**Competition Commission: Fresh Produce Market Inquiry**

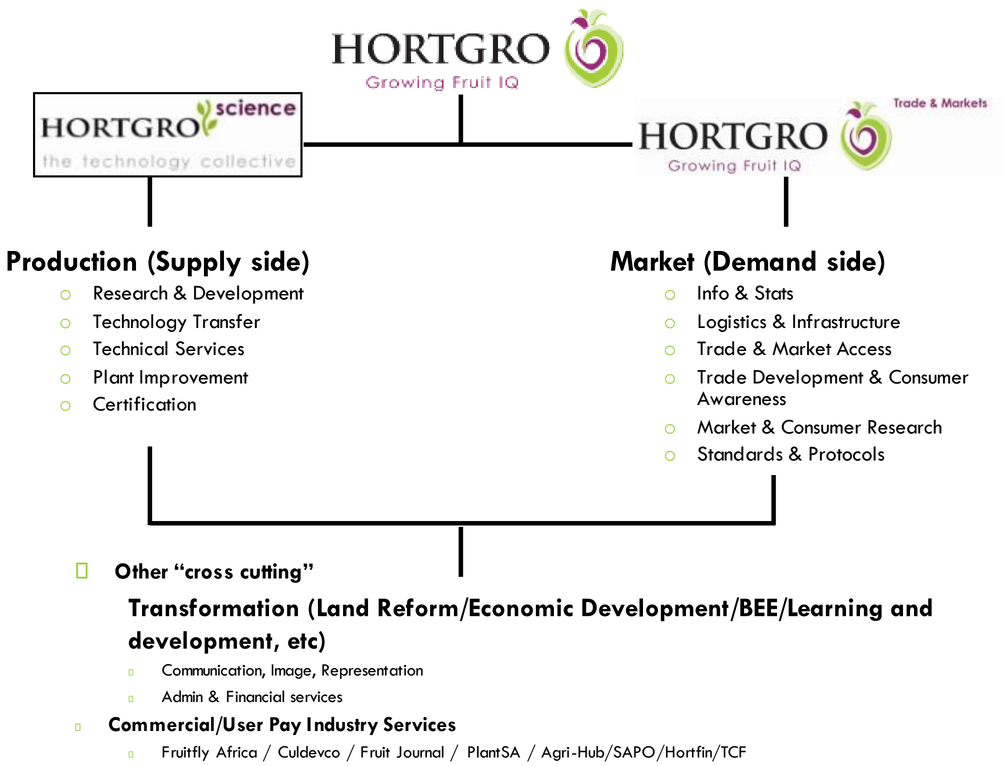
**Case/Reference number: 2022APR0051**

**Submitted: Hortgro Pome (Commodity organization for Pome fruit – Apples and Pears)**

**SECTION: BACKGROUND AND ACTIVITIES**

1. Hortgro Pome (NPC) is a Non-Profit Company (registration number: 2002/008690/08) with producer members representing all growers in South Africa acting in a facilitating/enabling manner to promote the common interest of apple and pear growers in South Africa. Hortgro Pome is predominantly funded by growers through statutory levies applicable on fruit sold in the export, domestic and apple processing and dried fruit market as well as a range of user pay services. Hortgro Pome does not fulfill any commercial role and is also not a product owner. All services and industry functions rendered are done with the objective of creating an enabling environment for all producers to remain profitable, competitive, and sustainable.

2. **Explain the mandate of Hortgro**




The core mandate of Hortgro is summarized as per the illustration above whereby;

- Hortgro Pome acts as a mouthpiece and unified voice for the Pome fruit industry during negotiations and interactions with National and Provincial Government Departments, agencies and other relevant stakeholders and industry bodies.
- 3 core focus areas being Research and Development, Trade and Market related services, Transformation/Land Reform and a number of supporting services such as communication, admin and financial services and the representation of the industry at various levels.

**3. Provide a copy of Hortgro's constitution**

Hortgro does not have a constitution as it is a Non-Profit Company duly incorporated.

**4. Provide a copy of Hortgro's MOI**

The MOI of Hortgro Pome (NPC) is attached.

**5. Does Hortgro require its members to adhere to any obligations or standards? If yes, please explain what these obligations are.**

Hortgro Pome NPC is a company funded through statutory measures under the MAP Act of 47 of 1996 that is applied in a 4-year cycles. The current statutory measures lapse during December 2023. These measures are reviewed every 4 years to ensure that pome fruit members are comfortable and informed with the progress/performance and the utilization of the levy in the promotion of common interest. Hence every 4 years the respective industry bodies after consultation with its members (a member being a levy paying producer) obtains a mandate from the members through an extensive consultation and strategic review processes followed by a referendum process. The statutory measures apply to:

1. The payment of levies on fresh fruit sold on the local and export markets, processed apples and dried fruit sold in the local and export markets.
2. Submitting records and returns – updating of member info and tree census information as well as declarations in terms of volumes of fruit per marketing channel (local, exports, processed and dried).
3. Registration of persons in terms of Section 19 – with reference to producers, marketing agents, exporters, packhouses and processors,

Hortgro Pome reports to the National Agricultural Marketing Council on an annual basis regarding the utilization of these measures. Further to the above the NAMC provides guidelines in respect of certain functions/activities. The guidelines provided by the NAMC stipulates that 20% of the statutory levy funds must be used for Transformation in the industry.

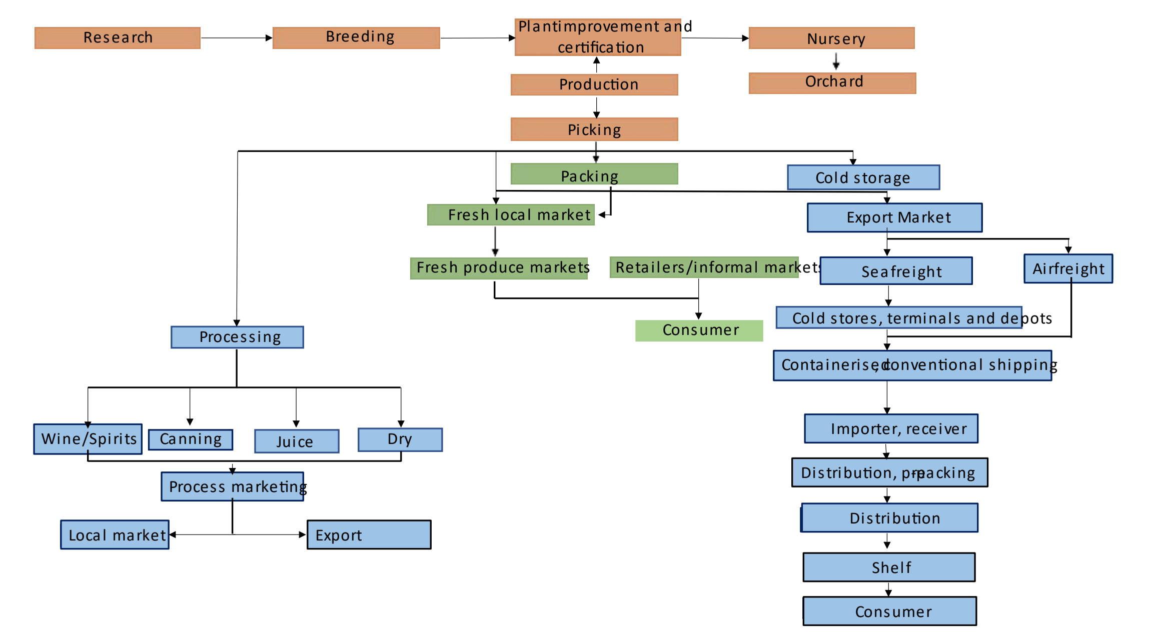
Except for the above obligations, Hortgro Pome does not require any of its members to adhere to any other obligations and/or standards. In general, DALRRD is responsible for product standards (plant production and plant health as well as inspection and quarantine services) and Hortgro Pome only provides inputs into the product standards. However, Hortgro Pome does support/promote following best practice.

6. **Kindly provide the names and contact details of the Hortgro members**

Please note that the information that is shared is regarded as personal information as stipulated in the POPI Act and a CC7 form is attached and completed. Please find attached the information for internal use only.

## SECTION: NFPMS AS A ROUTE TO MARKET

7. **Explain Hortgo's understanding of the fresh produce value chain (all levels and players) and indicate where your organization fits within the value chain.**




Source: OABS (2014)

***Research & Development***

As indicated Research and Development are one of the core functions of Hortgro Pome funded through statutory levies (56% of the total budget is spent on R&D). All research related activities are housed within Hortgro Science (a subdivision of Hortgro). The research funded through Hortgro Science focuses on generating new knowledge, technologies or practices that are required to mitigate, avoid or overcome threats and risks and to leverage opportunities. The primary objective is to keep South African pome growers internationally competitive and economically sustainable. The research programmes are focused into 3 categories nl.

1. Crop Production – addressed current problems experienced by growers, but is also future-directed.
2. Crop Protection – includes applied and basic research on nematology, entomology and plant pathology.
3. Post-Harvest – supports processes throughout the supply chain critical to ensuring that intrinsic product integrity is maintained.

Hortgro Science manages these research programmes on behalf of the pome fruit industry with the assistance of specialist and advisory groups in these specialized fields. The research is primarily done through universities and research institutions and disseminated to growers and relevant industry stakeholders through several industry publications.

***Breeding, Plant Improvement & certification and Nurseries***

Hortgro Pome is not involved in any breeding programmes. All breeding programmes and nursery activities are commercial activities.

Hortgro Pome is however a shareholder in SAPO (South African Plant Improvement Organisation) Trust with is main aim of providing improved plant material to the industry. SAPO is a plant improvement organization with a core focus on virus-free plantmaterial with a high phytosanitary status and compliant to the rules and regulations regarding certified plantmaterial. SAPO is not the only Plant Improvement Organisation (PIO), there are a number of privately owned PIO's. SAPO manages several varieties (local and international) according to the plant breeders rights and the Plant Improvement Act. DALRRD is responsible for the regulation of plant certification which is done through Plant Improvement Associations in collaboration with DALRRD. In short, each PIO bears the responsibility of evaluation, maintenance, development, improvement, and multiplication of propagation material. Certified plant material. Certified plant material is generated by the multiplication of propagation material from Nucleus through Foundation to Mother Blocks. This is referred to as the classic route of plant propagation. It is the responsibility of each PIO to manage and inspect their own material, however all processes are audited by Plant SA before any propagation material can be certified. This certified propagation material is then provided to nurseries, registered in terms of the PIA for tree and vine production. Compliance with Plant Certification schemes is voluntary, however planting uncertified plant material can have major financial implications to growers. While Government has the primary oversight and responsibility to ensure plant improvement is regulated, it is ultimately the responsibility of all role players to ensure that the regulation is adhered to so that individual growers, agricultural bodies and the entire agricultural sector at large benefits from a robust agricultural industry built on high-quality crops.

Further to Industry's involvement with Plant Improvement, the industry also supports independent cultivar evaluation through a 3$^{rd}$ party namely Provar. Provar independently evaluates the performance of rootstocks, cultivars and the adaptability of rootstocks and cultivars in a number of growing regions. This information is then made available to cultivar IP owners and producers interested in planting these rootstocks and varieties. Through independent evaluation the risk in terms of planting the wrong rootstock and cultivar is mitigated.

***Planting (Orchards), Production, Harvesting (Picking), Packing and Coldstorage***

Investment decisions regarding planting is a commercial decision and Hortgro Pome is only involved to the extent explained above by providing credible information to reduce risks and make informed decisions.

Hortgro Pome is not directly involved in the production, harvesting, packing and cold storage of the product as these are also commercial activities and decisions. Hortgro Pome is only involved to the extent with the collection of statistics on an annual basis regarding tree census information (what has been planted in which production areas), employment trends, estimated establishment and production costs based on norms and industry models used for planning purposes. This information is then made available to all growers and relevant stakeholders through the Key Deciduous Fruit Statistics whereby trends within the industry can be analyzed to aid better decision making at producer level. This information is essential for the industry as this is also used for strategic planning purposes in terms of infrastructure, the impact of policy and legislation on the industry, engagement with government, etc.

The industry as indicated above does support/promote the use of best practice guided by the Pome Fruit Handling protocols (https://www.hortgro.co.za/science-tech-hub/pome-stone-handling-protocols/#pome-harvest) to once again assist growers in decreasing risks and aid better planning and decision making.

***Marketing (local and exports)***

Hortgro Pome is once again not directly involved in marketing strategies as this activity is commercial in nature. The marketing strategy and marketing plans is an agreement between the producer, packhouse and the marketeer. The industry does however advocate the use of accredited exporters/local marketing agents with proper contracts in place to protect the growers.

Hortgro Pome is only involved in providing inputs in terms of the APS act relating to product standards with reference to the grading, packing and marking of apples and pears for the local and export markets. The main focal area being to ensure food safety to end consumers. The APS regulations for produce sold on the local market are also the standard to which imported product must comply with. DALRRD (devisions of food safety and plant health and inspection services) is the responsible Government departments for the enforcement of this legislation and regulations. PPECB (Perishable Product Exporters Control board) are appointed by DALRRD as the assignee to perform inspections services against the Act and regulations for pome fruit exports, whilst Prokon were appointed by DALRRD to perform quality assurance and food safety inspections on the local market and on imported products.

There are further to the APS Act a number of private standards that growers need to adhere to such as Global GAP (exports to Europe), SIZA (ethical and environmental standards), including standards from the local market retailers. These private standards are driven by retailers in the various markets. The industry performs an advisory role in relation to Global GAP and SIZA to flag possible risks and ensure compliance with legislation on food safety and employment legislation (Basic Conditions of Employment Act, Labour Relations Act, Codex standards, etc). The industry also facilitates special market programmes (exports only) through phytosanitary risk mitigation programmes such as phytClean to ensure compliance with these requirements – which is also a DALRRD responsibility to ensure that market access to key markets is maintained.

One of the key focus areas of Hortgro Pome is Trade and market access with a focus on gaining new markets, retaining and optimizing existing markets. This is done through trade facilitations and generic market development campaigns in export markets only. Recently due to issues experienced at SA ports logistics were included to facilitate discussions and interventions between industry and government on these matters. Trade agreements remains a Government responsibility and the industry only acts in a facilitative/support manner.

8. As explained above the APS Act provides the regulatory framework regarding exports, local market and imports. DALRRD has the statutory obligation to enforce the act and regulations. The focus being on food safety and quality assurance. PPECB and Prokon are the assignees appointed by DALRRD to ensure compliance with legislation and regulations. These assignees provide cost effective services to the industry and contribute to protecting the reputation of the industry in terms of a responsible supplier. Inspection services are paid for by the growers and by grouping various commodities together the overall costs related to inspection services is lowered/shared and these assignees are not profit driven but service orientated.

9. See the supply chain graph under point 7.

10. Generally growers are responsible for the logistics costs associated with the product from farm gate to the market, however in the case of exports it depends on the

agreement with the exporter/importer and is determined by the INCOTERMS used (DIP/FOB/CIF, etc). In many instances the export/local market agent does not take ownership of the product but provides a marketing service which means that the grower is responsible for the product until it is sold. These agents normally works on a commission basis determined by price so maintaining cold chain and ensuring product quality is a essential in achieving optimal prices. The maintenance of cold chain during exports is monitored and relevant parties can be held accountable such as shipping lines for any cold chain breaks and/or implementation of incorrect temperature handling regimes.

11. There are 2 types of scenarios – larger agricultural enterprises are integrated into the value chain and performs these functions for themselves and costs absorbed/paid for by the business. Generally, these services are provided by 3rd party service providers that can either operate on a co-operative model (although it is a company) with shareholders/members for whom this service is provided or a 3rd party packhouse that does contract packing. This service relating to packing, cooling, logistics etc is based on a cost per carton depending on the market, marketing programme, special market requirements, logistics and is a cost directed towards the grower. 3rd party service providers are able to provide a more cost-effective service to its growers due to shared costs and critical volumes, thereby lowering unit cost per carton. Traceability throughout the system is maintained and these costs is transparent. Once again the agreement between the marketing agent and the packhouse/grower will determine where the product must be delivered and who takes responsibility for logistical arrangements and associated costs.

12. Not in a position to answer.

13. Quality, variety, size and consumer demand and supply are the major drivers of price. In our opinion a broken cold chain does not necessarily relate to poor prices, because if supply volumes are low – the product moves faster and then subsequent impact of cold chain breaks can be negated, however prolonged cold chain breaks could result in quality deteriorating which could have an impact on price and shelf-life/storage ability.

14. The short answer is no. The reason why exports markets has a mandatory cold chain certification process is because fruit are harvested and optimum maturity levels and must still be fully ripened on voyage to enable to product to be transported for 2/3 weeks by ship to the market. Therefore such a process is not a requirement on the local market as the time to market and consumer is much shorter. Just as the case with export markets the local pome fruit market is programmed due to storage

technologies applied such as Controlled Atmosphere (CA) through which the ripening of the product can be controlled and volumes marketed as per programme.

15. The storageability of the product is determined by the inherent quality of the fruit at harvest. Once the fruit is delivered to the packhouse a quality sample is taken and the allocation in terms of markets and programmes are determined. Depending on the quality and the marketing strategy, fruit can then be classified as relative atmosphere products destined for the market within a couple of weeks or CA product that will be stored for longer periods of time. This reduces product wastage and associated costs. So yes there is a direct correlation between the quality of the cold chain and the quality at the market especially regarding shelf life of the product. Once fruit is ripened optimally the shelf-life starts to deteriorate. This process is managed through the cold chain.

16. Not in a position to answer.

17. Diversity in marketing channels is important. The 21 National Fresh produce markets provides infrastructure (existing) and a platform to distribute products throughout South Africa according to the demand providing opportunities to number of formal and informal traders/wholesalers and retailers to access the product as and when they need it. Furthermore it reduces the capital investment needed as opposed to on-line systems where investment and capital infrastructure requirements is the responsibility of the packhouse/grower.

18. Not in a position to answer.

19. Yes there is a trend towards private markets and on-line platforms, however this will not replace the NFPM in its entirety. The biggest issue with the NFPM is the maintenance of infrastructure and the management of these markets. This is one of the key reasons why people are moving away from the NFPM and/or privatizing the NFPM. The key is to optimize the markets and ensure efficiencies and investment in infrastructure. Many of these markets are managed by municipalities that does not have the financial support and adequate processes to effectively and efficiently address issues as they arise where privatization of the management of these markets through companies such as Fresh link addresses these issues.

20. See data attached on the volumes sold in the NFPM's. The information is provided in terms of equivalent cartons (12.5 Kg Cartons).

20.1 – Yes the NFPM still plays an important role in the distribution of apples and pears, however we are of the opinion that the volumes to the NFPM is maintained and not a growing distribution channel.

20.2 Not aware of exit – but are aware of private markets in certain areas such as Epping market and George. There might be others but we do not have that information.

20.3 Fresh link is a on-line trading platform, however the volumes handled is also not growing and/or not real competition for the NFPM and the focus has shifted towards privatization of the management of NFPM's.

21. Price setting mechanism and the role of agents in determining price.

Not in a position to answer.

21.1 Real time tracking of daily volumes – cannot answer

21.2 Hortgro has a contract with Technofresh regarding the supply of historic volumes for 16 of the NFPM's. Price information is included but not used and in most cases not accurate due to incorrect capturing of data relating to packaging and the conversion of price information per packaging type.

21.3 Not our responsibility

21.4 refer to answer in 21.2

21.5 Determination of agents commission – it is my understanding that this is regulated through APAC with a maximum prescribed commission. However commission is driven by value and volume of sales, demand, supply, varieties, packaging and consumer preferences and ability to pay as well as the competition from other competing fruit kinds such as citrus, grapes, berries, etc.

21.6 In our opinion is does play a role because it has reference to management and transparency, however the larger NFPM is preferred due to consumer/buyer concentration and demand for produce.

21.7 APAC

21.8 Determined by APS Act through DALRRD

21.9 Not in a position to answer

21.10 See the answers provided on Prokon under Q:8

**22. Indicate to what extent wholesalers are operational at NFPM**

22.1 yes they are permitted to operate at the NFPM, however this is negotiated between the wholesalers and the NFPM management.

22.2 Wholesalers can either buy through agents at the NFPM, but there is nothing stopping them from buying directly from the growers, in the case of the latter they will not be using the facilities/infrastructure of the NFPM.

**SECTION: OTHER MARKET PLATFORMS AS A ROUTE TO MARKET**

**23. Indicate to what extent large scale buyers such as large retailers, wholesalers and processors contract directly with selected growers for their supply.**

Direct supply is commercial/private arrangements between the relevant parties and will depend on the volumes required throughout the year (fixed programmes), quality, cultivars etc and linked to trademarks.

23.1 – Do not have access to this level of information – not required
23.2 Criteria is negotiated and is determined by volumes per week, distribution, packaging and price
23.3 Do not have this information.
23.4 Do not have this information.
23.5 Do not have this information.
23.6 Yes there is a relation – although producers have limited ability to negotiate for higher prices and are price takers there are other factors that influences price of which supply and demand is the biggest. Supply is low prices tend to be higher and similar situation for a particular variety that is higher in demand.
23.7 No impact the responsibility of associated costs is discussed upfront and increased retail prices is driven mostly by increases in transportation costs from distribution centres, increased electricity, salaries. Apples and pears have actually seen a deflation in retail prices due to weak demand and/or purchasing power from consumers.
23.8 Do not have this information
23.9 Do not know
23.10 Responsibility of logistics costs is determined upfront. In most cases the producer is responsible for getting the product to a distribution centre. Any transport costs from there is for the wholesaler/retailer. This is determined at contracting.
23.11 See answer in Q: 11
23.12 Do not have that information – organized by packhouse/marketing agent.
23.13 See attached based on industry norms/models – these are tested against historical information and study groups. Industry indicates 6% transport to market, whilst study group figures indicate 7%. Influenced by the distance to market.
23.14 Prokon is appointed as assignee with cost structures approved and gazetted. Don't have the actual gazetted costs.

24. Detailed explanation of the benefits and disadvantages of direct contracting over the use of the NFPM platform both the perspective of the Buyer and the producers.
    Can only provide information from the perspective of the producer. Also refer to the answers provided in the previous section regarding the importance of NFPM. The just is the NFPM is still relevant and important marketing channel.

| **Benefits** | **Disadvantages** |
|---|---|
| Existing infrastructure can be optimalised and necessary investments made that can result in growth and employment. | Poor maintenance and lack of reinvestment and/or investment into infrastructure |
| Management controlled. | Poor and inefficient management practices at NFPM |
| Volumes are determined upfront and programmed accordingly with agreed cost structure, payments are scheduled and prices can be determined. | Difficult to determine volumes sold at NFPM and volumes and quality are drivers of price and very dependant on supply and demand and difficult to determine prices upfront. |
| Direct contracting is a means of market diversification and also allows for supply to NFPM | Cannot determine product specifications and are generally regarded as an overflow market (product not sold into other channels is sent to NFPM). |

**SECTION: MARKET DYNAMICS OF KEY INPUTS AND THEIR IMPACT ON PRODUCERS**

25. The key inputs used in the pome fruit industry is:
    Crop protection
    Fertilisers
    Labour
    Packaging
    Fuel & lubricants
    Electricity
    Hortgro Pome is only involved to the extent where the historical cost of production and the trends regarding rising input costs is monitored. This is then used to determine the cost of production and developing break-even scenarios to assist producers in determining break-even prices that can be used in discussions with marketing agents although the bargaining power of growers to push prices remains relatively low.

26. Do not have that information

27. Do not have that information although the majority of raw materials used in the manufacturing of agricultural inputs is imported, hence the issues pertaining to import parity, exchange rate, shipping rates etc plays a big role in determining the price as well as the global demand for these materials, global dynamics (Russia-Ukraine war), covid and closing of ports, labour costs and the impact of loadshedding on the cost of manufacturing and availability of final product.

28. Not in a position to answer.
29. See answer in Q: 23.13
    29.1 As explained in Q:25 regarding the break-even price – it is the responsibility of each grower to analise the cost and determine the price he is willing to take for the product. There is always an effort from growers to sensitize the trade on price increases to ensure that they remain profitable and viable. However pome fruit is a commodity and the bargaining power is limited.
    29.2 See answer provided in Q:27 – bottom line is the industry is dependent on imports of raw materials, whilst the majority of the manufacturing does happen locally.
    29.3 Purchasing of larger quantities inputs does provide the grower with some leverage in negotiating a better price.
    29.4 The role of co-operatives have decreased over time and most producers procure the majority of their inputs directly from input suppliers with the exception of packaging material – which is still to a large extent dependent on cooperatives. Many of the cooperatives have also overtime converted to a private company, hence reducing the benefits.
30. As explained in Q:11 the business principles of a group/collective working together to service the market more effectively and efficiently with reduced costs is sound, however this is a commercial decision based on services to be rendered. In the pome industry all our black producers are integrated into existing networks (packhouses, coldstorage) linked to marketing etc. Small-scale growers therefore has access to the same services, the same markets at the same costs as other growers. There is established marketing agents (exports and local) and small-scale growers get the benefit of being part of existing marketing programmes/strategies. The biggest issue with access to markets is compliance with market requirements and quality of the product. The number of small-scale farmers and the volumes produced does not justify a "special marketing programme" that can compete on the same or better footing than existing programmes with sufficient volumes to reduce costs.
    31.1 The pome fruit industry is both capital and management intensive to establish 1 ha of apples/pears will require an investment of at least R1 million per ha (excluding the infrastructure layout associated) and to maintain 1 ha of apples and pears on a direct input cost level (without post-harvest costs will be in the order of R275,000 – R300,000 per ha. So the pome fruit industry by nature requires more complex inputs. This requirement did change over time with production practices adapted to more climate smart production systems (netting, more sophisticated irrigation systems, use of mechanization such as picking platforms etc.). The requirement for more complex inputs is also driven by market requirements and food safety with a focus on reduced use of agro-chemicals towards more biological inputs, less irrigation water and automated irrigation systems, including the pressure on profitability levels to do more with less and greater efficiencies resulting in the application of precision agriculture and associated technologies.

31.2 The industry has experienced a sharp increase (more than double normal inflation figures) in production costs across the board (crop protection, fertilizers, fuel, labour, electricity, packaging materials) over the last 3 seasons. This was driven by Covid-19, increased levels of loadshedding, increased administered costs (minimum wage & electricity costs). This has impacted the entire industry and even more so smaller growers in terms of hectares and/or cartons. Economies of scale with improved efficiencies in terms of production volumes and pack-out being more important. However efficiencies can only be improved to a certain stage to counter/off-set the increases in production.

31.3 Access to new plantmaterial/cultivars is not differentiated at a grower level in terms of size. The IP owner determines the principles underpinned by plantbreeders rights and plant material protection. The only barrier associated with new/sought after varieties relates to tree and production royalties payable by the grower to the IP owner and/or linked to marketing arrangements. For example if a particular variety is linked to a particular marketing agent and the marketing agent is not necessarily well positioned this will have an impact on price and returns to farm gate hence this could become a barrier to entry by being locked into a packing and/or marketing agreement.

31.4 See answer in 31.1

**SECTION: MARKET ACCESS**

32 The ability to contract with retailers is determined by compliance with market requirements, ability to service the programme, continuity of supply and the supply of required varieties. Contracting with retailers is mostly done through the marketing agent.

33 The availability of funding to invest in production and marketing infrastructure and to get small-scale growers on a commercial footing to effectively participate in marketing programmes. Increased compliance with market requirements is essential. The market does not distinguish between small-scale growers and commercial growers – in terms of trade the most important aspect is to meet the requirements as specified above in Q:32.

34 In the pome fruit industry contract farming does not apply.

35 Yes the standards are fair and non-discriminatory, however some of these private standards are excessive with regards to exports which increases the cost of compliance for all growers.

36 Small-scale farmers produce effectively loses its identity at a packhouse level. Although traceability is maintained. We are not aware of any product being downgraded unfairly due to perceptions.

37 Product inspections are done according to the product standards based on sound technical and administrative supporting documents leaving little room for subjectivity. However in the case of subjectivity the inspection outcome can always be challenged and reported.

38 The marketing contract is between the grower/packhouse and the marketing agent and is open for negotiation where both parties have the ability to review and make inputs into the contracts.
39 Product standards are set by DALRRD, small-scale farmers should be made aware of these standards and compliance requirements prior to planting to ensure that compliance with these standards are possible. The trade requires a particular level of compliance, this is not going to change as the core focus is ensuring food safety which is not negotiable.
40 Generally marketing contracts are concluded annually and is determined between the grower/packhouse and marketing agent and marketing programmes. The funding provided by the marketing agent/packhouse mainly is based on advances against volumes delivered and not necessarily providing long-term investment funding, unless the packhouse/marketing agents are backwards integrated into the value chain.
41 See answers to Q:29
42 One of the core focus areas of Hortgro Pome is transformation and economic development governed by the NAMC and the guidelines in terms of allocation of funds towards transformation. Levy funding is used to promote the interest of all growers and on-top of the normal industry activities and functions black farmers has access to additional services and support programmes to increase the commercialization and participation in the pome fruit industry. The levy funding is also used as a platform to gear additional funding channeled towards economic development and skills development.
43 Yes – over the last 12 years the industry has rolled out many support programmes to address the challenges faced by black farmers. Some examples is the tree planting project (subsidizing orchard establishment costs), the DFDC Commercialisation Programme, Commodity approach Partnership with the Western Cape Department of Agriculture, Hortfin, business development support, technical support, the supply chain and logistics programme (Western Cape Department of Agriculture programme but supported through the industry), and SIZA compliance programme.

**SECTION: DISCRIMINATION ON INPUTS**

44 Not able to answer.
45 Trading terms are based on a proven track record linked to payment/settling of accounts. Similar credit vetting processes is done as with many other financial institutions to manage risk.
46 Seasonal accounts – where the producer are allowed to pay annually or bi-annually.
47 Not able to answer.
48 Not able to answer.
49 Not aware of discrimination based on farming category.
50 See answers to Q:27
51 Not able to answer.

52 No – there is sufficient competition within the input market and general market dynamics should be upheld. The type of supporting structures is commercial decision and more often people are not willing to work together.

**SECTION: DISCRIMINATION ON OUTPUTS / BUYER POWER**

53 Not that Hortgro Pome is aware of.

54 Small-scale farmes if they comply with market requirements are able to sell their produce in the market of choice. In the case of Hortgro Pome the majority black farmers and small-scale farmers are Global GAP and SIza compliant which is considered above the legislative requirements. Marketing channels remain a commercial decision based on quality and associated risks.

55 Not in a position to answer.

56 The difference between the NFPMs and retails relates to primarily supply and demand, quality and product specifications, investment by retailers and the ability to distribute the product according to what, when and where. NFPM are also operating more at a wholesale market space, whilst many retailers are consumer orientated/demand driven in terms of product specifications and packaging and programmes, whereas the NFPM is volume orientated in terms of supply.

**SECTION: ACCESS TO FINANCIAL SUPPORT**

57. Policies/Support mechanisms and/or firms owned and controlled by HDI persons.

Hortgro Pome is actively involved through various industry initiatives to support HDI's within the sector. Due to the NAMC regulations regarding statutory levies at least 20% of statutory levies must be utilized towards transformation. Hortgro Pome is further required to send the annual transformation plan to the NAMC and reports to NAMC, Hortgro Boards, and Government Departments on the progress relating to transformation. See the Transformation plan attached linked to the 4-year levy cycle (application currently underway). Also attached is the track record of support provided through the various programmes. In essence the levy funding is used as a platform to gear additional funds in order to increase support programmes and to fast track the commercialization of HDI producers.

58. See the report on research done by Western Cape Department of Agriculture.

59. Hortgro Pome levy funding used for various programmes:

**Hortfin** – ringfenced debt fund for black owned businesses in the deciduous value chain (pome/stone fruit, table grapes and wine grapes). Partnership between these industry organisations together with the Jobs Fund and commercial banks (Landbank/FNB/Nedbank). R600 million debt fund to provide innovative and comprehensive loan financing to qualifying black owned entities, that is not in a position to access commercial finance (missing middle) due to number of reasons such as lack in security, no track record and/or poor track record. These entities if funded will lead to increased participation of HDI's, increased inclusive growth of the industry and job creation. Visit the Hortfin home page for more information (https://www.hortfin.com/). Capital is made available at very competitive rates whereby affording a high risk business the opportunity to access finance at the same cost as a large commercial business with sufficient security (lower risk).

**CASP** (Comprehensive Agricultural Support Programme) – This is a grant programme within the National Department of Agriculture that is based on a application process through the Provincial offices. Hortgro has a formalized partnership with the Western Cape Department of Agriculture (WCDOA) through a MOU where the industry and the WCDOA collectively evaluate project applications, agree on funding, Hortgro implements the funding and also provides co-funding and resources in managing, provide technical support, monitoring and evaluation. This programme is referred to as the commodity approach. The industry and the WCDOA effectively leverage resources and support to increase sustainable transformation within the sector.

**Blended Finance** – DALRRD programme to provide access to finance for HDI's in partnership between DALRRD and commercial banks. The purpose of blended finance scheme is to gradually graduate businesses previously supported with grant funding to commercial finance. One of the key issues pertaining to black owned businesses accessing finance is equity. Commercial norms to access equity is 40% equity. The blended finance scheme is particularly looking to address this through providing required grant funding to address equity shortages, lower the risk and then get commercial banks to partner unlocking commercial finance to expand the participation of HDI's in the agricultural space. Blended finance is not geared toward refinancing which remains one of the key challenges.

**LDS & PLAS** – Land Development Support Programme – DALRRD Programme to capitalize state owned farms generally referred to as PLAS (Pro-Active Land Acquisition Support) farms, whereby the government purchase farms and enter into a long-term lease agreement with qualifying beneficiaries. Many of these farms are neglected and/or run-down by the time that the appointment process is concluded. With Government owning the land these entities does not possess the ability to access finance from commercial institutions. Previously the appointment of beneficiaries coincided with recap funding whereby the new lessees needed to provide a business plan to the department in terms of support required to effectively and efficiently farm, however due to government processes the appointment and funding did not coincide with conclusion of the lease agreements. Negatively impacting on progress. Many of these entities also entered into strategic partnership arrangements that unlocked some funding. LDS programme was initiated whereby a number of PLAS farms were identified that required further investment – with a big focus on funding infrastructure.

There are a number of other programmes available at other institutions such as Sefa, DTIC, IDC, etc. However from a Hortgro Pome Perspective we mostly deal with the programmes discussed above.

60. This is an argumentative debate and not a simple yes and/or no. All support programmes were designed to address a particular challenge/need with its own application process and selection criteria and lessons learnt during the roll-out. These pogrammes provides a platform to build on and expand. The shortcomings according to the industry due to our involvement in the implementation of a number of programmes and working with HDI producers everyday are:

- Access to funding and finance remains problematic. Especially accessing the funds at the particular time it is needed. Due to lack of security and track record accessing commercial finance is difficult and costly (hence Hortfin, however even Hortfin has criteria to be met and cannot assist all farmers/value chain players). Also with black producers (first generation farmers) there is no margin for error. For instance the impact of hail and/or other climatic conditions (which is a very big reality), black producers are even exposed more to these risks as their businesses cannot absorb these and they are not equipped to properly deal with this. Insurance is costly and many times the crop are not insured because of affordability. In such instances grant funding is available however from application till implementation could take 18months. This causes distressed businesses and rendering commercial finance completely out of the picture and reliant on grant funding (again) to rebuild. One of the key reasons preventing graduation to commercial status.
- Grant funding is limited (understandable – due to limited resources) however in our particular industry the criteria to access grant funding is another challenge. Many of the grant programmes are based on definitions/categories of farmers with a focus on small-scale farmers defined as business with turnover of <R1million. In the pome fruit industry this is the investment needed to establish 1 ha – so the criteria of accessing grants is not aligned to our industry. As mentioned previously the industry is management and capital intensive, however are one of the biggest employers within the agricultural sector and very important in terms of economic contribution at a rural, regional and national level. The support models created does not necessarily take this into account and therefore there is not sufficient funding to cater for the needs of the business on a whole farm approach. The criteria applied is some instances is also not clear for instance the LDS grants – it is my understanding that this is not open to all PLAS farms it was based on a selected number of farms.
- Ownership/title deeds remains a challenge. The blended finance scheme was partly designed to address these issues with Government providing equity on behalf of the black business partnering with the commercial financier. Once again this programme refers to the categories of farmers with ceilings provided for government support, furthermore the blended finance scheme does not consider refinance in the instances where required and with the ability to repay after restructuring. Many times all that is required is capital available at more patient terms with reference to capital holidays, interest roll-ups and lower interest rates. Another challenge with blended finance is that commodity organization are not directly involved, however the commodity organization is knowledgeable on the industry, access to expertise in terms of technical/financial viability, knows the farmer and/or will build a relationship with the

farmer, supports the producers through various programmes. The commodity organization we believe should have a more formal role to play to facilitate applications and implementation. The latter should also apply when government is purchasing farms to ensure alignment, better planning, more efficient allocation of resources and support programmes to assist new entrants from initiation.

61. This question should also take the context provided in Q:60 into consideration. Understanding the criteria of funding should be linked to the ability to comply with all the requirements. Project design and planning requires specialized inputs of knowledgeable people such as compiling a business plan with reference to technical, financial, institutional and social viability. Many new/existing black farmers does not have the capability or the funding required to appoint consultants to assist. Most cases a consultant is appointed on their behalf with very little participation of the farmers/beneficiary in this process. This many times result in no accountability and little buy-in from the producers (although these producers are expected to participate and buy-in). Understanding/interpreting this information is also a challenge. Record keeping (production, financial, HR, etc) is another issue. Many producers are not “funding ready” because their financials is not updated and/or audited. The access of company documentation such as title deeds, leases etc. In our industry we have several workers trusts with large groups of people and decision making (linked to the level of understanding business principles) is a big problem. Contracting terms and understanding the roles and responsibilities of all parties including accountability is also problematic, especially in cases where a problem arises which leads to disputes (although within contract terms) due to poor level of understanding.

62. The major factors considered:

1. Credit policies and statutory obligations in terms of the credit act etc.

2. Viability – business must demonstrate the ability to become viable and sustainable with the ability to repay.

3. Track record in terms of performance this influences risk ratings and the cost of capital.

4. Alignment with criteria for the programme for instance the ability to create new jobs.

5. Ownership/participation of HDI’s – many of the programmes is aimed to assist black owned businesses as according to the AgriBEE codes. This implies that a number of beneficiaries with ownership below 51% are not able to access the funds and/or requires a contribution from the partner equal to shareholding.

6. Security – the security that can be provided to access the finance. In the case with partnerships the expectation is that the commercial partner must provide the majority of the security provided. Commercial financiers in some cases prefer the involvement of a strategic partner (to mititgate risk), however this also has its pro’s and con’s – depending on the level of involvement in the business, accountability towards the business and sharing the risk with the business (implying being financially involved).

63. See the answers provided in Q: 60 – 62. Many of these factors can be considered as barriers to entry.

64. The uptake of development finance is low and/or slow. In most cases it is a chicken-egg situation. The business requires a track record, in order to have a track record the business must access sufficient financial resources. Grant funding to de-risk is limited. Many of the factors above is key constraints in accessing development finance.

65. Cost of capital is based on risk (commercial principles). Many of the first generation farmers/value chain participants requires a relaxed/developmental credit policy to be applied in order to provide the required finance at an affordable rate linked to patient terms in terms of repayment etc. Blended finance and other schemes (PLAS) might require the participation of a workers' Trust, whilst the Trust does not have the ability to contribute meaningfully to the business and obtaining finance – in order to qualify there must be profit share. In the commercial sector this is not a requirement.

66. Blended finance model is definitely a requirement and supported for a certain category of producers that have been assisted through the grant funding schemes to an extent where they do have the ability to access loans (albeit at lower costs and better terms). This however is not the only solution that should be considered. The focus of the blended finance model is to de-risk the businesses to such an extent that commercial financiers are able to consider funding. In this instance ceilings in terms of grants cannot be applied. The application should be viewed holistically and consider the entire business and what is required in order to de-risk. The cost of capital provided by the commercial financier should also be agreed upfront to lower the cost of capital to the business. A current shortcoming in the national blended finance scheme is the refinancing and the formal involvement of commodity organisations in the process and post-investment support.

67. Not in a position to answer – have not worked with this programme although the support provided by Commodities and Government departments is aimed at providing support to enable success.

68. Yes see answers provided Q:60. Further to this there are other factors apart from government processes that could have an impact on funding flowing timeously, such as bond registrations (outside the control of the producer), amendment in terms of institutional documentation such as Trust deeds/appointment of trustees (processes reliant on the master of the high court – could take months), hypothecation of long-term leases that requires the Minister to sign, the awarding/confirmation/registration of water rights, payment of arrear water and electricity bills by DALRRD after purchasing a farm before the lessee is appointed reflecting negatively on the farm and the beneficiary (latter cannot continue with operations before settlement).

69. Context is provided in Q60 – 68. Another factor to consider is the support provided by the National Department in terms of extension services. One of the biggest challenges relates to technical and managerial support. We are of the opinion that extension personell should be seconded to certain industries prevalent in provinces to ensure a

transfer of skill and knowledge and that extension personell should be exposed to the commercial environment to effectively be able to add value. This will contribute to fast tracking development and the ability to facilitate networks that will assist black business.

70. Strict commercial principles are applied in-line with policy – therefore the majority of small-scale farmers is still reliant on grant funding as this is in most cases the only option available. Hortgro Pome through our involvement identified the need for a differentiated approach to increase the participation of black producers and value chain participants. However the Hortfin model in nature is a blended finance scheme and Hortfin cannot fund a business on its own subjecting this fund to the commercial principles and policies of commercial finance institutions. Since the inception in 2018 we have witnessed a willingness of commercial finance parties to enter into this space, however the issues pertaining to security, track record, debt:equity ratio's, security still remains given the legislative requirements for banks to participate. Landbank (as a SOE) with a development mandate is even more cumbersome than others.

Hortgro Pome does not wish to highlight any further areas of inquiry.