CHAPTER 6
CONCLUSION

6.1 Introduction

The preceding chapters contain an overview of major aspects of the South African flower industry and those of the international market for flowers in order to create a better understanding of the competitive environment in which the South African flower industry operates.

A suitable competitor had to be identified so as to address the issue of the competitiveness of the South African flower industry. Australia was identified as such a competitor as it has comparable market conditions, a similar geographical isolation from major markets overseas, a similar stage of development and industry size. Australia was also selected because it is a rapidly growing market for South African flowers, competes for the same export markets and also has a similar wealth of biological diversity of flower species as South Africa has.

Three methodologies (Determinants of Competitiveness; Revealed Comparative Advantage and the Policy Analysis Matrix) were employed to provide insights into the issue of the competitiveness of these two countries' flower industries. These methodologies were identified as being useful for contributing, each from a different viewpoint, to an understanding of the competitiveness of the South African and Australian flower industries.

6.2 Research objectives

- To contextualise South Africa's position in the international environment.
- To assess the perceptions and marketing activities of flower growers.
- To identify producer problems and discuss possible ways of overcoming these problems.
- To establish the extent to which South Africa and Australia are able to compete in the international flower industry.
- To indicate the extent to which South Africa and Australia are able to compete with each other.

6.3 Reaching research objectives

In Chapters 2 and 3 South Africa's position in the international environment was contextualised by describing, in some detail, the characteristics of the South African flower industry and the international environment in which it operates. Chapter 2 contains a report on a case study of grower perceptions and marketing activities.

6.3.1 Problems experienced by South African flower growers

Low profits seem to be the main problem of the cut flower growers in South Africa. This problem is linked to the poor utilisation of factors of form, place and time utility. However, poor form, place and time utility are a result of suboptimal production and suboptimal commercialisation.

Suboptimal production in the South African flower industry is caused by factors including the following:

- Inefficient labour management
- Inappropriate disease and pest control
- Weak knowledge base
- Secrecy in the industry

Suboptimal commercialisation in the South African flower industry is caused by the following factors:

- Unfair international competition
- Inadequate market information
- Relatively high wage rates for labour
- Loss of quality during distribution

An awareness of the problems present in the industry enables strategies to be identified that could improve the competitiveness of the industry.

6.3.2 The South African flower industry vs. the world flower industry

In terms of international competitiveness, South Africa can be described as a mediocre[1] competitor in the world flower industry. An analysis of South Africa's main constraints or weaknesses regarding its competitive position in the world flower industry found that they include the lack of informational infrastructure, the weak structure and strategy of the industry, low research capacity and barriers to entry to its main export markets in the EU. These constraints or weaknesses have entailed that the South African flower industry is still a relatively small exporter of flowers and has a Revealed Comparative Disadvantage of 0,71.

However, South Africa also has numerous determinants that favour its competitive position in the world flower industry. These factors include its unique biological diversity and ability to produce and develop new wildflower species; relatively low wage rates; the availability of skilled people; suitable soils and climate; well developed physical infrastructure; and strong allied and supporting industries.

The balance of these factors that have a positive or negative influence on South Africa's competitive position in the world flower market, will have a distinct impact on profits at farm level. The final analysis viewed farm-level profits as a proxy for the competitive advantage and efficiency (comparative advantage) of the commodity system analysed. Typical rose and protea systems in South Africa showed the capacity to be competitive by realising private profits of R680 114,27 / ha and R23 587,29 / ha respectively. The analysis of these systems' efficiency showed that the rose system is being taxed and that its social profit of R1 104 326,22 / ha shows a high comparative advantage which indicates that the system could realise even higher profits if distortions such as taxes and tariffs were liberalised. The protea system has a comparative advantage and showed a social profit of R13 494,39 / ha. Its social profit is lower than its private profit, indicating that the system is subsidised.

The balance of factors, identified above, would not stimulate large-scale flower production and exports to make South Africa a strong competitive force in the world cut flower industry. However, typical South African producers of protea and rose crops can still produce, export and compete profitably on major world markets.

[1] Result from analysis see Chapter 5, Table 5.6

6.3.3 Australian flower industry vs. the world flower industry

Australia's position in the world flower industry is similar to that of South Africa. Australia is also known as a mediocre[1] competitor. Australia's main constraints or weaknesses regarding its competitive position in the world flower industry are a high wage rate, lack of informational infrastructure, weak structure and strategy of the industry, low research capacity, low domestic consumption, little domestic rivalry among growers and no protection for the industry. These constraints or weaknesses contribute to the fact that the Australian flower industry is still a relatively small exporter of flowers and has a Revealed Comparative Disadvantage of 0,18.

However, Australia also has numerous factors that favour its competitive position in the world flower industry. Like South Africa, Australia has factors such as a unique biological diversity and ability to produce and develop new wildflower species, the availability of skilled people, suitable soils and climate, well-developed physical infrastructure, and strong allied and supporting industries. These favourable factors give Australia a large Revealed Comparative Advantage as a producer of wildflowers (3,25) in general, and more specifically of waxflowers (9,74).

The above-mentioned factors have a positive or negative influence on Australia's competitive position in the world flower market and therefore have a strong impact on farm-level profits. The final analysis viewed farm-level profits as a proxy for the competitive advantage and efficiency (comparative advantage) of the commodity system analysed. The typical carnation, waxflower and protea systems in Australia showed the capacity to be competitive by realising private profits of A$140 325,72 / ha, A$21 765,02 / ha and A$40 526,63 / ha respectively. The analysis of these systems' efficiency showed that the carnation, waxflower and protea systems are being taxed and that their social profits of A$144 110,37 / ha, $22 285,78 / ha and A$41 047,39 / ha respectively have a high comparative advantage, indicating that the systems could realise even higher profits if distortions such as taxes were liberalised.

The balance of factors, identified above, would not stimulate large-scale flower production and exports to make Australia a strong competitive force in the world cut flower industry. However, typical Australian producers of waxflower and protea crops can produce, export

and compete profitably on major world markets. Even though the carnation system cannot export its produce competitively it can compete on the local market.

6.3.4 The South African flower industry vs. the Australian flower industry

This discussion indicates the extent to which South Africa and Australia are able to compete with each other in an environment where direct competition between these two countries is destined to intensify.

The factors that can be regarded as the main contributors to South Africa's competitive advantage when compared to Australia are lower labour cost, greater accessibility to land, a more favourable climate, larger growth potential in domestic consumption and greater government protection of the industry.

However, there are many determinants of competitiveness in which South Africa cannot compete with Australia. Factors that give the Australian flower industry a competitive advantage over the South African flower industry, include Australia's superior allied and supporting industries, the greater capacity of its structure and strategy, better developed physical and information infrastructure, the higher capacity of government research programmes and better access to major export markets.

The South African and Australian flower industries both have a Revealed Comparative Disadvantage with Australia's being the greatest (0,18). South Africa has a much smaller Revealed Comparative Disadvantage of 0,71 indicating that the factors mentioned above as South Africa's main determinants of competitive advantage, have stimulated South Africa's flower industry so that it has a better revealed comparative advantage than the Australian flower industry.

The analysis of the competitive advantage and efficiency (comparative advantage) of representative flower systems in South Africa and Australia proved once again that the South African flower systems analysed can produce and compete on local and international markets more competitively and more efficiently than the Australian flower systems analysed. The most competitive system is the South African protea system (PRC=0,16), followed by the South African rose system (PRC=0,17), the Australian protea system (PRC=0,33), the Australian waxflower system (PRC=0,51) and the Australian carnation system (PRC=0,75).

The most efficient system is the South African rose system (DRC=0,11) followed by the South African protea system (DRC=0,27), the Australian protea system (DRC=0,32), the Australian waxflower system (DRC=0,50) and the Australian carnation system (DRC=0,73).

The analysis of the effect of government interventions showed that the South African flower systems analysed are more affected by government than the Australian flower systems analysed. The South African flower systems analysed, have higher input prices which are mainly due to taxes and import tariffs on input items. Furthermore, as a result of the tariffs on exports to the EU, revenue is lower and this has a negative effect on competitiveness. The Australian flower systems analysed were affected negatively as regards input prices (taxes increase input prices by between 2% and 4%), but output prices were not affected by government intervention.

From this study it can therefore be concluded that the South African flower industry has a more competitive position than the Australian flower industry. The South African industry seems to have a comparative advantage in the production of flowers over Australia. There is also evidence that South Africa can produce its major flower crops more efficiently and competitively than Australia can produce its major flower crops. The following implications for the South African and Australian flower industries emanate from these conclusions.

6.4 Implications

The implications of the findings on the South African and Australian flower industries' ability to compete with the international flower industry:

- Both industries will generally not be attractive to international investors.
- The greatest competitive advantage of the South African and Australian flower industries is their biological diversity of indigenous flower species and the potential to produce new lines of cut flowers. This strategic advantage will have to be developed and expanded to become the mainstay of both industries' competitive position in the international flower industry.
- Both flower industries have not shown sufficient capacity yet and that is why it is difficult to mobilise major government investment and support.
- However, the wildflower industries of both countries show that they are more competitive than the larger traditional flower industries and already more government and private funds are being allocated to the development and promotion of these industries.
- The prospect of liberalisation of trade barriers to the EU will create new, economically viable export market opportunities for Australia, and increase the competitiveness of South African flower exporters.
- If the inability to compete and the inefficiency of the Australian carnation system is an indication of the competitiveness and efficiency of the Australian traditional flower sector, imports by more effective producers such as Zimbabwe and South Africa could gradually erode local markets in Australia.

The implications of the findings on the ability of the South African and Australian flower industries to compete with each other:

- It seems that South Africa can produce flowers more efficiently and competitively than Australia.
- Firms operating in the South African flower industry will be less sensitive to price decreases on international and local markets than firms operating in the Australian flower industry.
- South Africa is becoming one of the largest exporters of flowers to Australia, as South Africa can produce and export relatively large quantities of traditional flowers at low cost and obtain relatively high prices on Australian markets.

- The growth potential of the South African flower industry seems to be higher than that of the Australian flower industry.
- A South African firm should be able to accept a lower price offer than an Australian firm when competing for the same market share.
- The South Africa flower industry should be more attractive to private and government investment than the Australian flower industry.
- If EU markets become liberalised, direct competition will intensify between South Africa and Australia.