

Mondstuk van die Suid-Afrikaanse aartappelbedryf • Mouthpiece of the South African potato industry

CHIPS

VOL 37 NO 2 • MARCH / APRIL 2023



**SIRKEL-N-LANDGOED:
GESONDE MOERE VIR
VOLHOUBARE AARTAPPELPRODUKSIE**

**SATELLITE-DERIVED CROP
GROWTH INDICES FOR
MANAGEMENT OF POTATO CROPS**

Alternatiewe kragbronne
vir jou plaas

KZN small growers
hold farmers' day

Limpopo-kultivarproef
op Dendron, 2022



New farming entrants left exposed to frozen chip dumping

By Susan Marais

Potato producers supplying large frozen chip factories have been exposed to international predatory trade practices after anti-dumping tariffs on frozen potato chips lapsed at the start of the year. Willie Jacobs, CEO of Potatoes SA, says while trade is important for thriving regional and global markets and economies, it is also important to remember that South Africa's agricultural and manufacturing industries should also be a priority.

"For industry role-players to provide the country with good quality, locally produced food, it is imperative that we prioritise our growers, our supply chain and the expansion of the agricultural economy. In reality, cheap and below-cost potatoes entering the market will ultimately be detrimental to South African producers and the sector as a whole, and could cause a surge in illicit trading activities," Jacobs adds.

Buy and support local

"South Africans should buy and support local producers and help to rebuild the economy. What citizens decide to put on their dinner tables could very well determine what South African producers put on theirs."

Jacobs says while most potatoes (80%) are consumed fresh, frozen

potato chips are often where new entrants are able to enter the market. These producers are not yet able to buy expensive equipment such as washing and packaging machinery.

Government initiative

In July 2022 Ebrahim Patel, minister of trade, industry and competition, announced preliminary tariffs on frozen potato chips originating in or imported from Belgium, Germany and the Netherlands. Patel's decision was based on a report written by the International Trade and Administration Commission of South Africa (ITAC) after the trade administrator launched its own investigation based on its suspicions that countries might be dumping frozen potato chips on the South African market.

After investigating various European countries, ITAC found that some or all producers and/or exporters from Germany, Belgium and the Netherlands were exporting frozen potato fries to Southern Africa at a dumping margin of between 10 and 190%.

The report also showed that local frozen potato chip producers' profits and employment declined over the past three financial years (2018 to 2021). Furthermore, the market share of both local manufacturers as well

as countries that did not import fries through predatory practices declined, while only those employing predatory practices were able to expand their market share.

Subsequently, temporary anti-dumping tariffs were introduced as this type of predatory trade go against international trade rules as set out by the World Trade Organization (WTO). However, the term for these tariffs have lapsed and consequently the industry is holding its breath to see if this will lead to increased dumping.

Alternatives for new farming entrants

Dawie Roodt, chief economist at the Efficient Group, says it wasn't necessarily a bad thing if other countries wanted to subsidise South Africa with cheap food. "If they want to dump, let them. Any type of tariff skews the free market system."

He says it is more important that the South African government should create an enabling environment, which would make it easier for entrepreneurs to enter and exit a market when it was more or less lucrative. "Our producers need to be able to make business decisions quicker. This can be done with less bureaucratic red tape, labour issues and taxes. It will also enable emerging farmers to stand on their own feet as soon as possible."

Table 1: Distribution of fresh and frozen potato sales between South African households based on household income. (Source: Dr Hester Vermeulen, Bureau for Food and Agricultural Policy)

	Low income (least affluent 30% of households, expenditure deciles 4 to 6)	Lower middle income (30% of households, expenditure deciles 4 to 6)	Upper middle income (20% of households, expenditure deciles 7 to 8)	Affluent (most affluent 20% of households, expenditure deciles 9 to 10)
Estimated market share of socio-economic sub-group				
Potatoes (fresh)	22%	34%	23%	21%
Potato chips frozen	2%	8%	25%	65%

Roodt adds that governmental inefficiencies, such as high electricity prices and failing road infrastructure, are hampering South African producers' abilities to produce food at competitive prices.

Francois Knowles, registrar of the Agricultural Produce Agents Council (APAC), says producers who are new to the industry should consider selling their products at fresh produce markets rather than supplying major frozen potato chip manufacturers.

"Farmers should do a bit of market research because there is a possibility that they can start managing the prices they would like to earn for their produce, even if the potatoes are unwashed. I'm certain they could possibly find a buyer for their produce."

Consumer protection


In February *Moneyweb* reported that food inflation was very high and that this anti-dumping tariff did not benefit

struggling consumers. "We need to do everything in our power to bring prices down, which includes doing away with unnecessarily heavy duties," Fred Hume, managing director of Hume International told *Moneyweb* at the time.

However, Jacobs says it is important to note that frozen French fries are included in the basic food basket used by government to determine food inflation. "The escalation in the frozen French fry retail price as a result of load shedding creates a distortion to the actual fresh potato inflation in South Africa. The latter was significantly lower than general consumer price inflation. In short: Fresh potatoes are increasingly becoming an inflation counter – offering a safe haven for consumers."

Dr Hester Vermeulen, head of Consumer Economics at the Bureau for Food and Agricultural Policy (BFAP), says it is also inaccurate to

assume that frozen French fries had an impact on the affordability of lower income groupings. According to her, only 10% of frozen potatoes are consumed by low and lower middle-income groupings (LSM 1 to 6), which make up about 60% of South Africa's households. Most frozen potato chips (65%) are bought by affluent households (LSM 9 and 10) and the remaining 25% by the upper middle-income households (LSM 7 and 8).

"With regard to fresh potatoes, the expenditure-based market shares are distributed across the socio-economic spectrum. However, for frozen potato chips (purchased from retailers) the market is dominated by affluent consumers, followed by upper middle-income consumers," Vermeulen says. "It should, however, be noted that frozen potato chips for the fast food industry are consumed by a wider range of socio-economic segments." 

For more information, email Willie Jacobs at willie@potatoes.co.za, Dr Hester Vermeulen at hester.v@bfap.co.za, or Francois Knowles at francois@apacouncil.co.za.



FOXY | VALOR





**AARTAPPELSAAD BEURS
POTATO SEED EXCHANGE**

Landsweye Verskaffers Van : Gesertifiseerde Moere | Aartappelsakkies | Plakkers | Paletnet | Polipropsakke

Countrywide Suppliers Of : Certified Seed Potatoes | Potato Pockets | Labels | Pallet Netting | Polyprop Bags

T +27 12 809 4000 | F +27 12 809 4003 | www.rsaseeds.co.za | admin@rsaseeds.co.za