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Required Report - public distribution

Date: 10/23/2017

GAIN Report Number:

South Africa - Republic of

Poultry and Products Annual

South African Poultry Imports Forecast to Increase Due to Avian Influenza

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Report Highlights:

Currently, broiler production in South Africa is under pressure due to the outbreak of highly pathogenic avian influenza (H5N8). As a result, Post estimates that the broiler imports will increase by about four percent to 525,000 tons in 2017 and by another two percent to 535,000 tons in 2018. U.S. broiler exports also increased in 2017 and are expected to remain stable in 2018. On the other hand, South Africa's broiler meat exports are estimated to decrease by about 19 percent to 60,000 in 2017, a significant decline from the prior year. South African broiler production is expected to recover in 2018. The containment of bird flu combined with a decrease in feed prices is projected to suppress a higher growth rate in imports.

Executive Summary:

Post estimates that broiler slaughterings will increase marginally by about two percent in 2017 to 955 million broilers (1.26 million tons of meat, excluding offal) in South Africa. Currently, broiler production is under pressure due to the ongoing outbreak of H5N8. However, Post forecasts that broiler slaughterings will increase by about five percent, reaching 1,003 million broilers (1.32 million tons of broiler meat) in 2018, due to recovery from H5N8 and the continuation of low-priced animal feed. [In 2017, South Africa recovered from drought with a record high corn harvest of 17 million tons, which led to a decrease in the price of feed.]

Post forecasts that broiler meat imports will increase by about two percent in 2018 to about 535,000 tons, as the recovery of South African broiler production is projected to suppress a higher growth rate. Post estimates that South Africa's broiler meat exports will decrease significantly by about 19 percent to 60,000 tons in 2017 and remain at that level in 2018. This is due to South Africa's current inability to export poultry to certain countries as a result of the export ban imposed on South African poultry by many Southern African countries.

Commodities:

Poultry, Meat, Broiler

Production

The South African poultry meat industry is the country's largest individual agricultural industry boasting a gross value of about R37 billion (US\$2.8 billion) and contributing about 15 percent to the total gross value of agricultural products. Broiler production makes up most of the poultry industry. Although South Africa produces only about 1.5 percent of the world's broiler meat, the poultry industry is the major broiler producer in Southern Africa, accounting for close to 80 percent of total broiler production in the region.

Post has adjusted the number of broilers slaughtered in 2015 and 2016 as new data from the industry became available. Approximately, 965 million broilers were slaughtered (equal to 1.3 million tons of meat, excluding offal) in 2015. However, in 2016, the number of broilers slaughtered declined by three percent to 936 million broilers (1.2 million tons of broiler meat, excluding offal). This decrease is partly due to the drought, which led to an increase in feed costs (see Figure 1).

Currently, broiler production is under pressure due to the outbreak of highly pathogenic avian influenza (H5N8) in South Africa. As of September 28, 2017, the South African Department of Agriculture, Forestry and Fisheries (DAFF) confirmed 79 cases of avian influenza outbreaks, with 25 of those cases in commercial poultry operations. South Africa has since culled more than 3.2 million birds, mainly in the breeder stock and layer operations.

The South African poultry industry's current recovery from drought will be offset by the avian influenza outbreak. Due to the severe drought that hit the Southern Africa region in 2015 and 2016, the production of corn fell by almost 30 percent resulting in historically high animal feed prices. In 2017, South Africa recovered from drought with a record high corn harvest of 17 million tons, which led to a decrease in the price of feed (see [South Africa Corn Exports Accelerate in the Midst of a Record Crop](#)).

Given the above, Post estimates that broiler slaughterings will increase marginally by about two percent in 2017 to 955 million broilers (1.26 million tons of meat, excluding offal). Post forecasts that broiler slaughterings will increase by about five percent, reaching 1,003 million broilers (1.32 million tons of broiler meat) in 2018, due to the continuation of low-priced animal feed and recovery from avian influenza.

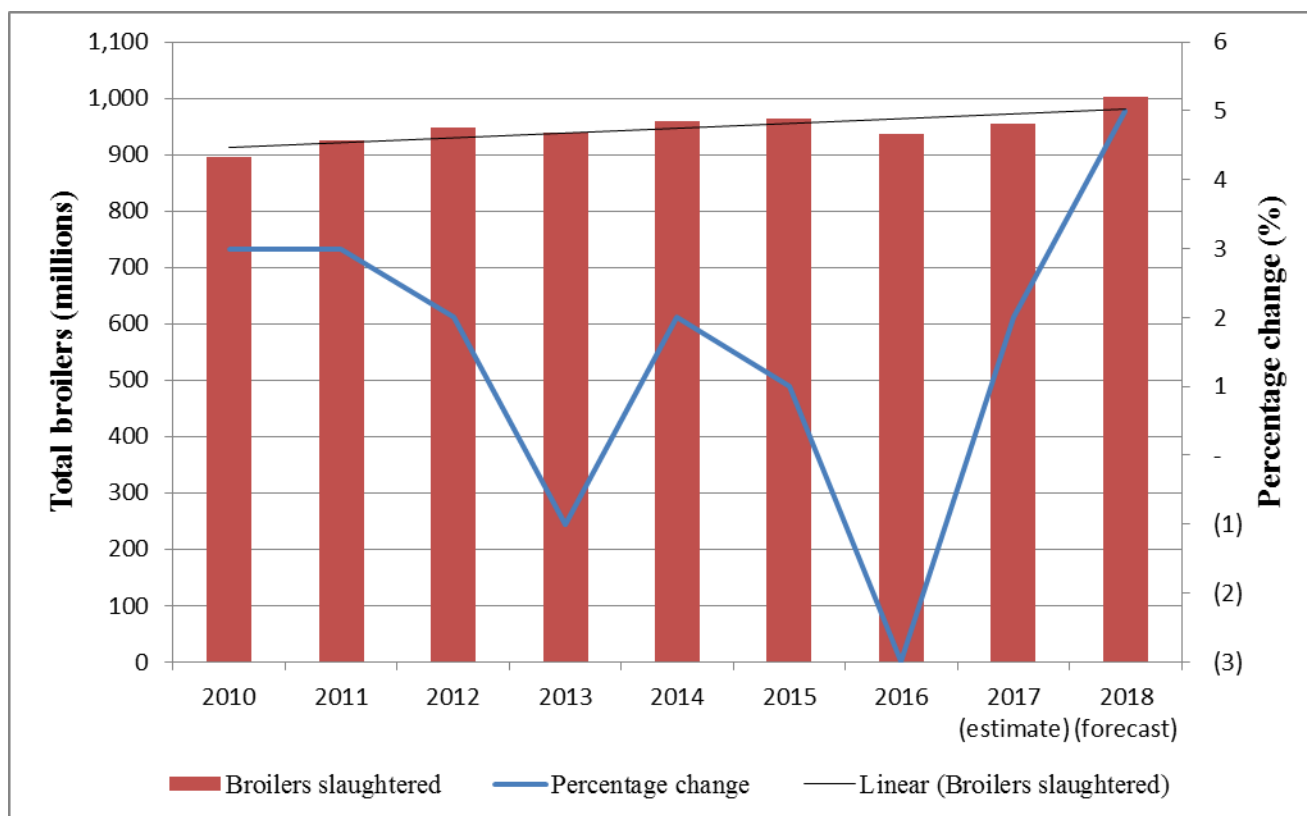


Figure 1: Total broilers slaughtered per annum in South Africa

Source: The South Africa Poultry Association (SAPA)

Feed cost: Feed cost is one of the major cost factors in the broiler industry and can contribute as much as 75 percent to the total cost of a broiler producer. The broiler industry suffered dramatic feed price increases in 2016, as the prices of corn increased significantly due to the drought. Corn is the major ingredient (more than 50 percent inclusion rate) in broiler feed and any change in the price of corn impacts directly on the profit margin of broiler producers. In mid-January 2016, both white corn and yellow corn prices traded at historically high levels of R5,280/ton (\$391) and R4,130/ton (\$306), respectively, when the rand depreciated to more than R16.50/US\$ and the severity of the drought started to be realized by role players in the South African grain value chain. However, in 2017, many parts of South Africa received good rains, and a historically high corn harvest of about 17 million tons is expected in the 2017/18 marketing year, which is about 108 percent higher than last season's harvest. Therefore, the price of feed is expected to decrease, resulting in an improvement in potential profitability of broiler production.

Consumption

South Africa consumes about 3.8 million tons of poultry, beef, lamb and pork meat per annum, with poultry meat consumption representing about 60 percent of total meat consumption. Although red meat consumption has also increased over the past decades, it has seen more moderate growth than white meat. In 2000, South Africans were eating 22kg of red meat per person. Sixteen years later, this amount had increased to 29kg, which represent an increase of 32 percent over the period (see also Table 1). On the other hand, the consumption of poultry

meat (of which most is broiler meat) increased by more than 80 percent, from 22 kg per person per year in 2000 to 40 kg per person per year in 2016. As poultry meat is relatively affordable and ubiquitous, it has grown to be the most important protein source in the diet of the majority of South Africans.

Table 1: Per capita consumption (kg) of meat in South Africa

Years	Beef	Poultry meat	Pork	Mutton/lamb
2000	15.6	21.5	3.0	3.8
2001	12.7	21.5	2.6	3.6
2002	13.5	21.7	2.8	3.3
2003	14.2	22.7	3.2	3.2
2004	14.5	25.8	3.8	3.3
2005	15.5	31.2	3.9	3.6
2006	17.6	35.5	4.1	3.8
2007	18.3	37.3	4.4	4.3
2008	16.0	37.9	4.1	3.9
2009	16.1	37.8	4.1	3.7
2010	17.8	38.4	4.4	3.5
2011	17.6	39.9	4.6	3.1
2012	16.7	39.4	4.6	3.0
2013	17.4	39.4	4.7	3.3
2014	18.5	38.6	4.5	3.6
2015	19.0	39.6	4.7	3.6
2016	20.9	40.0	4.8	3.6
2017*	21.3	41.2	5.0	3.7

Source: DAFF

*Estimate

The producers, retailers and the foodservice sector also responded to this increased demand for protein by supplying the market with competitively priced, value-added and convenient poultry products. Currently, retail sales account for more than 50 percent of total meat sales in South Africa, followed by wholesale (approximately 25 percent) and foodservices (approximately 15 percent), with the foodservice sector growing more quickly than retail and wholesale trade in recent years.

South Africa's economy is expected to grow by less than two percent in the next two years, as lower commodity prices, labor unrest, policy uncertainty, corruption and prospects of a weaker global economy will impact negatively on economic growth. As already mentioned, meat consumption in South Africa has expanded rapidly over the past decade and while continued growth in meat consumption is projected in the coming decade, slower economic growth will result in slower consumption growth relative to the past.

Affordability being an important consideration in a slower income growth environment, broiler meat consumption is expected to outpace that of the other meats (beef and lamb) over the next ten years, but at a slower rate. Given the above, post estimates an annual increase of about four percent in broiler meat consumption, excluding offal, reaching about 1.725 million tons in 2017

and about 1.795 million tons in 2018. In 2016, South Africa consumed about 1.665 million tons of broiler meat.

Trade

Imports: Broiler meat accounts for 95 percent of all poultry meat imports by South Africa, with the balance largely being turkey products (also see Figure 2). Post estimates that broiler meat imports will increase by about four percent in 2017 to 525,000 tons as South African broiler production is under pressure due to the outbreak of H5N8. Post forecasts that broiler meat imports will increase by about two percent in 2018 to 535,000 tons, as the recovery of the South African broiler production after the avian influenza outbreak and lower feed costs are projected to suppress a high growth rate of imports. In 2016, South Africa imported 504,310 tons of broiler meat, up 14 percent from 2015. These imports represent about 30 percent of South Africa’s local consumption of broiler meat.



Figure 2: The trend in poultry meat imports by South Africa
Source: Global Trade Atlas (GTA)

United States bone-in broiler meat exports to South Africa have been affected by an anti-dumping duty of R2.35/kg that was put in place in 2000. In 2012, the anti-dumping duty was extended for another 5 years to 2017 and was set at R9.40 per kilogram. However, in June 2015, representatives from the United States and South African government and poultry industries met in Paris and agreed in principle on a tariff rate quota of 65,000 tons of United States bone-in broiler meat to enter South Africa without the anti-dumping duty. This allowed South Africa to continue to have duty-free access under African Growth and Opportunity Act (AGOA) to the United States market for a wide range of South African products for the next decade. In January 2016, negotiations of the final health certificates were concluded and the first shipment of United States bone-in broiler meat landed in South Africa in March in 2016. As a result, in

2016, the United States exported almost 25,000 tons of broiler meat to South Africa. As of August 31, 2017, the United States has exported 55,000 tons of broiler meat to South Africa at a value of about US\$44 million.

On April 10, 2017, the International Trade Administration Commission of South Africa announced the initiation of a sunset review of the anti-dumping duties on frozen bone-in chicken from the United States. This follows an application for anti-dumping duty review against United States imports by the South African Poultry Association. This sunset review will determine whether the anti-dumping duty against United States bone-in chicken exports to South Africa, above the 65,000 tons anti-dumping duty free quota will continue (see also [Sunset review on anti-dumping duties](#)). ITAC is still conducting its investigations.

In 2016, the European Union (EU) was the leading exporter to South Africa in terms of broiler meat, with about 50 percent market share of the import market (see also Figure 3 and Figure 4). In 2016, the major EU countries that exported broiler meat to South Africa were the Netherlands, the United Kingdom (UK) and Spain. Brazil was the second largest exporter of broiler meat into South Africa with almost 40 percent market share of the import market in 2016. The United States was the third largest exporter of broiler meat into South Africa with about five percent market share.

South Africa has since banned poultry imports from certain EU countries due to the ongoing outbreaks of H5N8 in the EU. This has led to an almost 60 percent decline in the quantity of EU broiler meat exports to South Africa when comparing the first six months of 2016 and 2017. That market share has been mainly taken up by Brazil and the United States (see also Figure 4).

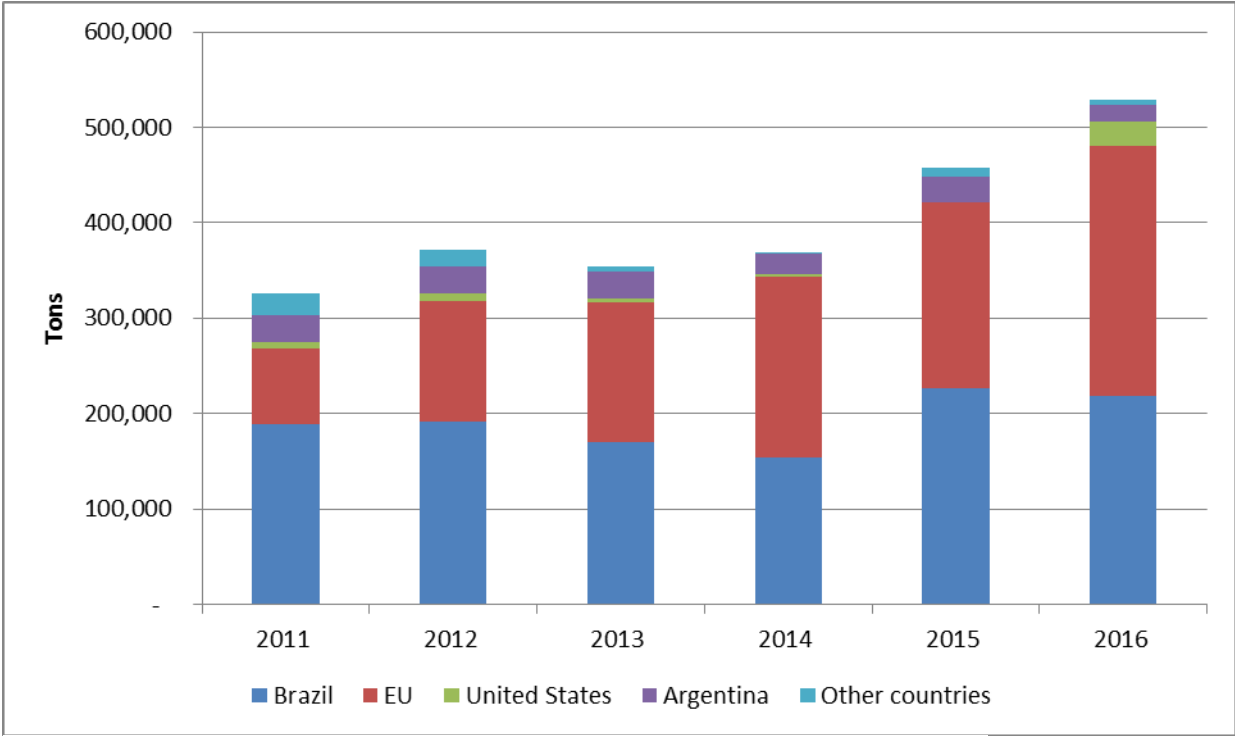


Figure 3: The origin of broiler meat imports into South Africa over time
Source: GTA

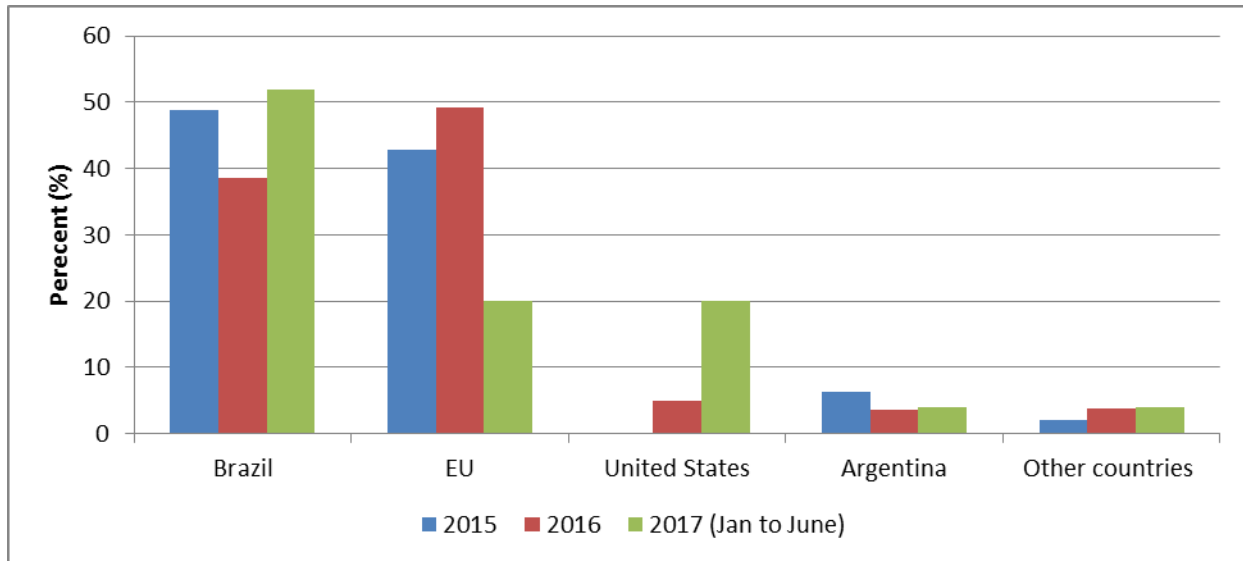


Figure 4: Origin of broiler meat imports into South Africa for the past three years

Source: GTA

Figure 5 illustrates the percentage contribution of specific broiler meat products imported by South Africa since 2015. In 2017, Post estimates that broiler bone-in portions will represent the largest category of broiler meat imports at about 47 percent or about 246,750 tons. The share of broiler bone-in portions as percentage of total broiler meat imports has shown an upward trend since 2015. One reason for the increase is the expanded market access the U.S. gained in the 65,000 tons tariff rate quota for bone-in broiler meat.

The second largest category in volume is mechanically deboned meat with an estimated share of 36 percent or about 189,000 tons in 2017. Broiler bone-in portions and mechanically deboned meat represent almost 85 percent of total broiler meat imports by South Africa and are followed by offal (nine percent), whole chicken (five percent) and boneless cuts (two percent).

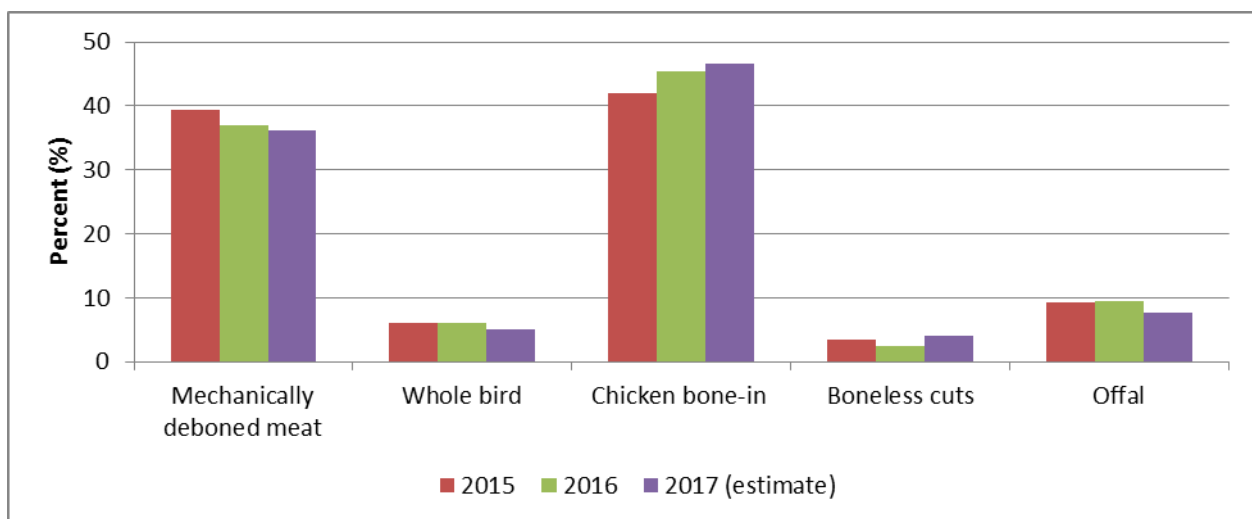


Figure 5: South Africa's poultry meat import market (quantity)

Source: GTA

Table 2 (below) represents South Africa’s current import tariff structure for broiler meat products. For most products, the European Union, due to the Economic Partnership Agreement (EPA) with South Africa, could import broiler meat tariff free into South Africa. However, other countries face import tariffs that range from 12 to 82 percent. For this reason, in February 2016, SAPA applied for the imposition of safeguard measures on frozen broiler bone-in portions under Article 16 of the Trade, Development and Cooperation Agreement (TDCA) between the European Community (and its member states) and South Africa. In December 2016, the South African Department of Trade and Industry (DTI) imposed a provisional 13.9 percent safeguard duty on imports of EU chicken into South Africa. The safeguard duty expired on July 3, 2017. The DTI has yet to make an announcement about whether the import duty will be extended or not.

Table 2: South Africa’s import tariffs for specific broiler meat

Tariff Heading	Product description	Rate of duty			
		General	EU	EFTA*	SADC**
02.07	Meat of poultry				
0207.12.10	Mechanically deboned meat	Free	Free	Free	Free
0207.12.20	Carcasses (excluding necks and offal) with all cuts removed, frozen	31%	Free	31%	Free
0207.12.90	Frozen whole birds	82%	Free	82%	Free
0207.14.10	Boneless cuts	12%	Free	12%	Free
0207.14.20	Offal	30%	Free	30%	Free
0207.14.90	Bone-in portions	37% (Anti-dumping duty for the United States of R9.40/kg outside of the quota of 65,000 tons)	Free (Anti-dumping duties for Germany, the Netherlands and the United Kingdom ranging from 3.86% to 73.33%)	37%	Free

Source: *The South African Revenue Services (SARS)*

*EFTA - European Free Trade Association

** SADC – Southern Africa Development Community

Exports:

Poultry Export Ban

On June 22, 2017, the World Organization for Animal Health (OIE) published a [notification](#) of an outbreak of highly pathogenic avian influenza in a breeder flock in South Africa, which killed 5,000 chickens. This led Southern African countries, including Botswana, Malawi, Mozambique, Namibia, Zambia, and Zimbabwe to suspend poultry and poultry product imports from South Africa (see [Southern African countries suspend poultry imports from South Africa](#)). The Southern African countries that suspended poultry and poultry product imports from South Africa accounted for about 71 percent of the South African poultry meat exports in 2016 (see Table 3). More recently, on July 24, 2017, the Namibian Ministry of Agriculture, Water and

Forestry (MwAF) announced a relaxation of the import suspension of poultry and poultry products from South Africa. This relaxation applies only to poultry and poultry products originating from certain “compartments” approved by DAFF to be free of bird flu (see [Namibia relaxes ban of poultry imports from South Africa](#)).

Against this background, Post estimates that South Africa’s broiler meat exports will decrease significantly by about 19 percent to 60,000 tons in 2017. This is due to South Africa’s current inability to export poultry to certain countries as a result of the export ban imposed by certain Southern African countries. Post forecasts that South Africa’s broiler meat exports will remain flat (60,000 tons) in 2018 as it could take South Africa some time to get closed markets back.

Table 3: South African broiler meat exports

Country	Unit	2014	2015	2016	2017*
Mozambique	T	16,334	19,128	17,562	9,608
Namibia	T	11,861	14,862	16,338	8,262
Lesotho	T	21,701	17,672	14,831	10,220
Zambia	T	2,860	4,162	7,764	2,354
Zimbabwe	T	6,585	7,497	7,580	3,008
Botswana	T	2,870	3,794	3,703	1,954
Swaziland	T	1,110	1,299	1,561	934
Congo Dem. Rep.	T	471	688	1,367	1,474
Angola	T	166	332	1,111	494
Other countries	T	2,577	1,541	2,443	1,780
World	T	66,535	70,975	74,260	40,088

Source: GTA

*January 2017 to Aug 2017

Table 4: PS&D table for broiler meat

Poultry, Meat, Broiler Market Begin Year	2016		2017		2018	
	Jan 2016		Jan 2017		Jan 2018	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
South Africa						
Inventory (Reference)	0	0	0	0	0	0
Slaughter (Reference)	0	0	0	0	0	0
Beginning Stocks	0	0	0	0	0	0
Production	1235	1235	1260	1260	1320	1320
Total Imports	504	504	500	525	510	535
Total Supply	1739	1739	1760	1785	1830	1855
Total Exports	74	74	65	60	65	60
Human Consumption	1665	1665	1695	1725	1765	1795
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1665	1665	1695	1725	1765	1795
Total Use	1739	1739	1760	1785	1830	1855
Ending Stocks	0	0	0	0	0	0
Total Distribution	1739	1739	1760	1785	1830	1855

(MIL HEAD) ,(1000 MT)

Note: Not official USDA data

