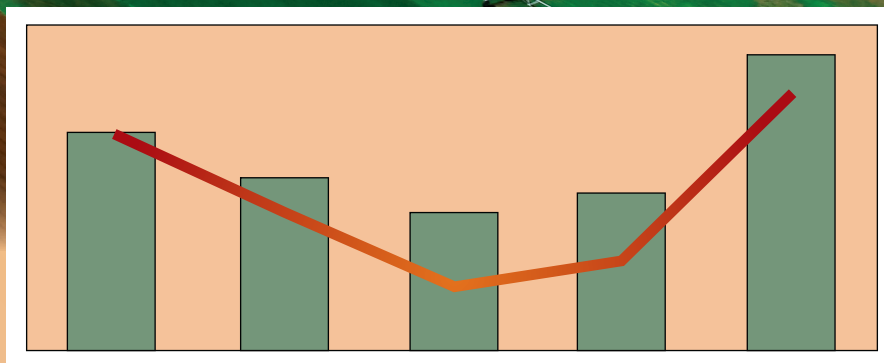
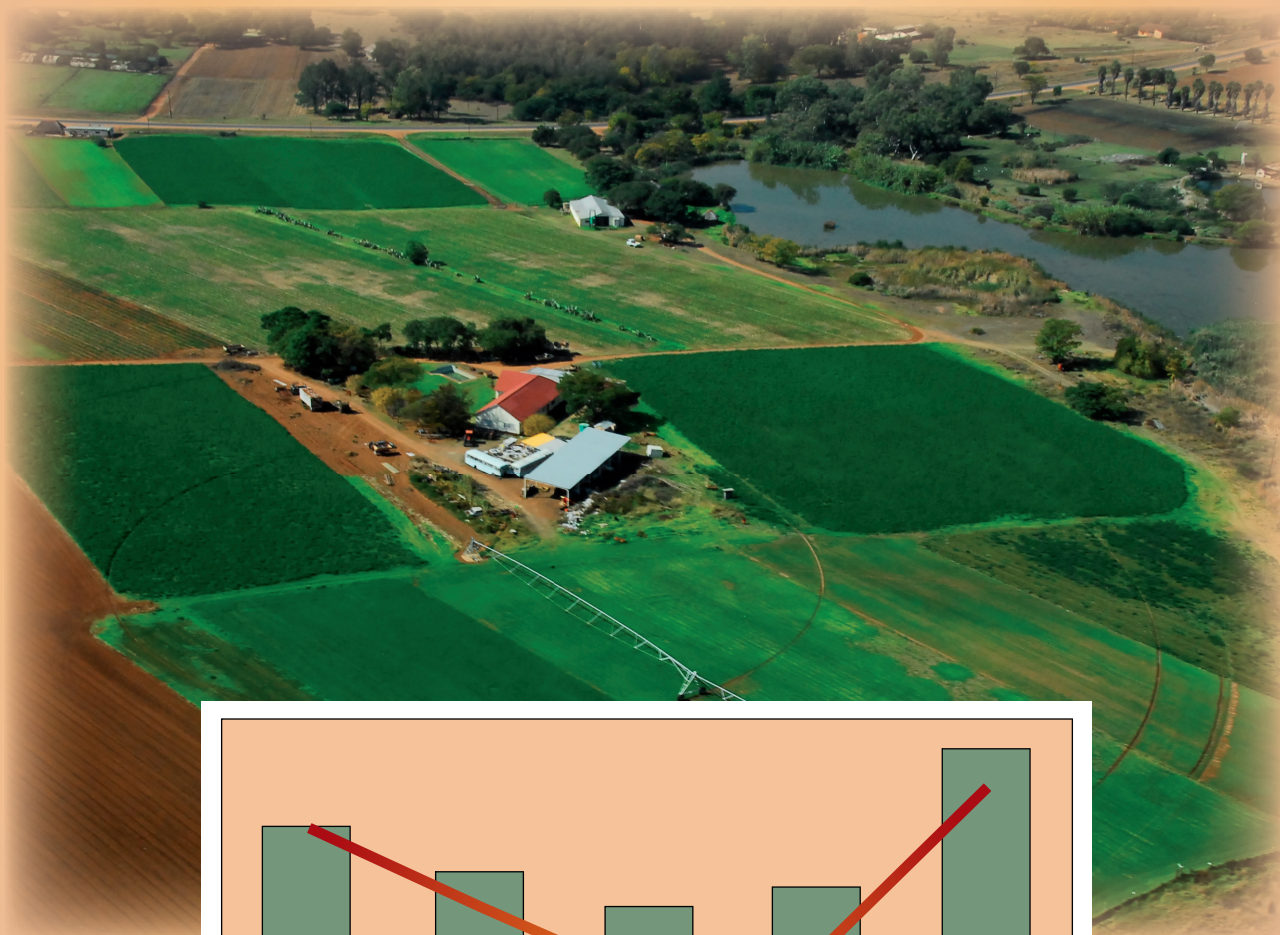


Estimated impact of the Transnet strike action on traders of agricultural products and seafood



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Economic Research Division**

DIRECTORATE: ECONOMIC SERVICES

October 2010



**agriculture,
forestry & fisheries**

Department:
Agriculture, Forestry and Fisheries
REPUBLIC OF SOUTH AFRICA

EXECUTIVE SUMMARY

This study analyses the impact of the May 2010 Transnet strike action on traders of agricultural products and seafood, with the main objectives being:

- (i) To determine the impact of the Transnet strike action on traders of agricultural products and seafood by determining the losses on importation and exportation of tropical, subtropical, deciduous and citrus fruit, wine, meat and seafood
- (ii) To indicate what the situation was for those companies that could not meet their contractual obligations in terms of exporting their products
- (iii) To determine the number of job losses experienced during the strike action
- (iv) To assess what lessons the exporters and importers of agricultural products and seafood have learned from the strike

In an effort to assess the impact of the strike action on traders of agricultural products and seafood, consultations were held with the exporters and importers of subtropical, deciduous and citrus fruit, wine, meat and sea foods. A questionnaire was used as part of the survey to collect data. It must be noted that in some cases, loss estimates were based on very little feedback from the respondents.

Based on the results received from key respondents, the fruit industry was the worst affected by the strike, losing R150 million on the exportation of fruit, while the wine industry lost R0,69 million. On importation, the seafood industry incurred losses amounting to R5,56 million. Importers of prawns and salmon lost R250 000 during this time. The meat industry was also affected, with losses amounting to R5,4 million. In total, traders of agricultural products and seafood lost about R162 million because of the strike.

Exporters of fruit could not deliver their produce to overseas retailers, wholesalers and importers and ended up jeopardising their sales programmes. Importers of meat lost sales because of orders being cancelled, while wine exporters ended up paying fines for being out of stock for listed products at the supermarket groups. There have not been significant job losses that can be associated with the strike.

Transnet services are important for the agricultural sector and the economy in general, and when they come to a halt, both the sector and the economy suffer. Therefore, a long-term solution to prevent incidents such as the strike action experienced in May 2010 from happening

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1. Introduction

Between 10 and 27 May 2010, workers of South Africa's giant transport operator, Transnet, embarked on a strike action when the SA Transport and Allied Workers' Union (SATAWU) and the United Transport and Allied Trade Union (UTATU) failed to reach an agreement with Transnet on substantive terms and conditions of employment. Thousand of workers were unhappy with the initial 11% increase and wanted a 15% annual increase in wages. Transnet on the other hand was not shifting from its initial offer of 11%. According to the Transnet Acting Chief Executive, even the 11% increase would cost Transnet R1 billion more in wages each year.

The three-week strike action cost South Africa millions of rands as it curbed exports of metals, cars, fruit, wine and other products to various destinations across the world, as well as imports of vehicle parts, fuel supplies and other products from across the world. On the other hand, in European countries like Greece, Spain and Ireland, high levels of uncertainty prevailed as a result of the new financial crisis which placed South Africa in a position where failure to deliver agricultural products on time could very likely result in supply contracts being cancelled.

Although Transnet had made contingency plans to cushion key commercial sectors, the cost to the economy escalated. Business Unity South Africa (BUSA) warned that South Africa could not afford to have a three-week strike. Supply chains were severely disrupted and in some cases export contracts were permanently lost as a result.

According to Transnet's Acting Chief Executive, the estimated costs ran into millions. Infrastructure and equipment damages alone amounted to R 60 million. BUSA estimated that the strike cost the country R7 billion in total. Over and above the millions of rands Transnet lost, many other businesses' activities were also adversely affected.

Agriculture is one of those sectors that play a very significant role in South Africa's economy and are uniquely dependent on a reliable and flexible transportation system. Agriculture is best served by consistent, high-urban and international demand supported by an efficient, high-volume transport and marketing system (Hine *et al*, 2001). Because of the strike, agriculture employment increases from the first quarter of 2010 were under threat. Exportation and importation of agricultural products were disturbed and the associated losses were of concern, and thus the Department of Agriculture, Forestry and Fisheries had to step in by releasing a media statement calling for a quick resolution to the strike.

The citrus industry indicated that owing to grouped marketing due to not enough room for new arrivals in the storage and a shortage of electric plug points for the refrigeration machines, they anticipated a loss of approximately R650 million. In the media statement, the Department indicated that the agricultural sector was entering the citrus and avocado season while backlogs of apples and pears in storage were threatening to impact the future harvesting of other fruits. The citrus industry had to pay a storage surcharge for over 70 000 pallets awaiting loading. Companies were also forced to pay port congestion fines which according to the Department amounted to R80 million.

This study seeks to comprehensively determine the impact of the Transnet strike action on the traders of agricultural products following reports on the media briefing by the Minister of Agriculture, Forestry and Fisheries, Tina Joemat-Pettersson, who expressed great concern over the prolonged Transnet strike action and its impact on the agricultural sector. According to the Minister, the Transnet strike action caused farmers to lose over R1 billion, putting jobs within the agricultural sector under threat.

2. Objectives

Although it is common knowledge that strike actions have a varied and wide-ranging negative impact, demonstrating these consequences by hard empirical evidence remains challenging (Myers *et al*, 2009). In this study, the intention is to quantify the impact of the strike on traders of agricultural products¹ and seafood. The specific objectives of this study are:

- To determine the impact of the Transnet strike action on the traders of agricultural products by determining the losses on importation and exportation of tropical, subtropical, deciduous and citrus fruit, wine, meat and seafood
- To indicate what the situation was for those companies that could not meet their contractual obligations in terms of exporting their products
- To determine the number of job losses experienced during the strike action
- To assess what lessons various agricultural and seafood industries have learned from the strike

¹ “Traders” refers to the exporter and importers of agricultural products.

2.1 Rationale

According to the Minister, the Transnet strike action caused farmers to lose over R1 billion, putting jobs within the agricultural sector under threat. BUSA estimated a total loss ranging between R6 billion and R7 billion. One economist indicated that agriculture lost R800 million. Since then, there have not been any studies to disaggregate the impact on the various agricultural industries such as the meat industry, the tropical and subtropical fruit industry, the deciduous fruit industry, the citrus fruit industry, the wine industry and the seafood industry, nor was there any estimation of losses by the exporters and importers of the abovementioned commodities/products.

From the media statement, it has been heard how the strike curbed exports to Europe and Asia and how ripple economic effects are now beginning to be discernible in the Southern Africa region. It is also not clear what lessons were learned by the affected industries. This study intends to answer some of these questions.

3. Literature review

The transportation industry is the lifeline of national economic growth and the backbone of material activities and community communication, signaling the development of the national economy (Wang, 2009). Nicholas (1969) indicates that transportation has long been recognised as a strategic factor in economic growth and social change. A highly developed transportation industry has an important strategic effect on a country's economic prosperity, cultural development and strength of defence and its people's standard of living (Wang, 2009). Sichei *et al* (2005) indicate that South Africa's transport industry has become an increasingly important contributor to the country's gross domestic product and exports. Transport services contribute approximately 5,3% directly to the South African economy. South Africa's total exports exceed R6 billion annually. Transport is of vital importance as an intermediate input into many other sectors of the economy, such as mining, agriculture, manufacturing and even certain service sectors (e.g. distribution services and tourism). In South Africa, the Department of Transport has adopted the view that transport is an enabling industry, one which exists not only to meet goals inherent to transport, but also to meet other pressing national and social objectives (Naudé, 1999).

South Africa's transport system consists of roads, railways, airlines, ports and shipping. South Africa largely depends on these networks and those of the neighbouring states for the transportation of the bulk of its exports and imports. The state-owned Transnet group is South

Africa's main transport operator and is also the main holding company for SAA (airways), Spoornet (rail transport), Autonet (road transport), Petronet (liquid petroleum), Portnet (port authority) and Freight Dynamics (container shipments). Transnet accounts for nearly 30% of goods transported by volume while 70% of the goods are transported by private sector enterprises (South African Business Guidebook, 2003). By road, the country is connected to other Southern African Development Community (SADC) countries. By sea, the country is connected to the world through its South African coastline in the south Atlantic and Indian oceans. Approximately 96% of the country's exports are conveyed by sea through seven commercial ports. By air, the country is connected to the outside world through its international airports (Nyambe *et al*, 2009). Wang (2009) indicates that efficient transportation systems can realise regional development, associate all national economic branches together and improve an area's economic competence.

The location of economic activity is not randomly distributed among certain regions of a country or areas of the world. Rather, the location of economic activity is determined by a number of factors, such as regional endowment of resources, production functions for intermediate and final products, transfer cost functions, and demand functions for the final product. The mix of these factors in one area relative to another to a large extent influences both the direction and the extent of growth and development in the region (Nicholas, 1969) and transportation is a basic industry for national economic development, which associates with other industries interdependently and closely (Wang, 2009).

Transport services are an important intermediate input in the South African economy. For agriculture, mining and manufacturing it is the most important service input after distribution services, accounting for between 2% and 3% of total intermediate inputs for these sectors (Naudé, 1999). The strike by members of SATAWU and UTATU brought disruption to some sectors of industry as thousand of workers were unhappy with their wages. Strikes within the transport sector can have adverse effects on the economy, impeding development and growth and resulting in missed opportunities. Strikes within the transport sector can also carry a social and an environmental load.

4. Impact of the strike on trade flows

The past few decades have seen periods of rapid trade growth in developed and developing countries. This growth has been aided by the growth of the world economy and the lowering of trade barriers, as well as increased supply capabilities (Jooste *et al*, 2006). Daya (2006)

indicates that South Africa's exports and imports grew significantly over the period 1996 to 2005. Exports of agricultural products grew on a compounded basis by 8,7% while agricultural imports grew by 7,9%. Jooste *et al* (2006) indicates that SA and global trade are greatly affected by the growth and stability of world markets.

With the Transnet strike that curbed exports of metals, cars, fruit and wine over a period of more than two weeks, the agricultural sector was one of those sectors hit the hardest. Agriculture relies on airways, rail transport, road transport, port authorities and freight dynamics (container shipments) for importing and exporting of agricultural goods.

During the second quarter of 2005, total export value of SA agricultural products was estimated at R 7,58 billion which decreased to R 6,46 billion in the second quarter of 2006. The decrease was followed by a significant increase between the second quarter of 2006 and 2010, when the export value rose to R12,13 billion

Total imports of agricultural products were estimated at R 3,8 billion in the second quarter of 2005, peaked at R 8,52 billion in the second quarter of 2008 and later decreased to R 7,50 billion in the second quarter of 2010. The decrease in imports in the second quarter of 2010 can be seen as a continuation from the period between the second quarter of 2008 and 2009.

The total export value of fruits² has been increasing since the second quarter of 2005, reaching R 4,26 million in the second quarter of 2010. The increase in exports of citrus, deciduous, tropical and subtropical fruit between the second quarters of 2009 and 2010 show that they were less affected by the strike. The total import value of fruits was estimated at R84,4 million in the second quarter of 2006, fluctuated significantly between the second quarters of 2006 and 2009, reaching R 112,78 million in the second quarter of 2010.

Exports of meat increased significantly between the second quarter of 2005 and the second quarter of 2009 moving from R 46,13 million to R 217,22 million. The second quarter of 2010 experienced a decrease when exports declined to R 191,32 million. The imports of meat have been fluctuating since the second quarter of 2005, peaking at R 774, 00 million in the second quarter of 2009 and then decreasing to R 698, 87 million in the second quarter of 2010.

Seafood export values increased from R 689,4 million in the second quarter of 2005 and then fluctuated to reach R 819,83 million in the second quarter of 2010. Imports of seafood was

² "Fruit" refers to edible fruit, nuts, peel of citrus, and melons

estimated at R 209,35 million in the second quarter of 2005 and then fluctuated to reach R128,88 million in the second quarter of 2010.

Following a drop from R 989,0 million in the second quarter of 2005 to R842,0 million in the second quarter of 2006, the export value of wine continued to fluctuate to reach R 1,50 billion in the second quarter of 2010. The import value of wine was R 32,0 million in the second quarter of 2005, continued to fluctuate until it reached R 46,0 million in the second quarter of 2010.

The agricultural trade balance in the second quarter of 2010 was estimated at R 3,60 billion. Following the decrease in imports between the second quarter of 2005 and 2007 (from R3,60 billion to R 941,0 million), the agricultural trade balance has increased significantly to reach its highest value (R4,63 billion) in the second quarter of 2010.

Based on these estimates, it is very difficult to detect the impact of the strike on agricultural trade (exports) during the second quarter of 2010. There is no clear indication of any significant deterioration in export flows during this period as one would have expected. However, during this period, growth in exports slowed down, although it can be argued that the slowing process is a continuation from the periods between the second quarter of 2008 and 2009.

5. Estimated impact of the strike action and lessons learned

Consultations were held with the importers and exporters of meat³, fruit⁴, wine and seafood. Exporters and importers of subtropical, deciduous and citrus fruit, wine, meat and seafood were requested to complete a questionnaire as part of the survey. However, the response rate was not as expected. As a result, data analysis is based on a few responses from those who managed to complete the questionnaire.

5.1 Losses on exportation

5.1.1 Fruit industry

³ Meat refers to beef, mutton, chicken and pork.

⁴ Fruit refer. to citrus, stone fruits, pome fruits, grapes and subtropical fruits.

As a result of the strike action, approximately 75% of the fruit exporters experienced R40 million in losses as they had to pay for storage at the harbours. Another R40 million was lost because of deterioration of the quality of the fruit. Some fruit exporters were placed in an awkward position when 100 containers of fruits that were intended for exportation ended up being dumped. This resulted in a loss of about R20 million. Other losses, amounting to R50 million, occurred because fruit-exporting institutions lost better returns owing to late arrivals in the market, absence of empty containers at the port, congestion surcharges and the fact that fruits were left on trees longer and ended up falling to the ground. Table 1 shows that, in total, 75% of fruit exporters experienced a loss of about R150 million because of the strike action by employees of Transnet.

Table 1: Estimate of losses experienced by various industries during the strike action by Transnet employees

Commodity	Losses during importation (R million)	Losses during exportation (R million)	Total million (R)
Fruit	0	150	150,0
Wine	0	0,72	0,72
Seafood	5,81	0	5,81
Meat	5,37	0	5,37
Total loss	11,22	150,72	161,90

5.1.2 Wine industry

About 29% of wine exporters lost R126 000 to the cost of storing wine at the port. A total of 24 000 litres of wine intended for export ended up being dumped and this resulted in a loss of R145 000. Some wine exporters could not supply the United Kingdom markets with stock and therefore had to supply replacement stock from other countries just to meet their contractual obligation, which resulted in a loss of R57 212,50. They were also not on time for the promotions while they had already paid for the listed products at the supermarket group and lost a further R360 000. An estimated R36 000 was lost on casual labour for loading the containers. As shown in Table 1 above, the wine industry lost approximately R724 212,50 because of the strike.

5.2 Losses on importation

5.2.1 Seafood industry

As a result of the strike action, 30% to 40% of seafood importers lost R5,56 million to container surcharges. Other losses include huge numbers of sales forfeited during the World Cup when containers bypassed South Africa and only arrived in the country after the World Cup was over. There were also losses due to outside cold storage costs because of late arrivals as well as late financing of products. Approximately 40% of importers of prawns and salmon lost R250 000 because of delayed delivery and extra freight costs. In total, about R5,81 million was lost on the importation of seafood inclusive of prawns and salmon.

5.2.2 Meat industry

Approximately 20% of the importers of beef, chicken, mutton and pork were imported during the strike. According to Table 1, the meat industry lost a total of R5,5 million for a number of reasons including losses as a result of containers being rerouted to other countries, which cost US\$1 000 per container to ship back to Durban, depot storage costs, handling costs as containers were received all at once, cold store costs as the cold store was not able to handle all the stock at once, and payments towards cold storage in Johannesburg, Cape Town and Durban. Other losses were due to the cancellation of orders from clients.

5.3 Total loss experienced by the sector

In total, South Africa lost about R11,22 million on the importation of agricultural products and seafood. The country also lost approximately R150,72 million on the exportation of agricultural products and seafood. The total loss due to the Transnet strike action was therefore at least R162 million. It should be noted, however, that this is only an estimate and it is based on very little feedback from the respondents, and that this figure only includes estimates from tropical and subtropical fruit, citrus and deciduous fruit, wine, meat and sea food.

5.4 Impact of the strike action on contractual obligation

Exporters of fruit could not deliver their produce to overseas retailers, wholesalers and importers and ended up jeopardising their sales agreements. This means that in the next season, they will need to reduce their sales. Importers of meat (beef, chicken, mutton and pork) lost sales because of orders being cancelled. Wine exporters had to pay fines for being out of stock for listed products at the supermarket group. Importers of wine were severely affected because of the strike as business relationships with their clients went sour. Some of the wine-importing institutions could not honour their obligations, and some of the companies and farmers lost their supply contracts permanently because their products could not reach their intended destinations.

5.5 Job losses as a result of the Transnet strike action

Although no substantial job losses were recorded, the fruit industry experienced some job losses, mainly on fruit farms and in packaging facilities as most of the supply chain came to a halt. The wine industry also had to shed casual labourers that were responsible for loading containers. However, the jobs will be replaced in the coming seasons.

6. Lessons learned as a result of the Transnet strike action

Exporters and importers of agricultural products and seafood learned that the daily communication they received from freight was of great assistance in keeping their international clients updated on the strike situation. The communication channels between Transnet and the fruit industry could be vastly improved. They also mentioned that Transnet needs to give more thought to who their customers are and not focus only on shipping lines.

The exporters and importers of agricultural products and seafood emphasised that ports should rather be partly or fully privatised. Importing and exporting institutions are of the opinion that ports should be declared strategic businesses for the country and also declared essential facilities offering essential services and that they should not be allowed to strike.

Exporters and importers of agricultural production and seafood indicated that South Africa cannot afford another strike of this nature at ports as this has a direct impact on the South African trade balance and the economy as a whole. Therefore, all the parties involved in facilitating exportation should quickly resolve their dispute. According to them, 80% of ports worldwide have been privatised and one of the major motivating forces for this was the effect of strikes. They argue that, if ports can be run by many enterprises hiring different workforces, no single workforce can bring the ports to a grinding halt. If government has geared its economy and its growth around exports, then surely the ports should become essential facilities.

According to meat traders, the impact of the strike has not yet ended as meat-importing companies are still paying congestion surcharges.

Based on the feedback from the respondents, 460 000 people are employed full time in the fruit industry and two million people are dependent on their income. South Africa cannot afford

to destabilise this employment base. A permanent solution needs to be found around the ports.

7. Conclusion

From this study it is very clear that Transnet services are important for the agricultural sector and the economy in general, and when they come to a halt, the sector and the economy both suffer. The Transnet strike action had a huge, negative impact on traders of agricultural products and seafood and on the economy as a whole. Traders of agricultural products and seafood suffered the impact of the strike in different ways, including loss in terms of money, implications for contractual obligations, and fines. However, there have not been significant job losses associated with the strike action.

Amid the tight competition in global markets for agricultural products, it is a matter of concern when contractual relationships are dented or placed at risk because of the incidence of strikes which farmers, exporters and importers do not have any control over. A long term solution to prevent incidents similar to the strike action experienced in May 2010 is essential, including possible declaration of port facilities and services as essential facilities.

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