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Promoting market access for South African agriculture

POLICY BRIEF
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FUNCTIONING OF THE SOUTH AFRICAN TOMATO VALUE CHAIN: PRODUCTION, PROCESSING, CHALLENGES AND OPPORTUNITIES

Thulani **Ningi**, Moses **Lubinga**, Corné **Dempers** and Matume **Maila**

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KEY RECOMMENDATIONS

- The growing consumer demand due to increased awareness of tomato's nutritional benefits presents the opportunity for the industry to innovate and invest in research and development of organic and climate resilient tomato varieties.
- There is a need for collaboration among tomato industry players, the private sector, development agencies and the government through DALRRD to enhance existing financial interventions, which will increase farmer revenue and promote a sustainable tomato value chain.
- To foster a more competitive and diverse sector, industry stakeholders must actively encourage and support new entrants (growers and processors). This support should include providing access to training programmes, financial assistance, mentorship opportunities and assistance in accessing markets.

WHAT IS THE PROBLEM?

Horticultural farming is a vital sub-sector in South Africa, offering significant potential to reduce poverty among low-income and small-scale farmers. According to Statistics SA (2019), horticulture sales reached R86.3 billion in 2019, making it a crucial contributor to the agricultural economy, second only to animals and animal products, which generated R153.1 billion.

Horticultural farming, which includes the cultivation and market gardening of horticultural crops, is particularly noted for its job creation potential. In 2019, the sector employed over 450 000 individuals within the agriculture sector (Stats SA, 2021). Tomato production, a key component of this sector, provides employment for 25 000 to 28 000 people annually, with a spike in demand during the summer months. The majority of the annual tomato crop, between 83% and 87%, is distributed through national and regional fresh produce markets, with a smaller portion supplied directly to supermarket chains (Post Harvest Innovation Programme, 2024). Additionally, a fraction of South Africa's tomatoes is exported to neighbouring countries such as Lesotho, Swaziland, Mozambique, Botswana, and Namibia.

Despite its reputation for implementing best practices in tomato production, South Africa's tomato sector faces significant challenges. High input costs, market price fluctuations, water scarcity, unreliable electricity supply, labour issues, and inadequate transportation and export infrastructure are major hurdles that require urgent attention. The nexus between production, agro-processing, and market access remains a critical concern within South Africa's tomato value chain (DAFF, 2019). Furthermore, despite being a leader in production practices on the African continent, South Africa still relies on imported tomato paste, highlighting a need for a critical assessment of the local tomato industry's performance. Establishing a well-defined value chain is imperative for alleviating poverty and fostering economic growth among tomato farmers, processors and traders. This policy brief aims to shed light on the trends in production and processing, as well as the challenges and opportunities within the tomato value chain in South Africa.

WHO ARE THE KEY ROLE PLAYERS IN SOUTH AFRICA'S TOMATO VALUE CHAIN?

The main players in South Africa's tomato value chain are producers, wholesalers, wholesalers-retail, processors, and retailers.

- **Producers:** The process of tomato production involves seed germination and the transplantation of seedlings into the field. While tomatoes are cultivated across all provinces in South Africa, the warm climate of Limpopo province makes it particularly well-suited for tomato cultivation.

- **Wholesalers:** National Fresh Produce Markets (NFPMs) serve as the dominant player in the tomato value chain in South Africa. However, there are other forms of wholesalers, such as independent wholesalers, supermarket wholesaling subsidiaries, contract buyers, and farmers selling directly to retail and consumers.

- **Wholesale-retail:** These role players operate in the niche areas between wholesaler and retailer formats and are classified as wholesale-retailers, since their clientele includes both final consumers and smaller retailers and food outlets.

- **Processors:** This category of players is made up of companies which process whole tomatoes into peeled, tomato and onion bruschetta, pasta, shredded, puree, and pasta concentrate, among other value-added products.

Retailers South Africa's tomato retailers exist in both the formal and informal sectors. Formal markets include formally registered retail chains, supermarkets, and neighbourhood stores, while informal markets include tuck shops and hawkers.

TOMATO PRODUCTION AND PROCESSING TRENDS IN SOUTH AFRICA

In South Africa, tomatoes rank among the most widely consumed fruits, with the sector primarily dominated by commercial farmers, comprising 95% of the industry (South African Cities Network, 2015; DAFF, 2016). **Figure 1** presents the production and area harvested trends of tomatoes between 2013 and 2022 in South Africa. Between 2014 and 2017, tomato production exhibited an increase from 513 404 tons to 672 180 tons, with 2017 marking the highest production season within the period considered in this analysis. However, production declined to 537 258 tons in 2018. Since 2020, tomato production has been on a declining trend in South Africa, with 2022 recording the lowest production. The area harvested of tomatoes followed similar patterns to production, with the 2017 marketing season recording the highest harvested area.

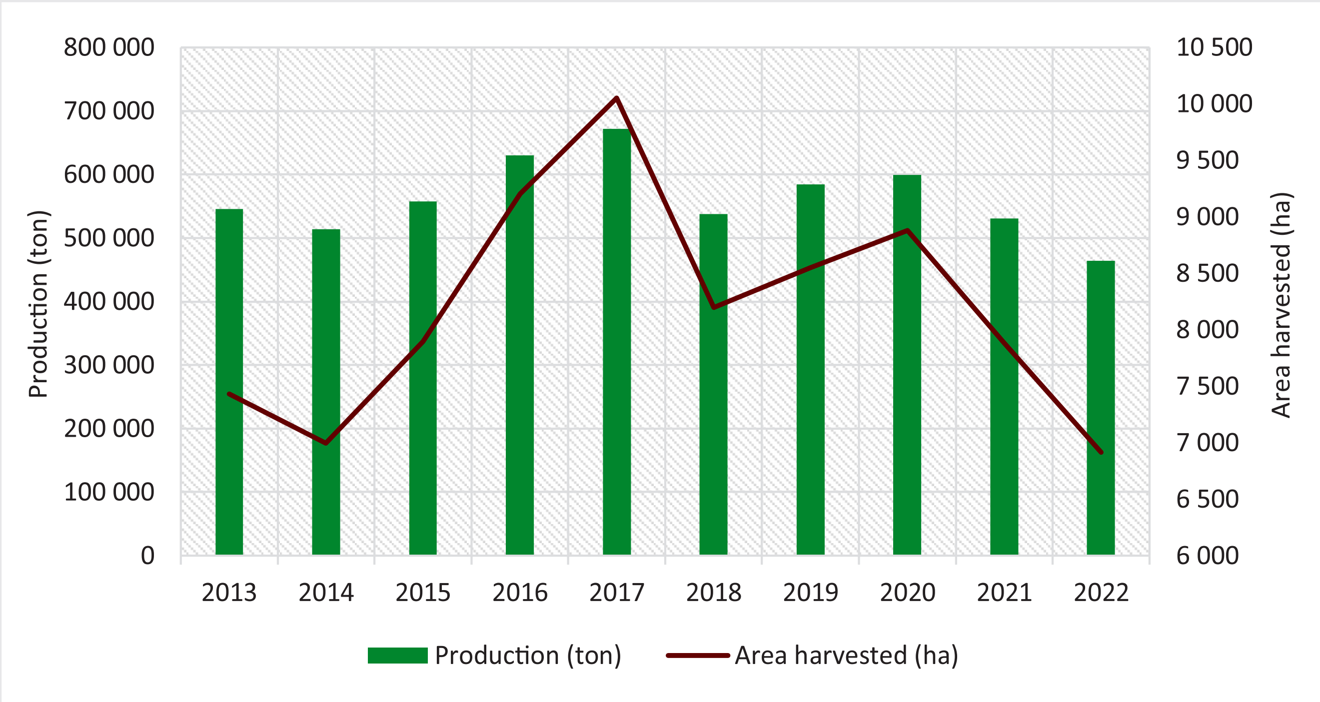

Figure 1: South Africa's tomato production and area harvested from 2013-2022.
Source: DALRRD (2023)

The processing industry plays a crucial role in employment in South Africa (DAFF, 2016). However, the volume of canned tomatoes decreased by 44.98% from 150 729 tons in 2017 to 82 934 tons in 2018, followed by the total processing volume decreasing by 44.49% (from 160 100 tons in 2017 to 88 875 tons in 2018), and the volume of tomato juice decreased by 37.71% (from 9 277 tons in 2017 to 5 778 tons in 2018) as illustrated in **Figure 2**. Between 2020 and 2022 the volume (in tons) of tomatoes frozen decreased by 59.16%, followed by the volume canned by 33.86%, and the total volume processed decreased by 24.52% during the same period.

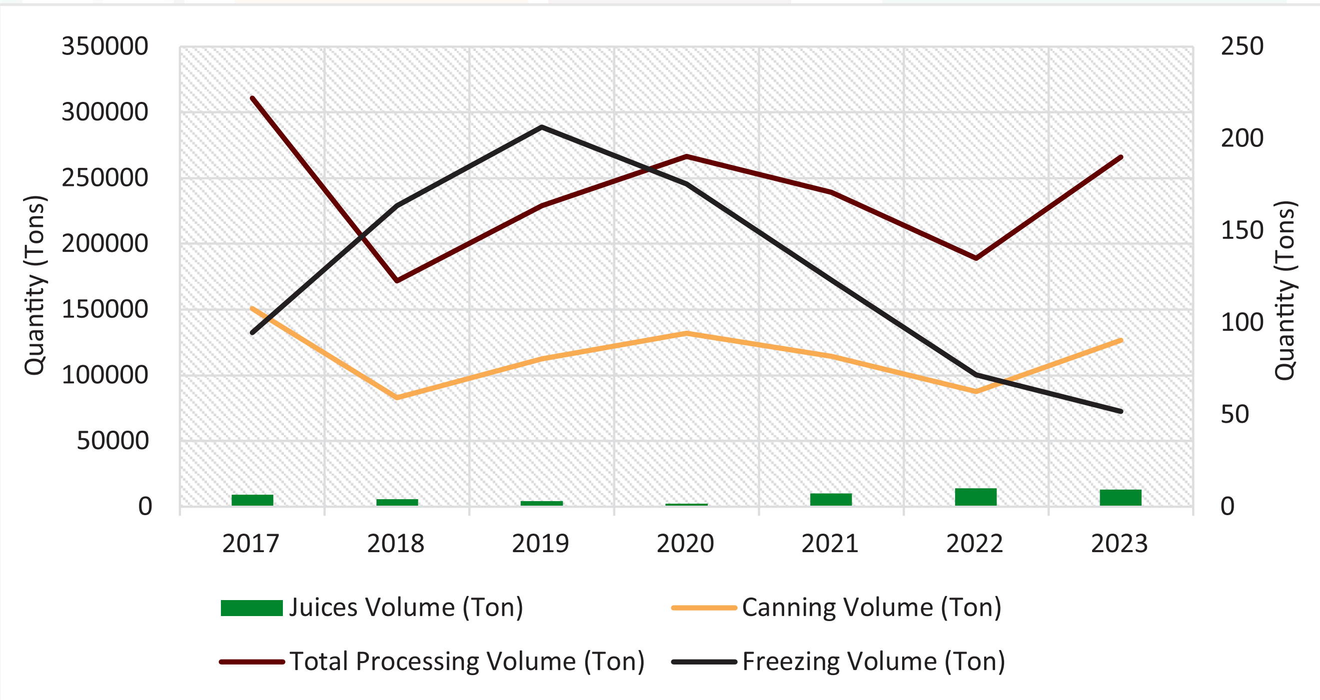

Figure 2: Quantity of tomato processed in South Africa (2017-2023)
Source: DALRRD, 2024

FACTORS PROMOTING THE FUNCTIONING OF THE TOMATO VALUE CHAIN IN SOUTH AFRICA

- **Quality:** Both producers and processors attest that producing high-quality tomatoes and tomato paste was a primary factor enhancing their competitiveness. For example, the thickness of Tiger Brands' ALL GOLD tomato sauce is a feature that keeps customers going back for more.

- **Consistency:** The ability to consistently produce tomatoes and tomato paste was identified as a crucial factor by both producers and processors. ZZ2, for instance, highlighted their daily presence in the market, ensuring consumers have access to tomatoes with the best quality and volume they need.

- **Availability:** The availability of tomatoes and tomato paste emerged as a significant factor influencing the competitiveness of the business in South Africa. Both producers and processors make it a priority to ensure that their products are consistently available in the market for consumption.

- **Taste:** Great taste was identified as a key factor enhancing competition for both producers and processors of tomatoes in South Africa. For instance, Tiger Brands provided an example of how the thickness of their ALL GOLD tomato sauce has been proven to deliver a superior taste to consumers.

- **Presentation:** Presentation was highlighted as a factor enhancing competitiveness for both producers and processors. ZZ2, for example, distinguishes itself by packaging tomatoes in colourful assortments, placing one colour in each box and avoiding the mixing of unusual colours in one box.

CHALLENGES IN THE TOMATO VALUE CHAIN IN SOUTH AFRICA

Despite the above-stated factors promoting the functioning of the tomato value chain in South Africa, there are also many factors hindering it such as:

- **Cost of inputs:** The cost of inputs, such as fertilizers, fuel and pesticides are remarkably high in South Africa. This poses a challenge for producers and processors in managing operational costs and maintaining profitable enterprises.

- **Labour cost:** Labour costs have been identified as a significant challenge, being one of the most expensive factors in South Africa compared to other African countries. High labour costs can impact the overall cost structure of tomato production and processing operations.

- **Electricity power cuts:** Incidents like the current load shedding in South Africa have presented challenges for both producers and processors of tomatoes. Power cuts interrupt irrigation schedules, leading to lower yields. This highlights the vulnerability of the industry to infrastructure challenges.

- **Implementation of BBBEE programme:** The implementation of programs like the BBBEE has emerged as a challenge for conducting business in South Africa. The BBBEE program aims to address historical economic imbalances, but its implementation may introduce complexities and adjustments for producers and processors in the tomato industry.

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- **Water-Energy-Road infrastructure:** Water, energy, and road infrastructure pose challenges for successful business operations in South Africa. Processors experience intermittent power outages caused not only by the current load shedding but also due to the ageing energy infrastructure. Similarly, water disruptions occur intermittently. Inadequate road infrastructure to farms and processing facilities is also a major concern.

- **Limited tomato producers:** Limited number of farmers producing tomatoes in South Africa act as constraints for tomato paste producers who require fresh tomatoes. This is partly due producers being risk averse to embark on producing tomatoes on large scale without duly signed contracts with processors, coupled with limited expertise in tomato production among South African farmers and restricted access to land.

- **Competition:** Competition from other comparable products was identified as a factor diminishing the competitiveness of both tomato producers and processors. For example, many South African consumers from low-income backgrounds, find it challenging to afford the pricey high-quality products. Consequently, they opt for cheaper imported alternatives.

- **Uncertainty in climatic conditions:** This was recognized as a factor hindering competitiveness among tomato producers. ZZ2 highlighted incidents of drought and flooding in some of their production locations, which adversely affected their production levels.

CONCLUSION

In South Africa, tomato production has been fluctuating, with significant decreases attributed to unfavourable weather conditions. On the consumption side, processed tomato products have seen a decline in volume and value due to similar weather-related challenges. The challenges faced upstream in the tomato value chain in South Africa, such as the limited availability of raw materials, product quantity and quality, seem to contribute to the overall slowdown in processing and trade. Major stakeholders in South Africa's tomato value chain include producers, processors, markets, exporters, retailers, wholesalers, and consumers, with notable private companies like ZZ2, Tiger Brands, Miami Canners, and Dursots. Challenges encountered along the value chain include fluctuating retail prices that sometimes do not match with the associated production or processing costs, competition from imported processed tomato products, and uncertainties in climatic conditions. Conversely, factors such as tomato quality, consistency in supplying tomatoes (quantity) and processed products in the market, taste, and the attractive presentation of tomatoes and the derived products, among other factors enhance the development and competitiveness of the tomato industry in South Africa.

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CONTACT US

Physical Address:
536 Francis Baard Street,
Meintjiesplein Building,
Block A, 4th Floor,
Arcadia,
0007

Postal Address:
Private Bag X935
Pretoria
0001

Enquiries: Dr Moses **Lubinga**
Email: MLubinga@namc.co.za
Tel: 012 341 1115