wrong to assume that South African supermarkets and emerging markets have no standards requirements, rather it varies by type of supermarket and type of standard, and the picture is complex. At the high end, Woolworths (which is very close to Marks & Spencer in the UK) has high product, process and social standards parallel to UK supermarkets (it uses the equivalent of GlobalGAP and the ETI base code), which it closely monitors itself. Of the other supermarkets, some informants said that product and process standards in South African supermarkets were similar to those in European supermarkets, and the application of South African labour regulation meant social standards were effectively the same. But we found this needed unpacking for supermarkets within South Africa:

- **Product standards:** Most large South African supermarkets have strict product standards covering the size, shape and colour of fruit. They also have strict standards covering Minimum Residue Levels, and many use their own technologists to check fruit coming into DCs. Produce can easily be rejected if it fails to meet their requirements.
- **Process standards:** Many South Africa supermarkets source from growers that also export, and therefore GlobalGAP certified, and packhouses are HACCP certified. Where available, they prefer to source produce from certified sources, but only some (such as Woolworths) make this a formal requirement. Informants also said that these standards are preferred by some buyers in the national fruit market if available. In sum, process standards are increasingly preferred by South African supermarkets, but only required by some.
- **Social standards:** South Africa has strong labour and social regulation including a strong government-led Black Empowerment initiative (BEE) that formally sets a higher standard than the ETI Base Code. However, the weakness of legislation is lack of enforcement, particularly in agriculture. In relation to private companies, only Woolworths formally applies and monitors an ethical code to its suppliers. Shoprite has a global framework agreement for union recognition of workers within its own supermarkets across SSA, but no social code for its suppliers. Many producers supply both European supermarkets, by whom they are now audited, as well as S. African supermarkets. So effectively social codes are entering domestic supermarkets indirectly through this route. A number of producers had converted to Fairtrade over the past 5 years, but some have dropped out as the costs of certification were seen to outweigh the benefits.¹⁵

In relation to the emerging markets, including Sub-Saharan Africa, Asia and Middle East, interviewees indicated that they are strict on product standards (the visual and physical quality of the fruit). However, they are less strict on process standards (such as GlobalGAP), which are sometimes 'preferred' if available but not 'required', and they have no social or environmental requirements. This greatly reduces the cost of audits and monitoring. As a result the margins on sales to SSA, Asia and the Middle East can be as good as Europe despite lower prices, taking cost differences into account.

Standards are therefore coming in through regional value chains, but not to the same extent as through EU supermarket value chains. These apply least to social/labour standards. Some South African supermarkets monitor their suppliers in relation to product standards, but we found no evidence of monitoring social standards (apart from Woolworths). However, given that many producers sell into different overlapping value chains, European supermarket standards are *de facto* entering into domestic and regional supermarkets too. There has been a move by the industry body Fruit SA to develop its own recognised social standard, which will be discussed later. This is in line with South African labour law (which is strong), and applies to production for global,

¹⁵ S. Africa is now a certified Fairtrade market for the sale of FT products. It does not appear that fresh fruit is likely to enter through this route within South Africa, however Cadbury is already selling Fairtrade labelled chocolate there, including within supermarkets.

regional and domestic value chains. This might be an example of where regional trends follow global trends, and private standards drive the enforcement of government regulation.

Value chain logistics

An important aspect of the changing value chain is the way logistics and distribution channels are changing. Logistics is being opened up by the increasing use of containerised shipping. This is replacing reefer ships, where the fruit is stored in large temperature controlled holds. The shift to containerisation is leading to significant problems for the traditional reefer operators within South African ports.

The advantages of containers are: (a) they can be pre-packed at source; and (b) can be better monitored and satellite tracked where access to the appropriate technology is available to handling agents. It is now possible for larger producer/ exporters to pack directly into a container in their packhouse, computer monitor the condition of the fruit throughout the trip with better control of the distribution process through to final destination. This is giving larger producer/exporters greater control over the quality of their produce, and monitoring the condition in which it finally arrives.

Containerisation is helping to drive the process of regional exports within SSA, and opening up potential for cool chain access by smaller producers. Containers are effectively able to act as a self-contained 'cool chain' which can be kept temperature controlled simply by plugging it in. Industry sources indicated that when containers are shipped to individual agents in Africa, for example, so long as there is access to a power supply, they use the container at the destination to maintain the fruit at a low temperature. Containerisation is also enabling South African supermarkets to centralise sourcing through their distribution centres in Johannesburg, and send consolidated loads, with a mix of produce to a single store elsewhere in SSA. Suppliers into a DC are therefore often unaware whether their produce has been exported.

Some global supermarkets are moving to new forms of procurement through centralised global sourcing (CGS), as discussed above. One reason is that managing distribution also gives supermarkets access to rebates that are provided by shipping and haulage companies. Industry sources indicated that the centre of the value chain (ie distribution segment) has been identified as a segment where cost efficiencies can be made and value captured.

5. Economic and social upgrading and downgrading in value chains – implications for producers

Europe remains the key export market in which supermarket value chains dominate, setting key trends for the South African horticulture sector. But rapid changes are taking place with the rise of supermarket value chains within South Africa and Sub-Saharan Africa as well as the expansion of new markets in Asia and the Middle East. Here we examine the implications of these different trends for economic and social upgrading or downgrading in value chains of producers, and in the next section for workers. The analysis is based on our research findings (industry data and interviews as well as selected value chain case studies). Overall, we found a combination of upgrading and downgrading pressures at every level of supermarket value chains, with varying experiences for different actors. We also identified a shifting value chain terrain, affecting the relative positions of different players. Here we highlight the key trends we identified.

Global value chain distribution

A number of producers and exporters interviewed indicated that following de-regulation of the industry in 1997 (disbanding of export marketing board) the bargaining position of producers waned. The expansion of European supermarkets meant that a smaller number of buyers had greater oligopoly power in South Africa's main export market, whilst producers were now more fragmented and exposed to greater competition. This was reflected in a trend to lower prices and margins for growers. Symington (2008:160) cites an industry source that there was an erosion in

price per kilo of grapes paid to suppliers over time: declining from pre-Christmas prices in 1998 of £39 for a 9 kg carton of grapes to a pre-Christmas prices in 2004 of £22/9kg carton. The same source also maintained that UK retailers increased their gross margins from 15 percent to as much as 35 percent over the same period.¹⁶

Estimating the cost distribution along the value chain for fresh produce can be very difficult, as costs and prices are very variable and influenced by a number of factors. These include location and timing of production, volume and quality of supply, exchange rate movements and seasonal variation in consumer price. For example, final retail price of grapes can vary dramatically from the peak in consumer demand pre-Christmas when supply is constrained compared to lower demand post Christmas when supply is greater. According to Symington (2008) in 2004-5 the pre and post Christmas retail price points in the UK for Orange River table grapes ranged from UK £4.49 per kg to £1.99 per kg between these windows. At the higher price point he estimated the average on-farm income to be +R65.63 per 4.5 Kg carton, falling to –R6.57 at the lowest price point.

In this challenging commercial context, two of the value chains selected for our study demonstrated different strategies for upgrading and accessing supermarket value chains in global markets. One of them provided an example of an integrated value chain strategy, led by a single company with an export focus. It originally started as a single family farm/packhouse in the 1980s, slowly expanding the number of farms/packhouses within its group and diversifying the varieties of fruit produced. Following deregulation in the fruit sector, it expanded into logistics, and established offices overseas (in Europe and Asia). It now exports to supermarkets in different destinations and sells to high-end South African supermarkets.

Another pursued a modular strategy, linking different commercial actors at different points of the export value chain. Following deregulation, a small group of growers set up their own packhouse and export company, sourcing from other growers based on close commercial relationships. It formed commercial linkages with a dedicated logistics company to better integrate into Europe, where it also established an office. It developed a close relation with one European supermarket for whom it became a preferred supplier, and more recently began selling to South African supermarkets (10 percent of its total sales in 2011).

There is a trend among the larger European supermarkets to source where possible from larger producers. Ours were examples of a larger producer/exporter and one who was organised as a commercial group. Both were thus in a better position to supply larger supermarkets. They were well positioned to understand the end market in Europe (allowing them to respond to changing requirements), and their size allowed them to obtain economies of scale on volume sold.

Both were able to economically upgrade within supermarket value chains through a combination of methods: (i) Process upgrading: being fully compliant with a full range of product, process and social standards. One farm in the first group had complied with 32 standards in the year prior to our study. (ii) Product upgrading: both were able to adapt to the delivery of new fruit formats (such as pre-prepared or pre-packaged mixed varieties). (iii) Functional upgrading: both involved entry into new commercial functions, particularly logistics and marketing, although the former did this in a more integrated way than the latter. Industry interviews indicated that growers who were more able to flexibly adapt to supermarket requirements were more likely to succeed in the global supermarket environment.

In global value chains there is a juggling by the different commercial actors for share of the value received. Estimating value chain distribution is very difficult, given variability of price. An example of the value chain distribution of final retail price for table grapes from Hex River Valley to the UK in 2011 is provided in Table 8. It shows that 42 percent of final retail price is captured by supermarkets, 32 percent goes to distribution, whilst 18 percent is received by growers (26 percent if packhouses are included). Producers who have upgraded in the value chain are able to obtain

¹⁶ Of interest is the vocal way complaints were now being expressed, including in a publicly available document from the main export association, Fruit SA (Symington 2011).

some of the share of distribution themselves, and are better positioned to negotiate, deliver and monitor fruit direct into the distribution centres of receiving supermarkets overseas.¹⁷

Table 8 - Estimated breakdown of table grape cost chain S. Africa to UK in 2011 (% of final supermarket retail price)

	<i>Hex River to UK</i>
Activity	2011
Retail Price (RP)	100
Delivered Price to Retailer DC	58.2
CIF (Cost, Insurance and Freight)	33.44
FOB (Free On Board)	29.67
DIP (Delivered In Port)	26.39
Farm gate price	25.72%
Delivered to Packhouse	18.05

Source: Industry Informant

New pressures are arising for those that have upgraded within global value chains. As mentioned above, some global supermarkets, who until now have used separate preferred suppliers and agents, are taking over functions at the centre of the value chain themselves. For example Asda/IPL and Tesco have introduced more integrated global sourcing systems, buying produce directly from farm gate in larger volume and managing distribution through to their own DCs. These are depicted by 'CGS' in the simplified Global Value Chain mapping in Figure 1. Various factors are contributing to this. As global retailers with outlets in many countries, they are seeking to better coordinate their global sourcing across countries. Buying direct from larger farms allows them to negotiate a lower unit price based on higher volume. Taking on distribution functions means they can capture some of the value through shipping rebates and increasing economies of scale in the distribution chain. The emergence of global sourcing platforms is putting pressure on larger producer/exporters that have previously upgraded into these functions up the value chain.

Value chain distribution denotes share of final retail price, but not *net* margins earned after deduction of actual costs incurred at each level of the chain. Many growers complain about the rising costs of implementing European supermarket requirements. Supermarkets negotiate hard on price, whilst suppliers face rising costs. With a few exceptions, suppliers have to meet the costs of any changes in supermarket sourcing requirements themselves. These include: rising quality standards, social auditing, new packaging formats (such as the move to punnets or zipped bags) and 'BOGOF' (buy one get one free) deals. All these put additional cost pressures onto growers. For example, we saw above that the cost of a GlobalGAP audit was estimated by one grower at R6,000 per farm per audit excluding auditor transport and food.

Table 9 – Labour cost as a % of gross table grape farm income

Year	Labour cost as a % of gross farm income
2000	35%
2007	47%
2011	52%

Source: Industry informant

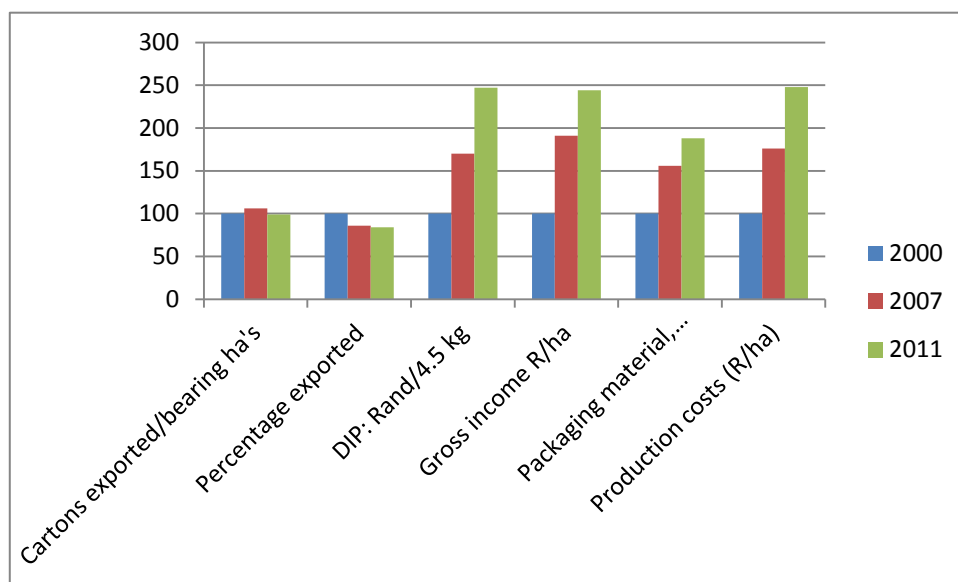
At the same time producers have faced rising input costs, including both fertilisers and pesticides as well as rising labour costs. One grower estimated that the cost of fertilizer had increased from R120 per ton five years ago to R300 per ton now.

¹⁷ As pointed out by Kaplinsky and Morris (2004), estimating value chain breakdown is inherently difficult.

Labour costs were also said to have increased significantly. The wage of basic farm labour is legally set by Sectoral Determination 13, made by the Minister of Labour and reviewed annually.¹⁸ Wages are prescribed according to two areas, namely Area A and Area B. Municipal boundaries have been used to distinguish between the two Areas. Separate wages for Area A and B were dropped in March 2009 and since the sector only has one minimum wage. The minimum wage increase is determined by using the Consumer Price Index (CPI), published by Statistics SA, + 1 percent. In 2012 government included a new proviso that the CPI to be used is the available CPI for the lowest quintile as revealed by Statistics SA six weeks prior to the increment date.¹⁹ This change has led to a bigger increase in the minimum wage than in previous years. Upward wage pressure has also resulted from the need to recruit more skilled core labour to handle rising standards. One industry source estimated that for Table Grape farms as a whole (which are relatively labour intensive), wages as a share of total farm costs had increased from 35 percent to 52 percent between 2003 and 2011 (see Table 9).

Obtaining information on farm incomes is difficult as growers are reluctant to divulge commercially sensitive information. Figure 2 depicts a summary of data collected by an industry source from a representative sample of grape growers in the Berg and Olifants River areas. This shows the percentage change between 2000-11 using 2000 as the base year. This indicates there has been a slight decrease in the production of export table grapes per hectare. This is accounted for by the introduction of new varieties of grape cultivar as well as more variable climatic conditions. During this period the price received per 4.5 kg carton of table grapes delivered into port (DIP) increased by 2.47 times, contributing 2.44 times higher gross farm incomes. However, the costs of packaging, cool chain, and meeting standards simultaneously increased, and total production costs rose slightly more than gross farm income in Rand per hectare (2.48 times). The result has been a squeeze on farm net returns, which has fallen slightly.

Figure 2 - Index of economic position of table grape farmers (Base year 2000=100 percent)



¹⁸ South Africa's Basic Conditions of Employment Act makes provision for minimum wage setting and the making of sectoral determinations for vulnerable workers. Before making a sectoral determination for a particular sector, the Minister must direct the Director-General of the Department of Labour to conduct the necessary investigation into that sector to enable the Commission to carry out its duties with full information. See: <https://www.labour.gov.za/downloads/documents/useful-documents/employment-equity/Useful%20document%20-%20Report%20of%20the%20Employment%20Conditions%20Commission%20-%20part2%20.pdf>

¹⁹ Government Gazette, Regulation Gazette no. 9690, 24 February 2012. Also see press release by the Department of Labour entitled: Farm worker minimum wage increases 2007/8 available online at [https://www.labour.gov.za/media-desk/media-statements/2007/farm-workers2019-minimum-wage-increases-2007-8/?searchterm=minimum wage + farm workers](https://www.labour.gov.za/media-desk/media-statements/2007/farm-workers2019-minimum-wage-increases-2007-8/?searchterm=minimum%20wage%20+%20farm%20workers)

Source: Industry informant

Whilst some producers have been able to upgrade, others are under increasing pressure in this tight commercial environment. As part of the study we undertook indepth interviews with three growers who had previously exported and then exited the fruit sector. All three recounted a cycle of debt that became an increasing burden, compounded by value chain changes and external pressures. They started with debt which hampered them from undertaking orchard renewals and planting new, high-value cultivars required to sell to supermarkets abroad. As a result of lack of renewal, they kept producing lower yields and lower grade fruit which meant that exporting to global supermarkets became increasingly difficult. Price variability in export markets aggravated their position. To save the situation, all three downgraded to local markets, but lower prices there meant they were unable to maintain their original debt burden, forcing them to sell. While all farmers are exposed to adverse weather conditions, those with higher debt are in a much worse position to withstand the storm. For example, flooding in the Orange River and hail in the Hex River Valley during the 2010/11 season, seriously affected a number of producers in both areas, with some going out of business.

Industry sources indicated that a process of consolidation has been taking place amongst growers. Many smaller growers, and those unable to compete in a more demanding commercial environment are selling their farms to larger and more successful growers, whilst overall production is not declining. The table grape sector in particular, has seen a reduction in the number of growers. Between 2007-2011 there was a 30 percent fall in the number of grape producers (SATI 2011). A similar but less dramatic process has been taking place across the fruit sector. According to government data, in 2002 there were an estimated 2,420 producers of fresh fruit, but by 2011 this had fallen to 2,250.²⁰ Exit from the industry reflects a combination of downgrading for those producers unable to compete and value chain consolidation for those able to buy up farms. Larger producers that have upgraded in the value chain are better able to withstand vagaries of price and weather, finance investment in new varieties, supply larger quantities to meet supermarket buying programmes, and obtain efficiencies through better downstream linkages in the value chain.

Implications of domestic supermarkets and South-South trade

The rise of supermarkets within South Africa (that also operate in Sub-Saharan Africa) is opening up new domestic value chain channels for producers. As discussed above, domestic supermarkets use procurement systems and apply standards along similar lines to their global counterparts, but with more variability and less stringency. Some producers focus primarily on supplying the domestic market (particularly in vegetables). To examine this we selected a company operating in the domestic value chain. It started with one farm in the 1950s, and now owns a number of farms across South Africa. Originally they only supplied hawkers and national fresh produce markets. Gradually they have expanded their supply to domestic supermarkets, and service most of the larger players. They provide different grades of vegetables to the different markets, but comply with GlobalGAP for domestic supermarkets (and a small quantity exported). This company has engaged in process upgrading (applying standards where domestic supermarket buyers require them), but less product upgrading. It has functionally upgraded by acquiring its own transport to deliver the vegetables direct to destination. Domestic supermarkets have provided an intermediate level in the value chain between domestic NFPMs and hawkers, and the more stringent global supermarkets.

The growth of South-South trade, and supermarket expansion within S. Africa and across SSA, is beginning to alter the conditions of supply and demand between buyers and sellers. Interviewees indicated that growers producing quality fruit that meet the standards of European supermarkets now have more options in terms of the buyers for their produce. In 2010, for example, we were informed that net prices for apples and pears offered by EU supermarkets (taking cost differences into account) was similar to that offered by S. African supermarkets. Some growers and exporters

²⁰ Sources: http://www.nda.agric.za/docs/statsinfo/Trends_2002.pdf and <http://www.nda.agric.za/docs/statsinfo/Trends2011.pdf>

said the Eastern markets offered them fixed prices which are just as high as those offered by the European supermarkets (who tended to buy on consignment basis). However, exporters/producers said that some of the UK supermarkets have recently begun offering them fixed or minimum price guarantees due to competition from elsewhere, a significant change to normal previous practice. The opening up of new markets is beginning to alter the bargaining position of fruit growers relative to European supermarkets, creating a more favourable sellers market.

The implications of rising domestic and regional markets in Africa, Asia and Latin America for upgrading in the future are difficult to ascertain. There are clearly opportunities for smaller producers but they need to be able to attain at least the lower level standards packages increasingly required in these markets. A key factor in the future will be the extent of continued growth of supermarkets expansion, and the extent to which they follow a trend towards higher standards and direct sourcing.

6. Economic and social upgrading and downgrading: implications for workers

The shift taking place in the value chain and production is accompanied by parallel shifts at the worker level since 2007/8. Our research indicates two key periods. The transition to democracy in 1994 led to a downsizing of on-farm labour and increased use of a core on-farm labour force complemented by seasonal labour. We are now seeing a further shift involving two aspects: (a) a trend to further reducing the ratio of permanent to seasonal workers. This results from increasing pressure to reduce labour costs. (b) an increasing demand for more educated and skilled workers (both permanent and seasonal) to enhance productivity and efficiency of quality output as well as cope with both the increasing complexity of production and packing for diverse markets with different requirements and standards. There are clearly tensions between these two trends.

The changing composition of the workforce is pronounced in the table grape sector. Overall there has been a reduction in the number of permanent workers, at the same time as a relative increase in seasonal workers. As indicated by Table 10, permanent workers fell from 28 percent of the total table grape workforce in 2007 to 20 percent in 2010/11. This shift results from increasing pressure to reduce labour costs (a high percentage of a farmers' variable costs). Seasonal labour also carries lower costs (particularly non-wage costs). It allows farmers to cope with increasing commercial insecurity and competitive pressures. A seasonal workforce is more flexible, and numbers can be varied depending on market and climatic conditions. A shift from permanent work with better terms and conditions and regular income to more insecure seasonal employment represents downgrading for workers.

Table 10 - Employment in commercial agriculture table grapes

Year	Total workers in commercial agriculture*	No. Permanent Grape Fruit Workers***	No. Seasonal Grape Fruit Workers	% Grape Workforce Seasonal
2007/8	814524	17,000	44,700	72%
2008/9	849782	14,642	52,433	78%
2010/11	866417	10,628	42,505	80%

Source: Agricultural Survey 2008, 2009, 2010, SATI statistical booklet, 2011

However, many informants (case studies and key informants) in our research revealed a desperate need in the fruit industry for more educated and better skilled workers at both farm and packhouse levels. This results from the need to cope with both the increasing complexity of production and packing for diverse markets with different requirements and standards, and maintain productivity and efficiency of quality output. Workers have to deal with a proliferation of standards (each with different specifications), more sophisticated production methods to cope with climate change and water scarcity, different market specifications in terms of the size, colour, shape of fruit. This requires not just a more skilled workforce, it also requires a more enabled workforce capable of

making independent decisions and working to tight targets, without constant oversight and management. It therefore requires a more professional and empowered workforce.

The changes are most overt in packhouses, where the gold standard is the BRC code and certification. Packhouse management now requires a combination of different things: logistics, markets, standards/accreditation, so the process is more complicated. As a result of the changes, packhouses have become more complicated to manage, and big changes have been required internally. But the need for more skilled workers is also found in farm level production, where implementing process standards such as GlobalGAP requires greater skills and capabilities.

One manager of a packhouse, for example, indicated that to be efficient and effective, the workforce also has to be behind and engaged in the process. He said that up to five years ago, it was not really necessary to involve workers, but now it is essential. He found managing labour the most energy consuming, because it required different levels of knowledge. Higher levels of education are now required for packhouse workers (ideally Grades 10 or 12 in our two export oriented case studies), and constant training is critical. He indicated that whilst you might not see an increase in formal productivity (i.e. quantity of output per worker), the key was to achieve the same or more quality output, which is increasingly demanding. One packhouse in our study strove to introduce collective bargaining as a more effective way of engaging with a large workforce, and addressing any worker concerns before they became an issue.

The challenge facing the fruit industry is that there is an increasing scarcity of more skilled and educated workers, despite high levels of rural unemployment. This results from a combination of factors. The profile of the workforce has long been shaped by social embeddedness of paternalist norms and cultures established under apartheid. Farmworkers were seen as inferior with little social investment provided (including education and skills), and discrimination based on gender and race was inherent. Although there have been significant advances in the rights of workers, paternalist attitudes persist amongst many growers in the fruit industry. Key informant interviews indicate that social problems are particularly prevalent amongst off-farm casual workers. They are more likely to have lower education levels, live in poor conditions, suffer from low self-esteem and experience personal difficulties such as alcoholism.²¹

As the South African economy grows, younger, more educated and motivated workers are exiting agriculture in search of better opportunities with higher esteem. Some growers are dealing with scarcity of 'the right type of workers' through recruitment of migrant labour from ex-homelands or from Zimbabwe and Mozambique (often more motivated and with higher levels of education).²² Many growers are providing intensive training in order to upskill both permanent and seasonal workers. Even in the domestic-oriented case study, there was an increasing need to train workers to meet higher supermarket standards locally. Some growers are introducing new working practices increasing the intensity of work to cope with rising standards and enhance productivity. But once skilled, workers then have options to seek work elsewhere with better remuneration and conditions. Many growers complained of the pressure of labour turnover. The horticulture industry is thus facing a double edged sword. While growers downsize their permanent workforce in favour of seasonal workers, they increasingly need more skilled and educated workers. Yet casualisation is fuelling the least capable pool of workers to provide this. Embedded undervaluation and lack of empowerment of agricultural labour is coming to haunt the industry, posing a serious constraint to future upgrading and growth.

Case study findings

²¹ Alcoholism is in part a legacy of the 'dop' system in S. African agriculture whereby payment in kind to workers included low grade alcohol. The dop system was formally made illegal in 1960, but this was not enforced until the 1990s. However it instilled a culture of drinking amongst farmworkers.

²² The influx of international migrant labour is leading to tensions with local workers in some locations, such as the Hex River Valley.

This section further explores the issues discussed above, drawing on our in-depth case studies. Here we provide an overview of key issues that emerged across the 10 farms researched in our case study value chains. To protect worker anonymity on the farms the different value chains are not identified, and our sample was too small to identify whether the type of value chain made a significant difference. The aim of this section is to examine how the competing pressures of rising quality standards and more competitive costs are playing out, and to examine the implications of economic and social upgrading and downgrading for workers.

Labour profile

At each of the sites there was a core of skilled, permanent workers that formed an intermediary layer between junior management and the general workers. They received more training than the rest of the workers, had more responsibility, were appointed in more specialised positions and were better paid. Such specialised workers would typically include lorry drivers, spray drivers, workshop assistants, builder assistants, trainers, crèche teachers, stock controllers and administrative aids.

Temporary contracts were usually issued to seasonal workers who were either appointed for a fixed term linked to a specific production period (such as harvesting, pruning or thinning) or linked to the completion of a specific task. Only in the vegetable case study did production cycles repeat throughout the year, necessitating a constant labour supply. Here, all South African workers (comprising 60 percent of the workforce) were appointed on a permanent basis while Mozambicans and Zimbabweans were appointed on a one year fixed-term contract renewed annually to run concurrently with their work permits.

On the large deciduous farms, seasonal labour swelled to 80 percent of the labour force during high season. At the smallest site in the study, the seasonal component however remained at 40 percent. Deciduous fruit growers usually employed seasonal workers on a range of fixed term contracts, varying from three months to six months. While seasonal labour was mostly transient, a small percentage of seasonal workers worked throughout the year. This was usually done when unforeseen, temporary labour needs arose, such as having to develop new plantations. Yet, in at least two case studies management also said that they preferred to appoint a certain number of workers on fixed term contracts even if they work throughout the year in order to give the company more flexibility. A seasonal worker's cost to the company was also significantly lower than a permanent worker's, given that they usually did not belong to a provident fund and their accommodation costs were cheaper. Moreover, while the wages of seasonal workers have only increased in line with minimum wage since 2003, the average gross wage of permanent workers was 30 percent more than the minimum wage by 2010.

There was clear evidence that the permanent labour core has shrunk in relation to the seasonal labour core since the introduction of the minimum wage for farm workers in 2003. At Farm C6 the percentage of seasonal labour expanded from 86 percent to 92 percent between 2003 and 2010. At Farm C4, this expansion has been much more dramatic: while 83 percent of workers were permanent and 17 percent seasonal in 2003, by 2010 16 percent were permanent and 84 percent were seasonal. At C5 the permanent workforce was reduced by 50 percent after the farm was bought by a new owner in 2002.

Both workers and management reported that the workers were now appointed on a permanent contract much more discriminately than in the past. Management explained that the number of permanent workers depended on the number of productive hectares. "Our rule of thumb is to appoint one multi-skilled permanent worker per five ha. Such a worker must be able to prune, train a tree, irrigate, drive a tractor, do orchard monitoring, and, if necessary, also have to stand in for the supervisor if the latter is absent," explained the manager at C5. At C7 the smallest site, workers were made permanent if they regularly exceeded targets set by management.

At all sites management commented that their permanent workforce was very stable, and the rate of turnover between 5 - 10 percent. At C5, 70 percent of the permanent workers have been with the company for more than 10 years and 25 percent for more than 20 years. Such long tenure by

permanent workers was not unique to this site, but also frequently found at other sites. In sharp contrast, the rate of turnover for seasonal workers was much higher: 30-40 percent at C2; 75 percent at C5 and 82 percent at C7.

At three of the six sites about a third of workers were female and at a fourth, 20 percent. The two outliers were C7, the smallest farm in the study, where 43 percent of permanent workers were female and C9, a packhouse where 66 percent of were female. However, according to a key informant in the Ceres area, the percentage of migrant women have increased to about 50 percent on many farms and producers have also increased the number of women appointed on a permanent basis.

Given the flexibility that fixed term contracts offered producers, it was surprising that at least two of the sites still resorted to labour brokers. Even when the wages of the brokers' workers were 20 – 25 percent higher than that of directly appointed workers one manager felt that the expense was worthwhile: "The labour broker supervises his team and gives them training. Their workers are much more professional than the seasonal workers [directly recruited from town]. Moreover, the labour broker has an obligation towards me," he commented. The biggest site in this study, C1, found it far too expensive to use a labour broker. Its management also felt that it would have no control of the labour brokers' workers and therefore preferred to appoint temporary workers directly.

Working conditions: contract, wage, benefits

Fairly high compliance with labour legislation was found at bigger sites. This could possibly be ascribed by three factors: they had HR departments; they were more often targeted by the Department of Labour due to their size, and the fact that these companies stand more to lose if they are found to be non-compliant in social audits, given their close relationship with overseas buyers.

At all sites visited the rights stipulated in workers' contracts complied with Sectoral Determination 13. During interviews workers confirmed that the company granted them these rights. Most workers interviewed also said they received the minimum wage. The exceptions were two seasonal workers at C4 and four permanent workers at C1 who said they received less. Their claims were not verified against wage records. Management at all sites were adamant that workers were paid the minimum wage.

Considering the difference between permanent and seasonal workers, it is clear that farm workers should not be treated as one homogenous group. Even among permanent workers conditions of work differed considerably depending on the skills and responsibility required by the job.

The value attached to core workers is probably best illustrated by an incident at a packhouse where speed, correct sorting and labelling is of the essence. Below mid-management, a layer of 30 skilled workers have been appointed to ensure quality and traceability procedures and the maintenance of the cold chain. Workers in these positions were paid R2- R11 per hour more than ordinary fruit handlers.

The value attached to core workers is also reflected in their wages. Two sites had a formal wage grading system. As can be seen from Table 11, permanent workers with specialised skills earned considerably more than the minimum wage. However, it must be taken into account that the minimum wage for agricultural workers – set at R63.36/day in 2011- offered a very low base for comparison.

Table 11 – Examples of a wage grading system²³

²³ Table 11 reflects the wage ranges within each job level. These grading systems were approximate and sometimes wage grades overlapped, allowing for experience, tenure and training of individual workers.

	Job grade	Wage Range (per day)	% more 2011 minimum wage of R63.36/day
C9	C9: extra heavy lorry drivers; lorry driver who had to transport seasonal workers; work shop assistant; supervisor of the forestry division.	R121 – 140	100 – 120%
C7	C7: spray drivers, tractor drivers, supervisors, machine operators, builder's assistants, and crèche teachers	R93 – R111.4	46- 75%
C5	C5: seasonal supervisors (who did not perform this function throughout the year), field monitors and crèche assistants, who did not receive the same training as the crèche teachers.	R85 – R92	34 - 45%
C8	C8: permanent pruners, irrigators and domestic workers (category 1)	R78 – R79.30	23 – 25%
C6	C6: Permanent pruners, irrigators and domestic workers (category 2)	R76.30	20%
C4	C5: seasonal and "permanent/temporary" workers	R63.80 – R70.20	0.7 - 10%

Note: Rate of exchange US\$1 = R8; UK£1 = R13.
Source: Fieldwork

Various configurations of benefits were paid to permanent workers. Three of the sites had a provident fund for permanent workers. At C4 and C6, only permanent workers in more specialised positions (e.g. tractor drivers, orchard monitors, etc) belonged to the provident fund, while general permanent workers belonged to a funeral fund. At C1 all workers who have been with the company for three months and hence became permanent were eligible to join the provident fund. The only farm site that did not have a provident fund was C7, which was the smallest farm. No seasonal workers or fixed-term workers in this study belonged to a provident fund, even when some of these workers worked throughout the year.

Due to the high prevalence of HIV/AIDS, two sites had a formal funeral policy. At C1 membership to the funeral policy was initially only compulsory for non-South Africans and implemented by management due to the high prevalence of HIV/AIDS and the cost of transporting deceased workers back to Zimbabwe or Mozambique. Now it is compulsory for all.

Health and wellbeing

Management has clearly made the link between productivity of workers and their general health and wellbeing long before the introduction of standards. Typical worker responses to the question when the clinic on their site was first established was "since I first came to this site" or "since I can remember".

Four of the sites operated independent on-farm clinics manned by trained primary health care nurses/sisters during working hours. The only site that did not operate such a clinic, was the smallest site who could not afford to offer workers this service. This site relied on the free clinic services offered by the government clinic in a nearby town.

Sites that operated independent clinics paid clinic staff and also for medication, except where the latter was provided for by the state. Workers paid different prices for clinic services. At two sites

There were some outliers within each category, but by and large workers who did the same work received the same remuneration.

workers paid a monthly contribution of respectively R5 to R17. A third charged workers R22/clinic visit, while a fourth site charged no fees. Services at this site were however far more limited than at other sites: here a nurse only visited the workplace twice a week and only dispensed contraceptives. At two sites permanent workers have also been trained in community health care. At all sites, workers valued such training highly, as they could also apply skills learned in their communities.

Given the legacy of the now illegal “dop system” that saw workers receiving alcohol from management as payment in kind on a daily basis, alcoholism is still rife among many South African farm workers. As a result workers’ general health, but also their home life suffers: domestic and child abuse are common. During a march organised by a trade union to raise awareness about alcohol and drug abuse in a small Western Cape town, a police liaison officer said in that town 80 people were murdered and 1 300 seriously injured due to alcohol or drug related conflicts in the past seven years. To address addiction and social welfare problems, C2 has appointed a social development worker, while C5 and C9 contracts in a social workers to assist workers. At two of the sites counsellors have undertaken specific interventions to curb alcoholism including starting AA-group support meetings and offering a two week course on foetal alcohol syndrome.

Life skills training was done at all sites. Workers received training on debt counselling and budgeting, family planning, marriage enrichment, domestic violence, child abuse, stress and depression, computer skills, and training for worker committee members. Social workers also helped single parents to file for maintenance. Even at the smallest site, C7, all workers were sent on a “self-discovery” course that ran over a period of three years to increase their self-confidence.

Three of the five sites operated on-farm crèches that provided meals to children. At both C4 and C5 the nurse, together with the social worker, inspected the local crèche to check up on levels of hygiene and to ensure that children get balanced meals. Although C7 did not have an on-site crèche, children were transported to a nearby crèche. Workers of C9, the packhouse situated in a town, took their children to crèches in the townships where they lived. C1 operated 13 crèches in total. The crèche fees at all sites were heavily subsidised by management, averaging about R50/month.

The investment in crèches was not new, but at one production site, which was the flagship of an exporting company, investment in the crèche has increased dramatically since 2007/8, the year supermarket standards begun to proliferate. Not only were all the children at the crèche assessed by an educational psychologist, but a special programme had been developed for them to stimulate their brain development. An after school centre where children receive meals and help with their homework has also been established by the group. The group wants to expand the programme to other farms in their supply chain.

While the provision of childcare services was no doubt part of a public relations campaign to impress overseas supermarkets, it had concrete benefits for workers and management. All workers interviewed at C5 attached high value to the improvements at the crèche and the opening of the after-care facility. Both the General Manager (GM) and workers on the health and safety committee mentioned that as a result of these facilities female workers were less absent from work, because their children were being cared for. Commented the GM: “The fact that our on farm female labour force is more productive makes a difference, because we don’t have to transport in additional labour. It also doubles the income per household, so they have more money.”

Organisation

Workers were organised at two sites only. At C5 about 70 percent of workers were unionised since 2003, but they only joined a registered union in 2007. By 2011 the union had a closed shop agreement with management that covered all permanent as well as all so-called “temporary/permanent” workers. Seasonal workers were however not part of the bargaining unit. As a result “permanent-temporary” workers were paid R76.30/day (20 percent more than the minimum wage) while most of the seasonal workers were paid the minimum wage of R63.80/day, with a few earning R70.20/day.

In the absence of a representative trade union, workers were represented by workers' committees at C6 and C1. A workers' committee had apparently existed at BB2 in the past, but had since collapsed. Management viewed the committees as an important mechanism where serious grievances could be raised instead of festering among the workforce. At one site management blamed worker representatives' lack of understanding about the financial predicament the farm found itself in for a wild cat strike over bonuses which erupted previously. Since, management has weekly meetings with the workers committee to discuss worker grievances and production issues. Management pointed out that if workers went on another wild cat strike, the company could lose R1 million per day.

In the absence of either a representative union or a workers' committee who could raise grievances collectively, workers had to raise their individual grievances with their supervisors. If the supervisor is the cause of the grievance, they are supposed to complain to the next line of management. But where this system was operational, workers were more than aware of its limitations. Ordinary workers complained that its effectiveness depended on a supervisor's willingness/bravery to take up issues with management. Moreover, seasonal workers who did not have any job security had to be careful not to be perceived as demanding.

While a workers' committee provided a channel for taking individual grievances to management, it remained at best a grievance mechanism rather than a negotiating forum. Workers' committees seemed to have no power other than an appeal to management's goodwill to meet workers' demands. For instance, when one of the sites introduced a new target system for piece work, management only met with the supervisors, but not with the workers' committee. Supervisors who sat on the workers' committee said they were too scared to confront management directly about the new system, which most workers were opposed to, because they were afraid that it would affect their performance evaluations.

In the case of C1, the workers' committee was not democratically elected, but seemed to be a grouping of loyal workers chosen by management. While the committee's chair commented that workers' biggest gripe was low salary, the committee has never taken up the issue with management. The chair explained that workers should approach their supervisor if they wanted a higher wage. Asked what issues they discussed with management, the committee replied that it mostly met when workers had to be disciplined.

Trade union capacity in the sector is extremely poor and fragmented, offering little scope for effective bargaining at industry level. While the Department of Labour has started a process of establishing farm worker forums to elicit more worker input into labour legislation, it is still in its infancy. In response to the difficulty of organising and lack of collective bargaining in the sector, NGOs and trade unions have begun to take their grievances to companies much higher up the value chain in the hope that such companies will exert pressure on their suppliers (discussed further below). Trade unions have also used social media, for example a trade union posted YouTube clips about a conflict on a Western Cape Fruit Farm. In the next section, we explore further industry interventions aimed at making a difference to workers' lives.

Dealing with labour shortages

While most sites followed a strategy of nurturing a small core of permanent workers and managing a constant churn of seasonal workers, this strategy was not unproblematic. All the farming sites in this study complained about a shortage of *reliable* labour, and sometimes simply about a lack of labour. The latter was surprising given the prevailing belief that unemployment is rife in rural areas and that most people would jump at the opportunity of a job. The only site that did not complain about a lack of general labour was situated in a peri-urban area.

While management offered various explanations for the lack of suitable labour, the most common reasons offered were that locals 'did not want to work'; that they could fall back on government grants; that they were unreliable and absconded without leave; that locals had a drinking problem and consequently was often absent on a Monday morning. Ill-health among seasonal workers was

also mentioned by one site as a critical factor. Time and again the opinion was also expressed that agriculture has become an unpopular career choice. General workers preferred jobs in industries in the city because countryside wages were too low.

Due to a lack of suitable and sufficient local labour, the three big farming sites in this study all made use of migrant labour. Two of them made use of internal migrants; the third made extensive use of foreign migrants, particularly Zimbabweans and Mozambicans. The HR manager at C1 commented that while they preferred to employ South Africans, they struggled to get enough workers. To this end, they have applied to the South African government for corporate permits to be able to employ Zimbabwean and Mozambican workers. However, the Department of Labour was not convinced that they had made sufficient effort to find South African labour and suggested that it would readily find them a thousand South African workers. Of this promised workforce, the Department eventually only provided 27 applicants. When C1 went to collect them at the Department's offices, 17 of the 27 workers got on the truck. The day after their arrival on the farm, 11 hiked back to the city, complaining that they did not like the conditions on the farm. After that incident, the company again met with the Department of Home Affairs and was issued with a corporate permit to recruit Mozambicans. Yet, in spite of this story, 60 percent of C1's workforce was still South African while Mozambicans and Zimbabweans made up the remaining 40 percent. C2 preferred to recruit from its historical stomping ground, an area with high unemployment. It was quite protective of its turf and upset about the fact that farmers from the Western Cape have begun to encroach on their recruitment ground.

Management also commented that high rates of HIV/AIDS were having an impact on recruitment options. At C2 30-40 percent of permanent workers and about 120 seasonal (equating to 10 – 25 percent of workers) were HIV positive. At C1, about 45 percent of the workforce had Stage 2 AIDS. At C5 about 13 percent of seasonal workers displayed symptoms of HIV/AIDS. On at least two sites management commented that HIV/AIDS had a big impact on production levels as workers not only tired quicker, but often passed away. All sites did HIV/AIDS training. At C6 the social development worker facilitates an HIV/AIDS information session within 14 days of workers' arrival on the farm. Voluntary testing is encouraged and those who test positive are referred to the government clinic in town. At C5 the social worker provides HIV/AIDS counselling and also gives talks on a variety of health related topics such as TB, breast cancer awareness and sexually transmitted diseases. At C9 workers received HIV/AIDS awareness training and screening in 2011. At C1 general workers said that since 2009 they receive training on HIV/AIDS and TB approximately once a year. The only site where no HIV intervention was being done was C7 – the smallest farm.

Gender training and roles for women

While women on the farm sites had some access to training opportunities, males were still the main beneficiaries of training. Training was also frequently gendered. Women were mostly sent for health and safety related training (eg. first aid, health and safety, health care, auxiliary nursing and crèche teaching). Men were mostly sent on production-orientated training. While one woman interviewed at BB1 was trained as a tractor driver, when she asked management if she could drive the tractor, they laughed at her. Yet, the same person also commented that most women on her farm did not want to drive a tractor. This raises the question whether gendered work roles were a result of management's stereotyping, or a case of internalised stereotyping by women. Whatever the reason, stereotyping disadvantaged women as becoming a tractor driver, instead of a pruner – the most common job performed by women at BB1 – would raise their wages by a third. If women were appointed in production related positions, they were usually appointed in quality control positions (orchard monitors, fruit sorters) or as supervisors of other women.

Sometimes, gender biases worked in women's favour. Given the stereotype that women are best suited for secretarial positions, many clerical positions in the farm office were filled by women. Moreover, while men were usually appointed in production manager positions, at some sites management has appointed female clerks to assist production managers who struggled with record keeping demanded by private standards. Not only were the clerical positions less physically

demanding than field work and better remunerated, but they often offered training in transferable skills such as administration, record keeping, data capturing computer and managing payroll software.

The gender stereotype also worked well for women in the packhouse as managements believed that women were more “sensitive” and “dexterous” and therefore more suitable to work with perishable fruit in the packhouse environment. Packhouse workers were frequently better remunerated than field workers.

There were small signs that women were breaking out of stereotypical roles, possible due to the shortage of applicants for jobs usually performed by males. On one large farm, 3 of the 23 production managers were women. At BB3 mid-management consisted of three men and five women and junior management of nine men and seven women. At BB1, where about a third of the permanent workers were female, a third of those who were in higher paid positions were women. Half of these higher paid women were in jobs typically reserved for women, eg. crèche teachers or child minders. However, the other half were appointed as supervisors, field monitors, irrigation specialist and in the chemical store.

Productivity and quality strategies

A persistent complaint of management at all sites was the high rate of absenteeism, especially among seasonal workers. To curb this problem, C5 and C7 have instituted attendance bonuses for seasonal workers. At C5, seasonal workers received two free meals a day as management found it drastically increased their productivity. The main mechanism for improving productivity was the introduction of piece work.

Piece work was predominantly performed by seasonal workers. It was not just implemented during the harvesting season, but whenever tasks could be fairly easily measured. While management at all sites were adamant that workers always received the minimum wage, even if they did piece work, some workers complained that this was not the case. The majority of workers interviewed however preferred to do piece work as they said they could earn more than if they were paid a daily wage. The only site where workers did not do piece work was at the packhouse site. Here quality considerations outweighed speed. Management felt that workers damaged and wasted too much fruit during piece work, and resorted back to paying workers a daily wage.

Quality considerations were however becoming more important at all sites, not just at the packhouse. While piece work has been a standard work practice for years, a twist to the old system is that workers are now also rated on quality, not just on quantity. The decision of whether targets have been met has also become far more subjective, increasing the scope for conflict. For instance, at C2 a new piece rate system was introduced that rewarded workers not only for quantity, but also penalised them for lack of quality. If the tailings/waste for the day would exceed a certain percentage (set by management), workers would forfeit their bonus even if they reached their numerical target. Moreover, if the production manager rejected any carton of grapes because the quality was not up to standard, then all the workers on the pack line would forfeit their packing bonus for the day. In the field supervisors have been instructed to evaluate workers and grade them according to their work output from A (best) to D (worst). Workers with the highest score would get the biggest bonuses, while those scoring a D would get no bonus. While supervisors – who were mostly male – had already significant power given that they chose which workers were recruited at C2, the new system increased the scope of abuse as supervisors will now also decide who gets the highest bonuses. At least one key informant commented that supervisors often see sexual favours as one of the perks of their jobs.

Due to the increased focus on quality, recruiters were beginning to scout for workers with higher school grades. This was especially the case in the packhouse where workers not only had to work fast and understand the need for traceability and food safety standards, but also be able to switch seamlessly between different types of packaging and quality grade requirements. “It is very important that a stock controller should be able to read or write, because he handles about R5 million worth of pallets per day while a loading master handles vegetables worth R1 million per

day,” commented a packhouse manager. Those wanting to qualify for promotion are therefore advised to attend ABET classes (usually offered on site) and warned that they will hit a glass ceiling if they don't.²⁴ To encourage a wider pool of potential trainees, two of the case studies had appointed ABET facilitators to offer literacy and numeracy classes to workers. There was also evidence that the grades of the average farm worker were increasing. The staff of a training centre in the Ceres area commented that in 1984, most farm workers trained by them only had two years of schooling; by 2010, it had increased to nine years, ending the need to offer literacy classes.

Junior and middle management

While more than one manager described the shortage of reliable labour as a “major headache”, their problem became a migraine when they had to find suitable middle managers. The head of production at one site pointed out that there is currently only one university in South Africa offering agricultural engineering while universities and colleges that still offered agri-related courses were either amalgamating or closing down. The problem of finding suitable middle management is also driven by an increasing consolidation of fruit exporting farms. As farms grow bigger, it becomes more critical for management to devolve control closer to the ground to ensure consistent quality and savings. Moreover, as sites expand, more labour – especially more seasonal labour – has to be recruited who needs to be closely supervised and managed.

While the inability to offer competitive wages also affected the recruitment of junior and middle managers they also left because labour relations on the farm were becoming increasingly demanding: junior management was essentially the buffer between a corpse of seasonal workers who had little loyalty towards their employer, and management who often saw seasonal workers as disposable. Commented management at C3: “The quality of labour have deteriorated on farms, because the better educated people migrate to the city. As a result, levels of confrontation between farm managers and workers have become worse.... [production managers] are no longer prepared to get so much flack for so little money.”

To counter the problem of finding suitable middle managers, two companies offered bursaries for students studying at agricultural colleges or technikons. Bursary holders usually have some obligation towards the company, such as working for the company to pay off their loan, or having to complete their practical internship with the company. Both companies complained that once students have met their obligations, they are either poached by farms closer to urban areas or leave on their own steam to pursue jobs closer to the city.

While management in the past usually insisted that production managers have a tertiary qualification and that junior production managers have 10–12 years of schooling, it seemed that companies were beginning to lower their standards because of a lack of suitable candidates. As a result three of the case studies have begun to train workers lower down the ranks to fill junior production and even production manager positions.

Junior production managers received extensive formal training. Training interventions were diverse and ranged from enrolling workers in structured learnerships regulated by the Sectoral Education Training Authority for Agriculture (Agriseta); short courses in basic principles of management, production techniques and labour relations, (ranging from a couple of days to four weeks); being sent on field days arranged by training institutes. Ongoing on-site mentoring is also provided to junior production managers, especially in the form of attendance of weekly management meetings where management discusses production schedules, targets and company expenses. According to the training manager of C6, workers exposed to these meetings have begun to take ownership of their individual spheres of responsibility: they are cutting down on expenses and overtime in order to keep overall costs in check.

At one site, supervisors and junior production managers were sent on a visit of overseas markets to foster a better understanding of quality and traceability requirements. Explained the farm

²⁴ Every ABET learner can go to the training centre – equipped with computers and software - 3 hours per week during working hours.

manager: "If we get a [quality query], we let them handle it themselves and let them filter [the problem] through to the rest of the workers so that everybody knows what is at stake. It helps a lot to make workers understand the importance of producing quality." While training of junior production managers did not seem to be an entirely new phenomenon, what was more novel was that workers with less schooling were now being trained up the ranks for these jobs. While it could be argued that the pressure of having to meet employment equity targets contribute to the training and promotion of such workers, the fact was that only a small fraction of agro-businesses had to meet equity targets, negating this as a major factor.

Sites also shaped their own training interventions for production managers higher up the ranks. For instance, at C2 twelve production managers were attending an on-site year course facilitated by a local university. For a week every month they received training on operational management and logistics; financial planning, chain management; leadership, ethics and governance.

As with the junior production managers, workers with specialised functions also receive mentoring. At C2 workers in the leadership group have received a week-long internal training course in effective communication, motivating workers, and handling of conflict and goal management in 2011. The company has also developed an internal learnership course for supervisors which is spread over three years. At CC, consultants train supervisors and land assistants in basic management skills.

Three of the sites (C1, C2, and C9) had appointed internal trainers since 2007, the year compliance with standards became more critical. Internal trainers do induction training of seasonal workers, but also health and safety training, food safety training, and training of supervisors in basic labour relations. While C7, the smallest site, could not afford to appoint a full-time trainer, it was a member of a training centre that followed a specific training programme. Most training was production orientated. Almost all training happened during working hours.

In sum, our case studies revealed underlying tensions between labour requirements to meet changing demands of value chains, and prevailing employment relations and profile. Regular workers have benefited from social upgrading, but casualised workers have not reaped the same benefits. The need to attract and retain a more skilled and educated workforce at every level is not facilitated by use of casualised workers on minimum legal wages and conditions. The pressure for work intensification and productivity is not facilitated by a workforce with low skills and deeply embedded social problems. Complexity of production requires a committed workforce able to make informed decisions, yet on many sites they lack independent grievance mechanisms, organisation or empowerment.

Governance and strategies for social upgrading

We have examined the rise of more stringent supermarket requirements and private standards above in terms of their implications for economic and social upgrading and downgrading of producers. Here we consider wider strategies to promote social upgrading of workers in supermarket value chains. We focus on two specific dimensions that appear key to social upgrading: enhancing the skills of workers and promoting better jobs with enabling rights. These would help to develop workers' capabilities and a more professional labour force better able to meet the commercial demands of the sector, as well as enhance the appeal of working in horticulture as a sector providing worthwhile jobs.

Skills and training programmes

Interventions to facilitate skills development in the horticultural sector have been made at both government and industry levels. The Department of Basic Education is responsible for primary and secondary schooling while the Department of Higher Education and Training is responsible for tertiary education. However, given the legacy of apartheid education and the continuing poor

performance of South Africa's school system²⁵, extra-curricular programmes have been launched to aid skills development. The Department of Education's Kha Ri Gude Mass Literacy Campaign, launched in 2008, aims to help 4.7 million adults become literate and numerate. Under the illiterate count many farm workers: it is estimated that 33 percent of farm workers have not received any schooling.²⁶

Specific programmes aimed at increasing skills within the agricultural sector also exist within the Department of Agriculture, Forestry and Fisheries (DoAFF). Yet, gauged by the budgets awarded to such programmes, it does not seem to enjoy high priority. At provincial level, the Farm Worker Development Programme of the DoA: Western Cape has only received R4 million in its last financial year. This was spent on co-sponsoring a Farm Worker of the Year competition; paying for life skills training of farm workers; and conducting a household survey among Western Cape farm workers. The extent to which these projects could significantly improve the skills of farm workers is not clear.

In 2005 the Department of Agriculture formulated an Agricultural Education and Training Strategy (AETS) to correct "a lack of coherence and coordination... [and] strategic direction" of agricultural training prior to 1994. Two of AETS's key recommendations were the establishment of a.) a National Agricultural Education and Training Forum (NAETF) comprising various industry stakeholders to coordinate all agricultural training programmes and initiatives; and b.) a Directorate: Education, Training and Extension Services, that would serve as the secretariat for the NAETF. The NAETF met for about two years, but fizzled away when the Department of Agriculture was restructured in 2010. In the absence of the NAETF it is not clear who gives direction or mandate to the Directorate. The directorate receives about R42 million per annum from the DoAFF. According to its Chief Director, it is responsible for driving the education and training programmes in the sector.

Also responsible for coordinating training in the sector, is the Agricultural Sectoral Training and Education Authority (AgriSETA). It is not clear what the separation of responsibilities is between the AgriSETA and the Directorate or how the two institutions avoid duplication of functions. Currently, a service level agreement exists between the Directorate and the SETA. The relationship between the Directorate and AgriSETA has been described as one "based on cordiality".

AgriSETAs, like all other SETAs, is funded by statutory skills levies paid by qualifying employers - those with an annual payroll of more than R500 000. Such employers must pay 1 percent of the value of their payroll to the state which is channelled to the SETAs. Qualifying employers also have to submit a Workplace Skills Plan (WSP) and an Annual Training Report (ATP), used to inform sector skills planning by the SETAs. Once these forms have been submitted, employers receive a 50 percent rebate on their levies which can be used for training. However, employers complained that completing the WSP and ATP was laborious and smaller companies who did not have the administrative capacity to do so, chose to forego the 50 percent rebate rather than dealing with paperwork. AgriSETA itself complained that the quality of the data entered into the documents was of such low quality to be unreliable for purpose of analysis.

AgriSETA received about R90 million in levies in 2012. This was used among other things to fund apprenticeships for technical staff; scarce skills bursaries for tertiary students; learnerships; internships and workplace experience programmes. A key informant with good knowledge of AgriSETA felt that their existing funding was inadequate. He argued for lowering the threshold qualifying employers as levy payers. Moreover, he felt that farmers should receive less than a 50 percent rebate for completing their WSPs and ATPs as this essentially rewarded them for

²⁵ South Africa was rated last out of 62 countries on the quality of maths and science education by World Economic Forum (WEF) in 2012. See "Matric pass probe long overdue – DA", News24 Online, 5 November 2012. Available online at: <http://www.news24.com/SouthAfrica/News/Matric-pass-probe-long-overdue-DA-20121105>.

2012-11-05 14:19

²⁶ See: HIV/AIDS Strategy and Framework for AgriSETA, undated. Published by AgriSETA.

completing paperwork. The AgriSETA has no control over the quality of the training done by producers once they have received the 50 percent rebate. Such training, he argued, was generally aimed at a low level and repetitive.

Completing paper work was a major head ache for smaller companies. To assist them submitting the required forms and benefitting from the rebate, an entrepreneurial skills centre in Ceres has offered to complete the necessary forms on their behalf. The skills rebate received by the producers goes towards the centre: 85 percent is used for production-orientated training; the remaining 15 percent is spent on teaching farm workers life and health skills. The centre's growth in memberships speaks for itself: while it had 21 producer-members in 2001, by 2011 it had 76.

Levy-funded industry bodies such as the Citrus Growers' Association, Hortgrow (representing the deciduous and exotic fruit industry) and the South African Table Grape Initiative (SATGI), are required by government to spend a portion of their income on transformation. In response, they have developed technical training material for farm workers and emerging farmers. Such material usually comprises DVDs about on pre- and post-harvest procedures, integrated pest management, and the concept of the value chain. Other than technical skills, some of these bodies have also begun to fund social development interventions. Hortgrow, for instance, has developed a wellness programmes that employs social workers, live theatre and DVDs to educate farm workers about HIV/AIDS, overcoming drug dependencies and life skills. Its Support Care Worker Programme trains farm worker volunteers to establish a social and health support network in their communities. However, industry bodies mostly train permanent staff only, as production schedules leave little time for training seasonal workers, who are mostly employed during peak periods. Given the high churn of seasonal workers, but also the constant demand to produce bigger volumes of fruit of higher quality, induction training has become more critical for all workers. While induction training never lasted more than about a day or two, all sites did such training, even the smallest. Induction training typically focussed on demonstrating how to do a particular task, basic health and safety training, a brief discussion about the need to protect the environmental, and an explanation of the worker contract as well as farm and food hygiene rules required by supermarkets. Since packhouses in this study were HACCP and BRC certified and subjected to more rigorous standards, induction training at packhouses was generally more intensive.

Some sites made use of the DVD developed by Fruit SA which covered induction training before they practiced in the field. Management explained that induction training was not only done to meet supermarket requirements, but to increase productivity. A manager at C5 claimed that workers' productivity rose by 50 percent after such training. Conversely, wrong pruning and thinning could seriously affect the harvest and farm income. Some sites repeated induction training throughout the year to ensure that new waves of seasonal workers were up to speed. Both C2 and C5 also did training evaluation to ensure that key messages were understood by workers. At C5 workers even had to write a short theory test consisting of about twenty questions following induction training. On all the farm sites, supervisors did follow-up practical training with workers to ensure that they followed correct procedures.

Most skills training is focused on technical or production skills and/or 'soft' social skills, with existing regular workers more likely to benefit than casual workers. These findings are in line with other GVC studies, both in horticulture and other sectors (Gereffi et. al. 2011). Skills training needs to be extended to casual workers on a more systematic basis, if all levels of worker are to be upgraded. However, skills training less often extends to workers rights, except where trade unions or NGOs are involved. It can contribute to but is not sufficient to creating a more empowered workforce that is committed to horticultural work.

Enabling rights and codes of labour practice

Attracting a more knowledgeable and empowered workforce also requires the provision of better jobs and enhancing the enabling rights – particularly of casual workers who are more often overlooked. As discussed above, South Africa now has excellent labour legislation. However, a limitation is lack of enforcement, particularly for casualised farm workers and those employed through labour brokers. Poor conditions have led to civil society campaigns on poor conditions, and

expose the industry and buyers to adverse publicity. In response, many European supermarkets have applied codes of labour practice requiring compliance with labour regulation. These have been integrated into the higher level 'standards package' discussed above.

In our selected value chains, codes of labour practice were prevalent in all farms and packhouses engaged in export, with one South African supermarket (Woolworths) requiring them in the domestic market. At most of the sites management as well as workers commented that private standards did not have a major impact on workers' conditions of employment. However, workers reported that compliance with health and safety regulations have improved since the introduction of private standards. Such improvements included regular training of sprayers, building of showers for sprayers, provision of mobile toilets in the vineyards and election of health and safety committees. Although management argued that many of these requirements were in place prior to private standards, they often acknowledged that social audits ensured better compliance with regulation.

While statutory training for workers exposed to danger (such as forklift drivers and spray drivers) has always been required by the Occupational Health and Injuries Act (OHSA), its enforcement by the state has arguably been even weaker than that of labour legislation. Private certification schemes have however insisted on compliance with health and safety regulations since the introduction of EuropGAP (now GlobalGAP) in 2001. The health and safety standards in the GlobalGAP code was however not rigorously monitored up to 2007, when the certification body stepped up such monitoring following the demand for ethical audits by supermarkets.²⁷ While the state has failed to consistently check for compliance with health and safety regulations, private standards have therefore to some extent filled this monitoring gap.

As (some) supermarkets only began to insist on compulsory ethical audits by 2007, on-farm systems to ensure compliance with labour legislation are far from entrenched. The introduction of ethical audits, initially met by resistance in the fruit industry, has however had some effect. For instance, although the minimum wage was already introduced in 2002, at one of the case study sites workers were paid 12 percent less than the minimum in 2003. In addition, about 10 percent of workers at that site were not registered for UIF. By 2007, all workers were registered with the UIF and received at least the minimum wage. At the same site, a third party auditor noted in 2009 that seasonal workers' right to family responsibility leave was not included in their contract. By 2011 that right was included.

A manager at one of the sites also mentioned that ethical audits "brought out a few [less tangible] issues, including issues about supervisors". She also commented that following the introduction of ethical audits, workers spoke their minds more freely, whereas in the past they were "afraid" to raise grievances with management. The technical manager at one company felt that ethical standards required employers to establish a workers' committee and forced them to interact with the workers. She felt that this requirement has helped to provide a better grievance structure for workers. The researchers also noted that on sites where workers have been subjected to regular audits and training, workers were more aware of their rights.

Apart from noticing improvements in health and safety requirements, many workers also commented that the introduction of audits led to improvement in their housing. Their observation was supported by two managers who commented that the South African supermarket Woolworths required them to improve their worker housing. "They checked whether the houses needed painting; whether workers had access to warm water and whether the toilets were clean and in a working condition. We also had to put up fire extinguishers at the workers compound," commented one manager.

The fact that housing improved following the introduction of (some) private standards seems to indicate that private standards do have some clout, as the regulation of on-farm worker housing is notoriously weak. The only law that prescribes some basic conditions for on-farm worker housing is Sectoral Determination 13 and its stipulations regarding housing only apply when deductions are

²⁷ Personal communication with third party auditor, July 2012.

made from workers' wages for accommodation. If no such deductions are made, then no minimum standards – already set at a very low level - apply.²⁸

Social compliance monitored on an occasional basis appears to have limits. Checking compliance with health and safety regulation and basic conditions of employment is fairly straightforward, and carried out easily during one-off visits by auditors. However, an impact assessment carried out for the UK Ethical Trading Initiative found the benefits of codes were more likely to reach regular workers than casual workers, and those employed through labour brokers were largely unaffected. It found little objective evidence that rights such as freedom to association, collective bargaining and non-discrimination have been addressed (Barrientos and Kritzing 2005).

During the time of the research a major new ethical trade initiative was being developed in South Africa to establish an industry level code of labour practice led by Fruit SA (the main industry export association). This initiative had its origins in campaigns by local civil society organisations targeted on European supermarkets in the sector (Oxfam 2004; ActionAid 2007). A South African NGO, Women on Farms (WoF), worked with ActionAid and War on Want in the UK, to pressure the UK supermarket Tesco over poor conditions of fruit workers in its supply chain. This included supporting a woman farm worker to buy a share and make a speech at a shareholder's meeting of Tesco. Following the incident, Tesco responded by demanding compulsory ethical audits among its supply chain through the Wine Industry Ethical Trade Association (WIETA). However, WIETA did not have the capacity to rapidly expand auditing across the fruit sector. There were many tensions in the process, leading to resistance from fruit farmers.

Following this Fruit SA developed its own industry ethical trade initiative (www.fruitsa-ethical.org.za) based on S. African employment law and ILO Conventions. This was rolled out in early 2012, although some civil society organisations have been critical of it acting separately from WIETA. The Fruits SA code is being mapped against the Global Social Compliance (GSCP) equivalence process. WIETA remains active in the wine sector, and is involved in a pilot training for supervisors to prevent sexual harassment and discrimination. However, problems of poor labour conditions in both the fruit and wine sector have continued to be highlighted by civil society organisations (Human Rights Watch 2011), particularly amongst casualised seasonal workers.

The UN has addressed the issue of human rights and business at an international level in a context where much commercial activity is across borders and through distant supply chains. The UN Guiding Principles for Business and Human Rights, commonly referred to as the Ruggie Principles, have established three clear principles on which human rights and international business need to be addressed: Protect – highlights governments role in providing greater clarity and consistency of rules. Respect - where corporations are responsible for and transparent about their practices and workers. Remedy - where citizens have greater opportunities to hold other actors accountable and seek redress when needed. As part of the development of the Ruggie principles, four pilots were carried out in the value chains of different companies/sectors – one involving Tesco in South African fruit. The aim of the pilots was to examine at a practical level more effective processes and tools for remediation through grievance procedures (Rees 2011). The Ruggie principles have now been adopted by the UN and are at an early stage of being rolled out and implemented internationally. It provides the important principle that different stakeholders need to play complementary roles – including governments, business and civil society.

^{28 28} According to SD 13.8 (3) A deduction may only be made for a house that meets the following requirements:

- (a) the house has a roof that is durable and waterproof ;
- (b) the house has glass windows that can be opened;
- (c) electricity is available inside the house if the infrastructure exists on the farm;
- (d) safe water is available inside the house or in close proximity, which is not more than 100m, from the house;
- (e) a flush toilet or pit latrine is available in, or in close proximity, to the house; and
- (f) the house is not less than 30 square meters in size.

One stereotype that is probably warranted is that most farmers dislike unions intensely. However, in the absence of effective independent unions and social dialogue, farm workers are left without a voice and bargaining power. Our study found that unionisation was less likely on farms, and particularly amongst seasonal workers. Packhouse workers (who generally have better pay and conditions) are more likely to be unionised. Very recently, bent up frustrations amongst workers have been erupting in the Western Cape, with the outbreak of strikes across the region. Their main grievance is that the agricultural minimum wage is insufficient to live on given rising food prices, and they are demanding it is doubled to R150. Independent union representation, particularly of seasonal workers, would provide a more effective forum for workers to voice grievances, and negotiate on pay and conditions.

The South Africa National Planning Commission (2011) has identified commercial agriculture, including horticulture, as a key area for potential employment growth. It estimates it has the potential to create 250,000 direct jobs and a further 130,000 indirect jobs. It states the importance of picking winning sub-sectors, which have the potential to both expand productivity and are supported by foreign and domestic market demand (without which prices will be depressed through over supply). It cites an unpublished report by the Bureau for Agricultural Policy, which identifies high growth potential, labour intensive sectors (where >1.3 labour/ha). These include citrus, nectarines, plums, prunes, apples, pears, table grapes, avocados and vegetables. It argues that if production can be expanded over the next decade, these sub-sectors have the potential to make a significant contribution to job creation in agriculture. Our analysis indicates this requires significant investment in both the economic and social dimensions of value chains, to ensure that the right types of jobs are created. This requires government as well as private sector engagement.

Concluding remarks

As indicated above, this is a preliminary report on the research findings. Here we provide a brief summary of key issues emerging from the research in relation to the opportunities and challenges for economic and social upgrading in horticultural value chains and production networks as discussed in Section 2.

Economic up/downgrading

In relation to economic upgrading, it has been clear for a long time that the gold standard for South African fruit and vegetable producers was to export to European supermarkets. These require the highest standards, but traditionally paid better prices than the domestic market. The main requirement for process upgrading has been to meet the quality standards required by foreign supermarkets. Some more successful producers have further been able to functionally upgrade by taking on more activities, including the marketing and distribution of their fruit.

However, producers have faced a number of challenges in attaining and sustaining their value chain position. First, there has been a systematic increase in the number and type of standards producers need to fulfil. Second, there have been constant commercial pressures exerted by European supermarkets, who have been able to use their dominant position to extract favourable terms on price and quality issues. Third, as European supermarkets have faced increasing pressure in their home markets due to economic recession, they have striven to squeeze costs out of the middle of the value chain by engaging in direct sourcing from farms. With this they have taken on some distribution activities, such as coordinating transport and logistics, putting pressure on producers that had functionally upgraded with a focus on European markets.

However, significant and rapid changes are clearly taking place with the rise of domestic and regional value chains that are shifting the ground on which upgrading and downgrading takes place. This is associated with the rise of supermarket retailing within South Africa, and expansion of markets in other regions in the global South (particularly Asia and the Middle East but also Sub-

Saharan Africa). These markets also require standards, but have more diversified requirements. Whilst they are strict on product standards, they are less stringent on process standards (such as GlobalGAP), and few require social and environmental standards. The opening up of new markets is providing producers with better bargaining positions, as they have alternative options. For the first time, European supermarkets have recently begun to offer minimum price guarantees for the purchase of fruit. Producers also have greater choice in whether they want to upgrade to European standards, or focus on South African or regional markets.

Despite these changes, commercial pressures on suppliers remain intense. These result from rising input costs, including the cost of raw materials, fuel and labour (the largest share of an individual producer's costs). Global supermarkets shifting towards global sourcing platforms and buying direct from farmgate prefer to deal with larger suppliers. Many weaker growers are going out of business, and farms are being taken over by more successful or larger growers. The result is a greater concentration in the number of growers producing the same output. The consequences for upgrading in the future are difficult to ascertain, as a key factor will be the extent of continued growth in more diversified regional markets, and whether they also follow a trend towards higher process standards. However, a more concentrated producer base could help to even the balance between buyers and suppliers, and further enhance the bargaining position of growers in the future.

Social up/downgrading

The implications of these trends for social upgrading and downgrading are complex. The socio-economic context of South African agricultural labour is deeply embedded in the vestiges of both paternalism and discrimination (based on race and gender) under apartheid. Workers have traditionally had low levels of education, few rights and poor remuneration or benefits (with some exception for permanent workers living on farm). The regulatory context has changed radically since 1994, with the introduction of progressive labour legislation applied to agriculture, although implementation and enforcement are still often weak. However, the pressures on economic upgrading and downgrading also have mixed outcomes in terms of social upgrading and downgrading for the labour force.

On one hand, the drive to reduce labour costs and increase flexibility is fuelling a continued process of casualisation amongst the workforce. This process is compounded by growers going out of business, and farms being taken over by owners with no established commitment to those workers. Casual workers have greater insecurity and fewer legal rights than permanent workers, and the move from a permanent to casual job represents social downgrading. Trade unions and civil society organisations have less ability to represent or support casual workers given high turnover, the fact that they often migrate between areas of high labour demand, and their bargaining position is weakened.

On the other hand, rising requirements on quality, the proliferation of standards and the complexity of supplying diversified market requirements. The need for greater efficiency to offset rising costs is driving a demand for more skilled workers with higher levels of education. We found that for those workers able to obtain training and move up the employment ladder, this provides opportunities for social upgrading. Rising demand for skilled labour puts these workers in a better position in terms of their remuneration and conditions of employment. The proliferation of codes and availability of mobile phones means workers also have better knowledge of their rights and alternative opportunities.

However, the combined process of social upgrading and downgrading presents a serious challenge (and constraint) on future economic upgrading in the sector. Growers face a shortage of skilled labour and a committed workforce; yet the trend towards casualization undermines the fulfilment of these needs. An underlying tension thus exists between the commercial demands of the sector, and the employment relations and profile needed to achieve these.

Growers trying to upgrade are seriously engaged in the provision of training, but this is insufficient to address their needs. Government support for training has been inadequate, and existing

programmes are not sufficient for the task required. Many growers complained of training workers and middle managers who then left. The pool from which agricultural labour is drawn is traditionally poorly educated and downtrodden, and farm work is seen as inferior by workers able to go elsewhere. This is not helped by the continuation of paternalist attitudes towards labour amongst some growers in the agricultural sector, and undervaluing the worth of upgrading the workforce or promoting enabling rights.

Economic upgrading is therefore driving the need for a more professional labour force, which in theory could support a process of social upgrading. But the sector faces a serious challenge if there is not a significant change in the skills and remuneration of workers. Public and private policy needs to provide more systematic support to social upgrading of workers through education, skills development and social provision to enhance the appeal and benefits of employment in agriculture.

Key recommendations

The above value chain analysis indicates that no one actor is able to integrate economic and social upgrading alone. In line with the Ruggie principles, all actors within and linked to value chains have a role to play, including business, civil society, government and multi-lateral organisations. These include:

- Improving buyer/supplier relationships that reward quality and standards.
- Factoring a living wage into value chain pricing. Ensure the benefits are transferred to workers.
- Linking civil society initiatives (such as ethical and fair trade) with wider government and donor interventions.
- Promoting Government and donor policies to support value chain upgrading by producers.
- Providing more resources to AgriSETA. More cooperation between AgriSETA, Department of Agriculture and industry bodies needed to ensure they are not duplicated.
- Supporting training and education of youth, workers and small-scale producers that links: (a) technical skills; (b) social or 'soft' skills; and (c) worker rights.
- Implementing Labour Legislation through better resourced labour inspectorates.
- Rewarding skills: possibly setting minimum wages for different job categories.
- Enforcing gender equity more rigorously in the sector.
- Enhancing independent union representation of all workers (permanent, temporary and seasonal), and social dialogue between growers, industry and unions. Industry bodies need to engage with worker organizations about conditions of work, worker grievances in a more consistent, structured way.
- Ensuring local government take cognizance of value chain structuring and plan accordingly, bearing in mind the implications of expanding and contracting populations for the provision of social and community based services.
- Ensuring Government provision of increased subsidies for crèches and aftercare facilities for school children (on farms and in local communities, but also from areas where seasonal workers are sourced). Bringing back subsidies for farm worker housing or provide alternative accommodation systems for farm workers. Providing mobile clinic services, government should send out social workers to farms at least once a month.

References

- Accenture (2011) The Dynamic African Consumer Market: Exploring Growth Opportunities in Sub-Saharan Africa, Authors Grant Hatch, Pieter Becker and Michelle van Zyl
- ActionAid (2007). Who Pay? How British Supermarkets are keeping Women Workers in Poverty. London, ActionAid.
- Barrientos, S., G. Gereffi and A. Rossi (2011). 'Economic and Social Upgrading in Global Production Networks – Challenges and Opportunities'. *International Labour Review* 150(3-4).
- Barrientos, S. (2007). *Global Production Systems and Decent Work*. Geneva: ILO Integration Working Paper No. 77.
- Barrientos, S, and A. Kritzinger (2004). 'Squaring the Circle: Global Production and the Informalization of Work in South African Fruit Exports'. *Journal of International Development* 16(1): 81-92.
- Barrientos, S. and A. Kritzinger (2005) ETI Impact Assessment: South African Fruit, UK Ethical Trading Initiative, London (see www.ethicaltrade.org).
- Bernhardt, T. and W. Milberg (2011). 'Does Economic Upgrading Generate Social Upgrading? Insights from the Horticulture, Apparel, Mobile Phones and Tourism Sectors'. *Capturing the Gains Working Paper* No. 2011/7, University of Manchester. Available at: http://www.capturingthegains.org/publications/workingpapers/wp_201107.htm
- CA (2007), Codex Alimentarius: Fresh Fruit and Vegetables, 1, World Health Organization and Food and Agriculture Organization, Rome. Available at <ftp://ftp.fao.org/docrep/fao/010/a1389e/a1389e00.pdf>; <http://aic.ucdavis.edu/research1/de-Froidmont.pdf>, accessed August 2012.
- CBI. (2011). *EU legislation: Marketing standards for fresh fruit and vegetables*. Retrieved September 20, 2012, from CBI : Ministry of foreign Affairs Netherlands: http://www.cbi.eu/marketinfo/cbi/docs/eu_legislation_marketing_standards_for_fresh_fruit_and_vegetables
- Coe, N. and D. Jordhus-Lier (2010). 'Constrained Agency? Re-evaluating the Geographies of Labour'. *Progress in Human Geography* (April): 1-23.
- Coe, N. M., P. Dicken and M. Hess (2008). 'Global Production Networks: Realising the Potential'. *Journal of Economic Geography* 8: 271-295.
- Coe, N. and N. Wrigley, Eds. (2009). The Globalization of Retailing. London, Edward Elgar.
- Collins, J. (2003). *Threads: Gender, Labor and Power in the Global Apparel Industry*. Chicago, IL and London: Chicago University Press.
- DFPT (2008) Deciduous Fruit Producers Trust, Statistical Booklet, Paarl.
- Dicken, P., P.F. Kelly, K. Olds and H.W-C. Yeung (2001). 'Chains and networks, territories and scales: towards a relational framework for analyzing the global economy'. *Global Networks* 1(2): 89-112.

Dolan, C. and K. Sorby (2003). *Gender and Employment in High-Value Agriculture Industries*. Washington, World Bank.

du Toit, A. (1996). *The fruits of modernity: law, power and paternalism on Western Cape farms*. Cape town, School of Government, University of the western cape

du Toit, A. and F. Ally (2001). *The Externalization and Casualization of Farm Labour in Western Cape Horticulture*. Belville and Stellenbosch, PLAAS and Centre for Rural Legal Studies.

Emongor, R. and J. Kirsten (2009). "The impact of South African supermarkets on agricultural development in the SADC: a case study in Zambia, Namibia and Botswana " *Agrekon* **48**(1): 60-84.

Gereffi, G. (2005). *The New Offshoring of Jobs and Global Development*. International Institute for Labour Studies. Geneva: ILO.

Gereffi, G. (1994). 'The Organization of Buyer-driven Global Commodity Chains: How US Retailers Shape Overseas Production Networks' in G. Gereffi and M. Korzeniewicz (eds.), *Commodity Chains and Global Capitalism*. Westport, CT: Praeger.

Gereffi, G. and F. W. Mayer (2005). 'Globalization and the Demand for Governance' In G. Gereffi, *The New Offshoring of Jobs and Global Development*. Geneva: ILO.

Gereffi, G. and T. J. Sturgeon (2004). 'Globalization, Employment, and Economic Development: A Briefing Paper' in *Sloan Workshop Series in Industry Studies*, Rockport, MA.

Gereffi, G., J. Humphrey, and T. J. Sturgeon (2005). 'The Governance of Global Value Chains'. *Review of International Political Economy* 12 (1): 78-104.

Gereffi, G., J. Humphrey, R. Kaplinsky and T. J. Sturgeon (2001). 'Globalization, Value Chains and Development'. *IDS Bulletin* 32(3): 1-8.

Gereffi, G., Fernandez-Stark, K. and Psilos, P. (2011) 'Skills for Upgrading: Workforce Development and Global Value Chains in Developing Countries', Centre on Globalization, Governance and Competitiveness and RTI. Raleigh Durham: Duke University.

Goldman Sachs (2001) 'Building Better Economic BRICs' Global Economic Paper No. 66.

Hale, A. and J. Wills (eds.) (2005). *Threads of Labour*. Oxford: Blackwell Publishing.

Henderson, J., P. Dicken, M. Hess, N. Coe and H. W.-C. Yeung (2002). 'Global Production Networks and the Analysis of Economic Development'. *Review of International Political Economy* 9: 436-464.

Henson, S. and J. Humphrey (2008). *Understanding the Complexities of Private Standards in Global Agri-Food Chains*. Mimeo. Brighton, Institute of Development Studies.

Human Rights Watch (2011) *Ripe with Abuse: Human Rights Conditions in South Africa's fruit and wine industry*, New York.

Kaplinsky, R. and M. Morris (2002). *A Handbook for Value Chain Research*. International Development Research Centre (IDRC)/Institute of Development Studies (IDS).

Kirsten, J. Stander, R. & Haankuku, C. (2010) *Measuring Private Research & Innovation in South Asia & Sub-Saharan Africa: A South Africa Country Report*, International Food Policy Institute, available on <http://www.asti.cgiar.org/pdf/private-sector/SouthAfrica-PS-Report.pdf> (accessed August 2012)

- Knorringa, P. and L. Pegler (2006). 'Globalisation, Firm Upgrading and Impacts on Labour'. *Tijdschrift voor Economische en Sociale Geografie* 97(5): 470-479.
- Kritzinger, A. and J. Vorster (1996). "Women farm workers on South African deciduous fruit farms: gender relations and the structuring of work." *Journal of Rural Studies* 12(4): 339-351.
- Kritzinger, A. and S. Barrientos (2004). "Globalisation and Livelihoods in South African Fruit – the experience of contract workers." *Sociologia Ruralis* 44(1): 17-40.
- Mayer, F and J. Pickles (2010). 'Re-embedding Governance: Global Apparel Value Chains and Decent Work'. *Capturing the Gains Working Paper* No. 2010/1, University of Manchester. Available at: http://www.capturingthegains.org/publications/workingpapers/wp_201001.htm
- Milberg, W. and D. Winkler (2011). 'Economic and Social Upgrading in Global Production Networks: Problems of Theory and Measurement'. *International Labour Review*, 150(3-4).
- Oxfam International (2004) *Trading Away Our Rights: Women Working in Global Supply Chains*. Oxford: Oxfam International.
- Pelger, L. and P. Knorringa (2007). 'Integrating Labour Issues in Global Value Chain Analysis: Exploring Implications for Labour Research and Unions. In V. Schmidt (ed.), *Trade Union Responses to Globalisation*. Geneva, ILO.
- Reardon, T., Henson, S. and Berdegue (2007) 'Proactive Fast-Tracking' Diffusion of Supermarkets in Developing Countries: Implications for Market Institutions and Trade, *Journal of Economic Geography*, 7(4).
- Rees, C. (2011) *Piloting Principles for Effective Company Stakeholder Grievance Mechanisms: A Report of Lessons Learned*, Harvard Kennedy School, Cambridge, 2011
- SATI (2007/8) and (2011). *South African Table Grape Industry Statistical Booklets*, Paarl.
- Selwyn, B. (2012). "Beyond firm-centrism: re-integrating labour and capitalism into global commodity chain analysis." *Journal of Economic Geography* 12(1): 205-226.
- Sen, Amartya. (1999). *Development as freedom*. Oxford: Oxford University Press.
- Sen, Amartya. (2000). Work and rights. *International Labour Review* 139 (2):119-128.
- Singh, S. and Singla, N. (2011) *Fresh Food Retail Chains in India: Organisation and Impacts*, Centre for Management in Agriculture, Indian Institute of Management Ahmedabad (Allied Publishers Ltd.)
- Smith, Sally, Auret, D., Barrientos, S., Dolan, C., Kleinbooi, K., Njobvu, C., Opondo, M., and Tallontire, T. (2004). *Ethical Trade in African Horticulture: Gender, Rights and Participation*, IDS Working Paper 223, Brighton: Institute of Development Studies.
- South Africa Survey. (2008-09). *Department of Agriculture, Forestry and Fisheries*. Retrieved August 20, 2012, from Agricultural Statistics of South Africa: <http://www.nda.agric.za/docs/statsinfo/AgriSurvey20089Pre.pdf>
- Symmington, S. (2008) "Staying Ahead of the Global Pack" Creating Sustainable Competitive Advantage in the Marketing of South African Table Grapes to the United Kingdom in the Deregulated Era, MPhil Dissertation, Department of Economics, University of Cape Town.

Tallontire, A., C. Dolan, S. Smith, and S. Barrientos. (2005). 'Reaching the Marginalised? Gender Value Chains and Ethical Trade in African Horticulture'. *Development in Practice* 15 (3&4): 559-571.

Theron, J. and S. Godfrey (2000). *Protecting Workers on the Periphery*. Cape Town, Institute of Development and Labour Law Monograph 1.

Theron, J., S. Godfrey, P. Lewis and M. Pienaar (2005). *Labour Broking and Temporary Employment Services: A report on trends and policy implications of the rise in triangular employment arrangements*. University of Cape Town, Labour and Enterprise Project, Institute of Development and Labour Law.

Tregurtha N. Vink, N. and Kirsten, J. (2010) Presidency Fifteen Year Review Project, Review of Agricultural Policies and Support Instruments in South Africa 1994-2009.

UNCTAD (2011). *World Investment Report*. Geneva: United Nations Conference on Trade and Development.

Van Deventer, J. (2006) 'Vegetables Sourcing in Africa: The experience of Freshmark' in R. Ruben, M Slingerland and H. Nijoff (eds) *Agro-food chains and networks for development*, pp. 57-62, The Netherlands, Springer.

World Bank (2008). *World Development Report, Agriculture for Development*. Washington DC.

CAPTURING THE GAINS



***economic and social upgrading
in global production networks***

Capturing the Gains brings together an international network of experts from North and South. The research programme is designed to engage and influence actors in the private sector, civil society, government and multi-lateral organisations. It aims to promote strategies for decent work in global production networks and for fairer international trade.

Published by:

***Capturing the Gains
The University of Manchester
Arthur Lewis Building
Oxford Road
Manchester
M13 9PL
United Kingdom***

capturingthegains@manchester.ac.uk

www.capturingthegains.org