

SUMMARY OF METHODOLOGY APPLIED TO DETERMINE THE INSPECTION FEES TO BE CHARGED ON REGULATED FRUITS AND VEGETABLES INTENDED FOR SALE IN THE REPUBLIC OF SOUTH AFRICA

INTRODUCTION

The document titled *Determination of inspection fees on regulated fresh fruit and vegetables* provides detailed information on the methodology applied by Product Control for Agriculture (Prokon) to determine the inspection fee to be levied on regulated fresh fruits and vegetables produced in the Republic of South Africa, in order that the company can fulfil its mandate as official assignee of the Department of Agriculture, Land Reform and Rural Development. The document also forms the basis for Prokon's application for the approval and promulgation of the inspection fees in the government gazette in respect of the said produce.

The aforementioned application is the direct result of the judgement handed down by the Supreme Court of Appeal of South Africa on 14 July 2021. In terms of the judgment Prokon's inspection fees, as published in Government Gazette 40537 dated 6 January 2017 under section 3(1A)(B)(ii) of the Agricultural Products Standards Act, No. 119 of 1990, were set aside.

The following summary form the gist of the methodology.

1	<p>Quality assurance inspections on regulated local produced and imported fresh fruits and vegetables during the past three years identified the retail industry (distribution centres and retail outlets as well as independent packers) and fresh produce markets as the most cost effective inspection points in the supply chain to provide the best possible protection against non-compliant fresh produce reaching the consumers.</p>
2	<p>Experience based on quality assurance inspections conducted during the past 18 months has shown that two inspections per product per week would suffice to minimise non-compliant produce being sold. The suggested frequency of twice a week inspection has also been tested and accepted by the role players in the retail environment.</p> <p>The twice a week inspections per product will limit the cost of inspections.</p>
3	<p>The proposed personnel structure to render the required inspection service at the identified inspection point as per the methodology is based on the following personnel component:</p> <p>Chief Executive Officer – 1 Operations Manager – 1 Administrative and Financial Manager – 1 Administrative Officers – 5 Data Base Officers – 2 Senior Quality Inspectors – 6 Quality Inspectors (Grade 2) – 29 Junior Quality Inspectors – 10 Inspector Assistants – 32</p> <p>The inspection component (inspectors) represents the current requirement to render the inspection service at the identified inspection points. It includes the appointment of four additional inspectors during the coming year. These inspectors will be based in Johannesburg, Durban, Cape Town and Polokwane.</p> <p>The salaries and administrative fees are kept to a minimum due to a business- and infrastructure established over a period of 27 years and existing service contracts with stakeholders.</p> <p>The remuneration of management and the administrative personnel (Chief Executive Officer, Operations Manager, Administrative and Financial Manager, five Administrative Officers and two Database Officers) as well as the inspector assistants is based on actual salaries.</p>

	<p>In respect of the inspection component (inspectors), Prokon has been making use of the services of Blue Horizon (Pty) Ltd since 2013 for human resources consultation and benchmarking of remuneration packages.</p> <p>The remuneration package for the aforementioned personnel component is based on market remuneration benchmark and design conducted by Blue Horizon (Pty) Ltd in 2020. Remuneration data for the agricultural sector was acquired from one of the four remuneration and rewards survey service providers in South Africa, Price Waterhouse Coopers (PWC). The market surveys provide data at the lower, median and upper quartile which is projected to a specific date for implementation within the year the benchmark data becomes available and before the new benchmark is surveyed by PWC. These values are updated annually to provide CPI related remuneration values in order to provide defensible pay structures for that financial year.</p> <p>The Prokon Board of Directors decided to base the remuneration of inspectors on the lower quartile as set out in Annexure A of the Memorandum in respect of the determination of new inspection fees on regulated fresh fruits and vegetables.</p>				
4	<p>The total of expenses for both the retail environment and the fresh produce markets are set out in the blue and yellow columns in Annexure A of the Memorandum in respect of the determination of new inspection fees on regulated fresh fruits and vegetables and are divided into the following categories, i.e. general, administrative and overhead expenses.</p> <p>The yellow column represents a summary of the market expenses, including human resources and combined with the latter as indicated in Annexure A of the Memorandum in respect of the determination of new inspection fees on regulated fresh fruits and vegetables was used to determine the inspection fee.</p>				
5	<p>The total cost in rendering the inspection service on fresh produce markets, excluding retail, amounts to R 5 835 738.12. This also excludes potato and import inspections as it does not fall under Government Notice 40537 of 6 January 2017, and is made up as follows:</p> <ul style="list-style-type: none"> • Human resources – R 4 633 951.35 • General expenses – R 1 201 786.77 (inclusive of administrative and overhead expenses) 				
6	<p>The cost of inspections in respect of the other regulated fresh fruits and vegetables is based on an approximate 40 / 60 percentage ratio of the number of inspectors and time spent in respect of retail ((distribution centres and retail outlets as well as independent packers) and fresh produce markets. The cost of inspections at fresh produce markets amounts to R 5 835 738.12 and will be used in conjunction with the actual market volumes to calculated the proposed inspection fees.</p>				
7	<p>The proposal makes provision for two specified categories of products to be inspected as the two categories significantly differ from one another in respect of extent and complexity. After consultation with role players, it is recommended that the matter be simplified by dividing the products in two categories, i.e. (1) own regulation products inspections and (2) and shared regulation products inspections which are more complicated, time consuming and extensive. The two categories, what the inspections entail and the products it will apply to, are set out in the table below:</p> <table border="1" data-bbox="240 1800 1505 2069"> <thead> <tr> <th data-bbox="240 1800 743 1872">Shared regulation products inspections</th> <th data-bbox="743 1800 1505 1872">Products</th> </tr> </thead> <tbody> <tr> <td data-bbox="240 1872 743 2069"> <ul style="list-style-type: none"> • Confirming marking requirements • External quality • Sizing • Overall appearance </td> <td data-bbox="743 1872 1505 2069"> <p>Published under Government Notice 1 of 2017 in Government Gazette 40537 dated 6 January 2017 – Asparagus, Baby Marrow (Courgette), Aubergines / Eggplant, Cucumber, Ginger, Mushrooms, Artichokes, Broccoli, Brussel Sprouts, Butternut, Gem Squash, Carrots, Cauliflower, Celery, Chillies, Chinese</p> </td> </tr> </tbody> </table>	Shared regulation products inspections	Products	<ul style="list-style-type: none"> • Confirming marking requirements • External quality • Sizing • Overall appearance 	<p>Published under Government Notice 1 of 2017 in Government Gazette 40537 dated 6 January 2017 – Asparagus, Baby Marrow (Courgette), Aubergines / Eggplant, Cucumber, Ginger, Mushrooms, Artichokes, Broccoli, Brussel Sprouts, Butternut, Gem Squash, Carrots, Cauliflower, Celery, Chillies, Chinese</p>
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	<p>Cabbage, Endives, Fennel, Green Beans, Green Onions, Green Peas, Horse-Radish, Leeks, Lettuce, Okra, Parsley, Parsnips, Peppers / Capsicums, Pumpkins, Radish, Rhubarb, Scorzonera, Spinach, Sweetcorn, Turnips, Witloof Chicory, Beetroot, Cabbages, Sweet Potatoes and Unspecified vegetables</p> <p>Other Fruits: Published in Government Gazette 43613 dated 14 August 2020 – Black Berries, Blue Berries, Cactus Pear, Dragon fruit, Cranberries, Figs, Gooseberries, Granadilla, Guava, Jack fruit, Kiwi fruit, Mango, Melons, Papayas, Persimmons, Pomegranates, Quinces, Raspberries, Star Fruit, Strawberries, Watermelons .</p>
<p>Own regulation products inspections</p>	<p>Products</p>
<ul style="list-style-type: none"> • Confirming marking requirements. • External and internal quality • Sizing • Overall appearance • Sugar content • Ripeness and maturity testing on avocado • Dry matter testing on avocados, if necessary • Determining whether product is seeded or seedless • Deep cutting to determine if split stone is present on stone fruits • Determining sugar / starch ratio • Destructive testing as prescribed in more detailed categories 	<p>Published under Government Notice 1 of 2017 in Government Gazette 40537 dated 6 January 2017 and Government Gazette 43613 dated 14 August 2020 – Apples, Apricots, Avocados, Bananas, Citrus Fruit, Garlic, Grapes, Litchis, Peaches and Nectarines, Pears, Pineapples, Plums and Prunes, Onions and Shallots and Tomatoes.</p>
<p>8</p>	<p>The aspects that influenced the calculation of the inspection fees can be summarised as follows:</p> <ul style="list-style-type: none"> • It is imperative that the inspection fees are adequate to recover total expenses (human resources and general) in respect of the total number of inspection points and the manning thereof. • The calculation of the inspection fees is based on fresh produce market data as it is available in the public domain. Unfortunately retail sector data are confidential and could therefore not be included in the calculation. • The said data covered a period of twelve months and included the volume data of all the different regulated produce (excluding potatoes). • Based on these volumes it was determined that two inspections per product per week would suffice. • The number of inspections required per week (twice a week per product) were used to determine the fees. • The number of inspections that can be conducted per week were determined taking into account the identified limiting factors such as the availability of documentation (delivery notes, etc.), operating hours of markets (inspections start at 04:00 to 10:00), available human resources and the complexity of inspections. (See notes on pp. 18 - Annexure B.) • The refined volumes were used as determining factor in calculating the inspection fees.

- The table below reflects the best possible scenario to ensure that Prokon can operate on a fair and reasonable cost recovery basis in terms of rendering the inspection service.

With reference to the calculation of the inspection fees different were considered such as:

- Fee per kilogram.
- Fee per inspection.
- Fee per consignment.
- Fee per hour.

The latter three options were decided against because calculations have proven it to be costly and unfair.

9 The calculated fees per kilogram inspected for the two categories twice a week are based on a period of 13 months (converted to 12 months*), are:

Type of inspection	Volumes / kg	Twice per week inspections per product	Fee 1,5 c and 1,0 c (R)
Own regulation products inspections	815 248 206.81	283 564 593.67	4 253 468.91
Shared regulation products inspections	454 902 398.95	158 226 921. 37	1 582 269.21
Totals	1 270 150 605.76	441 791 515.05	5 835 738.12

For more options considered, refer to p. 12 of the **Memorandum in respect of the determination of new inspection fees on regulated fresh fruits and vegetables.**

The proposed inspection fees in respect of the two categories, which are regarded as fair and reasonable, and which will ensure the sustainability of Prokon as an inspection body, are:

- Own regulation products inspections – 1,5c per kilogram
- Shared regulation products Inspections – 1,0 c per kilogram