

# PHYTCLEAN UPDATE: MARCH – MAY 2018

PAUL HARDMAN

## DAFF Signs eCertification SLA with FSA

In March 2018 **Department of Agriculture, Fisheries and Forestry (DAFF)** and **Fruit South Africa (FSA)** signed a **Service Level Agreement (SLA)** that will see FSA build online capabilities for DAFF so DAFF can issue electronic export certificates as a replacement for the paper phytosanitary certificates currently in use. The idea is to extend the current PhytClean solution applied in the fruit sector into the eCertification “space”, and then to ultimately use the eCertification platform to handle the export certification requirements for other agricultural products too. This is very ambitious but the project will follow a phased approach as the tool will need to integrate with existing systems that are already in operation in the different agricultural sectors.

There are numerous reasons to go the electronic route and de-materialize (i.e. take out the paper) in the certification process but the main ones can be summarized as:

**Fraud:** DAFF are increasingly having to manage cases of fraudulent documentation linked to fruit that has no connection with South Africa whatsoever. This poses a massive risk to our market access status as this foreign fruit enters those markets as a product of South Africa but would not have been subject to any of the required checks. eCertification is able to address this problem because the “documentation” linked to a specific fruit consignment is known to come from an official South African source that can be verified immediately.

**Efficiency:** A number of efficiency enablers are introduced when electronic alternatives become an option, such as:

- **Data Accuracy:** The principle that the party generating the consignment of fruit is in the best position to capture the data correctly applies, and ensures the entire supply chain is then dealing with accurate information. Otherwise everybody down the line is just guessing, re-confirming or recapturing data manually, which can lead to mistakes.
- **Cost:** Paper-based certification implies the paper evidence is available along the supply chain and follows the fruit around. The reality is the paper must go ahead and copies are held after the fruit moves through each of the steps in the chain, leading to a massive amount of traffic and storage of paper. This can largely be avoided.
- **Predictability:** What has been observed in the citrus sector is that export businesses are able to plan and implement those plans better when the phytosanitary status of fruit is known. They are able to determine prior to export what fruit will be acceptable for that market – which was surprisingly not always possible before (as previously there was no official reference for this information or

systematic way of obtaining the details). Having a greater degree of assurance enable exporters to programme fruit into a market which boosts RSA’s reputation as a reliable source of fruit.

• **Data Re-use:** Many of the steps associated with exporting use the same information but typically require recapturing at each step if a paper document is used as the source documentation. Electronic files are much easier to move around and “sucked in” to systems which potentially allows for the reducing in the number of steps i.e. checks are done simultaneously in parallel and not in series.

**Better DAFF resource allocation:** eCertification will assist DAFF as a human resource planning tool (although this is not the direct focus of the tool) given the central collection of data and ability of software tools to detect needs and the demand for DAFF inspection services. DAFF will also be able to use the inspectors’ time more productively by making the system conduct the automated checks.

**Better Phytosanitary Risk Management:** eCertification will be the resulting documentation produced by the system but the underlying information needed to confirm the status and suitability of the fruit for export will feed into knowledge base that over time can be referenced to guide plant health policy. The goal will be to create increasingly more robust and science-based rules that support trade while meeting the expectations of trading partners.

Since March 2018 FSA have been preparing and building capacity to tackle this project. New IT skills have been brought in with relevant expertise as well as increased administrative support for the team. This administrative component is key due to the increased activities and coordination needed to ensure delivery of the platform to users through stakeholder engagement and training.

**Next steps:** FSA and DAFF began a series of industry and stakeholder meetings in May 2018 which will be ramped up in June and July 2018. The idea behind these meetings is to explain how the project will be rolled out and how interested parties can get involved. More information will be following in this regard. Over the next several weeks the FSA team will also increase its interaction with counterparts in Kenya and the Netherlands to learn from these countries as global leaders in eCertification. We are grateful for their willingness to assist RSA in building similar capabilities.

## Citrus FMS and CBS RMS

As usual citrus volumes picked up considerably from March and April into May which resulted in increased use of PhytClean for the **FCM Management System (FMS)**. By April the FMS functionality had largely bedded down and growers, packhouses, exporters,

# Understanding the Components of the Wholesale Diesel Fuel Price Structure (0.05% S)

ML BROOKE

On 6th June 2018 the Diesel fuel price increase of 85cpl was the largest single increase in South African history. The reefer wholesale Diesel fuel price (0.05%) in June was also the highest in history at R14.19 per litre. On this basis we will unpack the components of the Diesel fuel price to understand what is behind the cost. There are two main cost components of the fuel price structure.

**1. In bond landed cost or basic diesel price of fuel:** this component of the cost structure takes into account the purchase price of crude oil delivered by tanker to refinery storage facilities. The cost structure considers the monthly average crude oil price, the average exchange rate (ZAR/USD) and the shipping and pipeline cost to receive the oil in the refineries storage tanks. Below is a chart that highlights the average oil price, average ZAR/USD exchange rate and the Basic Diesel Price. It is visible that the Rand purchase price of oil is very much related to the Basic Diesel Price. It is important to note that the average oil price in June was USD77 per barrel which was the same level as it was in April 2010. The fact that the average exchange rate for the month of May 2018 was R12.51/USD against R7.50/USD in March 2010, meant that the average Rand price of oil was R961 per barrel in June 2018 whilst the average Rand price of oil was R592 in April 2010. The Basic Diesel Price was R7.46 per litre in June 2018 compared to R4.45 in April 2010 – a difference of R3.01 per litre.

**2. Wholesale composition cost:** this component considers the cost of manufacturing and delivery costs to retailers and suppliers of fuel. In this case we consider the cost of fuel delivered to reef areas which includes the cost of transportation. There are seven main cost

elements comprising the composition cost of which the main two components are:

a. *Road accident fund levy (RAF):* in April 2008 the RAF levy was 47c per litre which has escalated to 193c per litre in April 2018, an increase of 146c per litre. b. *General fuel tax (GFT):* in April 2008 the GFT levy was 111c per litre and has increased to 332c per litre in

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Chart 1: Price determinants of the Basic Diesel Price.

freight forwarders and cold stores were using the tools extensively. Some issues did arise such as a slow front-end website but these have largely been addressed. In fact many of these teething problems led to better overall solutions being implemented than previously contemplated. The reality is the roll out of the citrus FMS was a massive undertaking and the industry stakeholders and roleplayers (both official and non-official) must be thanked and congratulated for implementing it so quickly. The CBS functionality on PhytClean has been applied again in 2018 but with the modifications resulting from the revised CBS RMS.

## Peach & Nectarine FMS

The peach and nectarine FMS for the EU wound down as the season has drawn to a close. The P&N FMS was implemented by this sector very efficiently and effectively (at time of writing there were no interceptions in the EU).

## Taiwan Apples Codling Moth RMS

Hortgro approached PhytClean in April to investigate the possibility of adding some functionality to the platform to help exporters accessing the Taiwanese market for apples. The required tools were built and “switched on” in May 2018. It is anticipated these tools will also be used in the next full production cycle.

## Registration for Special Markets 2018

Coming up in June and July will be the registration for phytosanitary markets for the deciduous and table grape industries. This will be the first time the table grape industry is using the “new” PhytClean platform having previously adopted the “older” version of PhytClean.

Some improvements and efficiencies have been built into the registration process for all fruit kinds which will be rolled out in this round of registrations.

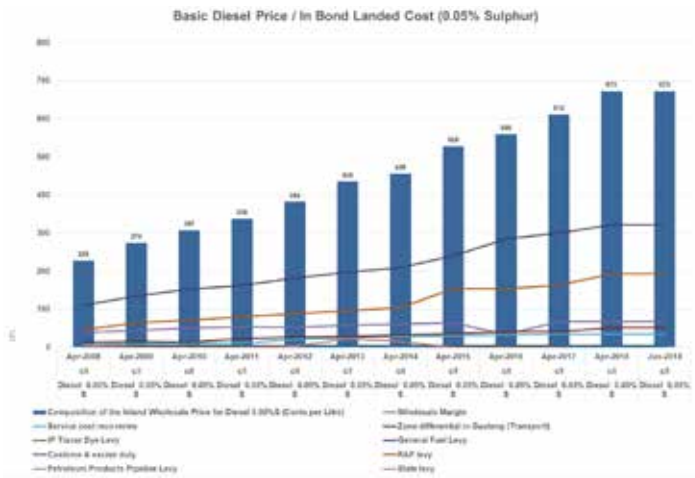


Chart 2: Wholesale composition cost of Diesel fuel.



Chart 3: Component cost of the price of Diesel fuel.

April 2018, an increase of 211c per litre. Both the above cost elements have increased by 357c per litre combined over this period.

In summary, the current high price of Diesel fuel as compared to 10 years ago is largely driven by the weakening of the Rand value against the US Dollar and government taxes and levies. Consider the following three scenarios:

*Scenario 1:* if the RAF levy and GFT levy were left at the 2008 level, the current wholesale price of Diesel fuel would be R10.33 per litre - a difference of R3.86 per litre against the current price.

*Scenario 2:* if the RAF levy and GFT levy were left at the 2008 level

and the Rand/USD exchange rate was at a level of say R10.00/USD, the wholesale price of Diesel fuel would be R8.87 per litre - a difference of R5.32 per litre against the current price.

*Scenario 3:* if the oil price escalates to USD100 per barrel by April 2019 (using R12.50/USD) and including the possibility for further increases in fuel taxes and levies, the wholesale price of Diesel could escalate to as much as R16.90 per litre – an potential increase of R2.71 per litre against the current price.

The components of the wholesale price of Diesel fuel is shown in chart 3.

## 'n Eeu van sukses.

'n Baanbreker in die kunsmisbedryf sedert 1918, toe Kynoch een van die eerste Kunsmisaanlegte in Suid-Afrika gebou het by Umbogintwini. Die maatskappy het van krag tot krag gegroei om die handelsmerk te word waarin Suid-Afrikaanse voedselprodusente vandag nog glo – 100 jaar later. Op grond van ons ryk erfenis, gaan ons die toekoms in met vertroue en sien ons uit om nog lank die toonaangewende verskaffer van volhoubare plantvoedingsoplossings te wees.

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011 317 2000 | [info@kynoch.co.za](mailto:info@kynoch.co.za)  
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