PUSHBACK

to end auditing duplication

Mounting requirements by international compliance institutions have South African agriculture producers and exporters groaning under their weight.

By Jacques Dommisse

In the last decade, there has been a rise in duplicated gatekeeping systems by international compliance institutions based primarily in developed markets. They've come under the auspices of the globally embraced and accelerating concepts of environmental sustainability, fair labour practice, and climate change (essentially a buzzword), with severe cost and time constraints for SA.

However, pushback from the South African agriculture sector against duplication of compliance requirements has begun, with Fruit SA taking the lead. This development is spearheaded by leading fruit producer organisations.

In the last week of September 2023, a delegation of FruitSA – led by CEO Fhumulani Ratshitanga – met with several UK and European (German) role-players to discuss the impact of "compliance" on South African producers. The lobbying visit sought to find common ground for a better understanding of the implications, at farm and packhouse level, of continuously changing compliance standards.

Fruit SA represents six fruit associations in SA, namely Berries ZA, the Citrus Growers Association (CGA), Hortgro (Pome and Stone fruit), SA Subtropical Growers Association (Subtrop), the Fresh Produce Exporters Forum (FPEF), and the SA Table Grape Industry (SATI). Four of these associations – CGA, Hortgro, Subtrop, and SATI – formally requested a study to be conducted with the primary purpose of evaluating the cost of compliance related to farm-level social and environmental accreditations, e.g., the German-headquartered GLOBALG.A.P. and the Sustainability Initiative of South Africa (SIZA). So, in July 2022, Petrus Grobler of SourceConsult was commissioned to compile a comprehensive Cost of Compliance Farm-level Industry Report.

The focus of the study was to differentiate between the direct and indirect on-farm compliance costs between small, medium, and large producer companies. The industry bodies nominated the following fruit types for this study: all citrus types (CGA); pome and stone fruit (HORTGRO); avocado (Subtrop); and table grapes (SATI).

In his report, Grobler stated that ethical, environmental, and food safety compliance is driven by global sustainability goals that originated post World War II and gained mainstream momentum from the 1990s. Increased demands on primary agriculture will continue until 2030, a critical milestone date. Market access, being the compliance gatekeeper, effectively enforces grower participation. However, many agricultural businesses have taken the sustainability journey to further their own development and goals.

The study also identified the following three items to comprise more than 90% of the overall primary agriculture cost of compliance.

- Capital expenditure on infrastructure, systems, and procedures. Meeting ethical accommodation standards on farms is the standout capital expense item.
- Manhours dedicated to preparing and conducting audits.
- The physical audit costs of independent certification bodies.


Fhumulani Ratshitanga

Grobler reported: "Our observation was that audit firms do not adhere to a standardised audit fee approach, and in some instances, material differences exist amongst the various auditing firms. Our second observation was that a disconnect exists between South African legal requirements, audit standards, and market requirements.

Unfortunately, the absence of a global universal standard results in significant duplication, resulting from retailers and countries wanting to establish their unique interpretation of the global goals."

Achieving universal standards and homogeneous interpretation of the rules of engagement will have the most meaningful positive impact on a topic, which will remain an integral component of the global market participation for the country's agri sector. Here's a summary of factors that will contribute towards achieving such standardisation, according to the report.

- Annual benchmarking of certification body fee structures differentiating between produce types, geographical regions, and farm size.
- Debating the balance between establishing a world-class compliance standard versus South African law versus minimum market access requirements.
- A detailed study into the duplication of audit checklist items amongst various certifications.

Importantly, both the SIZA Social and Environmental Standards undergo regular benchmarking against various global programmes and local legislation, notes SIZA. The standards also undergo a comprehensive review every three years, which includes

There's been a rise in duplicated gatekeeping systems, primarily in developed markets.

input from producers nationwide, technical experts, auditors, buyers, and legal advisors to ensure full participation.

Ex parte from the report, key stakeholders and producers expressed the need for the establishment of a local benchmark for normalised auditing processes and fees. "Auditing the auditor" was suggested, along with a database of invoices for peer review purposes.

Highlighted in the Grobler report was the time and financial constraints placed on specifically medium-sized producers, with large producers benefitting from economies of scale and small farmers exporting to a single buyer. In SA programmes such as SIZA provide this standardised approach in ensuring that the exact requirements are set for every business – regardless of size – based on minimum legislative frameworks and market requirements.

The relevance of compliance was highlighted recently by Katy Gallagher, director of 4C Associates, in an article published by the British Retail Consortium. It states that the much-delayed End Producer Responsibility (EPR) scheme that the UK government is considering, is a system whereby to encourage manufacturers

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to adopt more sustainable practices and materials, as they will bear financial responsibility for waste management.

"Fair trade practices are another aspect of sustainable procurement for consumer products companies to consider. Fair trade ensures workers are paid a reasonable wage and farmers are compensated fairly. It also promotes environmental sustainability and prohibits forced or child labour. Many companies seek fair trade certification to demonstrate their commitment to these principles. However, consumers must understand that unlike 'organic', 'fair trade' is not a protected term, meaning that standards can vary.

"Retailers play a crucial part in this consumer education – it is up to them to decide if they want to stock fair trade products, and to set location, promotion, and pricing strategies to encourage consumers to make these purchases.

"Companies may also choose to implement carbon offsetting practices to compensate for their carbon emissions by investing in projects that reduce or remove greenhouse gas emissions elsewhere. Although carbon offsetting is becoming increasingly popular, retailers should still encourage their suppliers to reduce emissions at source, wherever possible. In addition to carbon offsetting, many companies invest in renewable energy sources such as wind and solar power. These investments not only help to reduce overall carbon emissions but can also provide long-term cost savings and increased energy security. While these trends represent significant progress towards more sustainable procurement practices, there is still much work to be done, and companies need to continue innovating and pushing boundaries to reduce their environmental impact further," says Gallagher.

Specific challenges for SA are trends identified at some UK/EU retailers where the retailer develops its own standard as a competitive tool, or sometimes lobbies certification groups to augment such prerequisites.

Fruit SA highlights that the different standards set by retailers abroad remain a challenge. Therefore, Ratshitanga recommends that a three-member Fruit SA delegation goes (on an annual rotational basis) on a road show, focusing on priority issues with European retailers. Virtual meetings and engagements on other platforms, such as trade shows, must also be maximised.

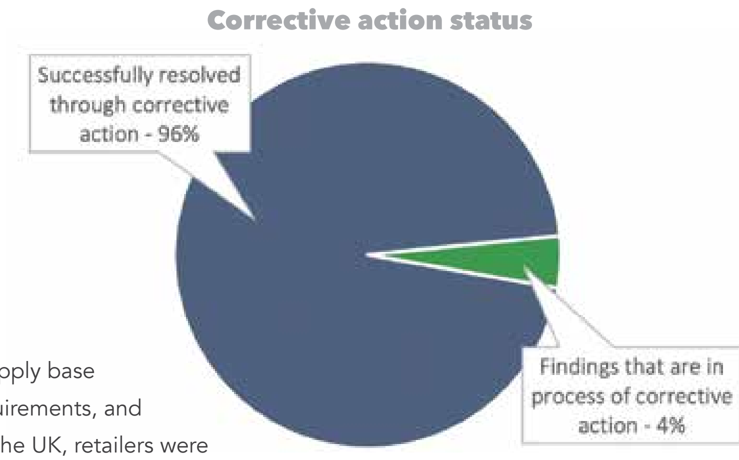
"In all meetings, Fruit SA indicated the purpose of the meeting was to engage in sustainability, reducing duplication and addressing the cost of compliance. Thus making the supply chain efficient. The delegation emphasised SA's commitment to sustainability and compliance with requirements, and requested that retailers consider the country's unique environment, engage with the supply base early in setting requirements, and recognise SIZA. In the UK, retailers were asked to engage with Linking Environment and Farming (LEAF) to ensure that LEAF fully recognises SIZA, in which considerable investments have been made in the past 15 years.

"Reference to the Fruit SA study on the cost of compliance was also made, and Fruit SA shared news about the privatisation of operations at Durban's Pier 2 container terminal and the Johannesburg/Durban railway line."

Ratshitanga says the road show was successful, as it provided valuable insights into the two markets and opened communication channels with the retailers and other stakeholders. In addition, Fruit SA articulated the South African fruit industry perspective on sustainability and how compliance should be approached to reduce growers' costs and improve supply chain efficiencies. A full recognition of SIZA, which was found to be highly reputable, was proposed as one of the mechanisms to achieve efficiency.

"Generally, retailers, particularly in the UK, were receptive to reducing waste and inefficiencies caused by the duplication of audits and welcomed regular communication with the SA fruit industry. In Germany, however, a move towards a common standard may not be realised soon as retailers use standards as a competitive tool.

"Some key messages which the industry needs to capitalise on are the importance of SA as a source of fruit in both the UK and Germany and the powerful position that this puts the industry in. SA's fruit industry must claim its space on the market and actively drive its agenda. However, to fully benefit from this, the ports and energy challenges SA faces need to be addressed," Ratshitanga stated.



Homegrown SIZA has been a vital programme and resource for producers. SIZA membership has increased by 578% since 2015. This tremendous feat over eight years speaks to the success of the programme, but also the acceptance of the programme amongst producers, markets, and the agricultural industry.

Third-party audits

Since 2015, a total of 4498 third-party audits have been conducted. Out of the total third-party audits conducted from 2015 until 2023, 46 023 findings (one audit can contain multiple findings) were raised during audits. Out of these total findings, a whopping 44 022 (96%) were corrected in full by the producer, resulting in corrective action. This is continuous improvement, notes SIZA.

More buy-in from local producers will ensure more effective lobbying abroad.

Although auditing is seen by some producers as an additional burden, deemed to be costly and time-consuming, many members have highlighted the benefits of subscribing to SIZA. And enlightened stakeholders point out that SIZA should extrapolate its tremendous IP strengths by showcasing its members' above-tier contributions, whether social upliftment or environmental achievements.

In 2018 SIZA launched its Best Practices online programme. It offers participating members the opportunity to showcase their areas of above-compliance performance, specifically where the community is engaged to create value and sustain practices beyond the SIZA Environmental audit process.

The Confronting Climate Change initiative that started in 2008 led to the introduction of the carbon calculator in 2011 – as an initiative of the fruit and wine industry. It's considered a groundbreaking ingenuity that deserves more recognition in compliance reports.

Industry experts state that the way forward also entails corroboration with FruitSA, who needs to set benchmarks for compliance audits and export agents, who should share in the compliance responsibility, and consultants who haphazardly change the rules of the day by moving the goalposts.

SCAN HERE TO read more about SIZA

Confronting Climate Change

HORTGRO
Growing Fruit IQ