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Global Agricultural Information Network

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Poultry and Products Annual

This report focuses on the supply and demand for broiler meat in South Africa

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Report Highlights:

Post forecasts that South Africa's broiler meat imports will increase by eight percent in 2017 to 560,000 tons, driven mainly by increased demand and market excess of United States broiler bone-in meat. Currently, broiler production in South Africa is under pressure due to drought-related high feed prices. A severe drought hit the Southern Africa region in the 2015/16 summer season. As a result, post estimates that broiler meat imports will increase by almost 20 percent in 2016 to 520,000 tons. In 2015, South Africa imported 436,000 tons of broiler meat, up 18 percent from 2014, due to an eight percent increase in consumption. Affordability is an important consideration in a slower economy growth environment, hence the increase in broiler meat consumption in South Africa.

Executive Summary

The South African poultry meat industry, with a gross value of almost R40 billion is the country's largest individual agricultural industry and is contributing almost 17 percent to the total gross value of agricultural products. However, broiler production is currently under pressure in South Africa because of the drought-related high feed prices. The local broiler industry is also struggling to push the higher feed prices through to the consumer as the South African economy is under pressure, diminishing the industry's profit margins and competitiveness. As a result, post estimate only a marginal increase in broiler slaughtering in 2016 to 1,020 million broilers (equal to 1.3 million tons of meat, excluding offal), but an almost 20 percent increase in imports to 520,000 tons, representing about 30 percent of South Africa's local consumption of broiler meat.

Given a return to normal weather conditions in the 2016/17 summer season and an associated decline in corn prices, as well as, an estimated six percent growth in demand to 1.9 million tons (excluding offal), post forecasts a five percent increase in broiler production in 2017 to 1.4 million tons of meat or 1,070 million broilers slaughtered. Post forecasts that imports of broiler meat will increase by eight percent in 2017 to 560,000 tons, driven by the increased demand and market excess of United States broiler bone-in meat.

Broiler production grew by almost five percent in 2015 to 1,005 million broilers slaughtered (equal to 1.3 million tons of meat, excluding offal). Affordability being an important consideration in a slower economic growth environment, broiler meat consumption increased by eight percent in 2015 to 1.7 million tons. To augment local production, South Africa imported 436,000 tons of broiler meat in 2015, up 18 percent from 2014.

US\$1 = Rand 13.50 (08/23/2016)

Production

The South African poultry meat industry, with a gross value of almost R40 billion (US\$3 billion), is the country's largest individual agricultural industry and is contributing almost 17 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, it is the major broiler producer in Southern Africa, accounting for almost 80 percent of total broiler production in the region.

South Africa's broiler production increased by almost 60 percent since the start of the new millennium, driven mainly by increased demand in line with steady economic growth and increased average income. The growth in broilers slaughtered the past ten years are indicated in Figure 1. In 2008, broiler production in South Africa grew by almost seven percent, driven mainly by an increase in demand and relatively low feed prices. However, in 2009, high commodity prices, which resulted in high feed prices, followed by the worldwide economic recession and a slowdown in consumer demand, dampened broiler production and the growth rate dropped to less than one percent. The South African economy recovered in 2010 and domestic demand for poultry products increased again. As a result, the production of broiler meat grew by an average of almost three percent per year between 2010 and 2012.

However, in 2013, broiler production dropped by one percent as the drought in the United States induced high local corn and soybean prices, coupled with stagnant producer prices for broiler meat negatively affected the industry's profit margins. The business environment for broiler production improved in 2014 and 2015, with a higher producer price to feed cost ratio improving the profitability of the sector. As a result, broiler production grew by almost five percent in 2015 to 1,005 million broilers slaughtered (equal to 1.3 million tons of meat, excluding offal).

Currently, broiler production in South Africa is under pressure because of high feed prices. Due to the severe drought that hit the Southern Africa region in the 2015/16 summer season, the production of corn fell by almost 30 percent resulting in historical high corn prices. The broiler industry is also struggling to push the higher feed prices through to the consumer as the South African economy is under pressure, with less than one percent economic growth predicted for 2016. As a result, post estimate only a marginal increase in broiler slaughtering in 2016 to 1,020 million broilers (equal to 1.3 million tons of meat, excluding offal).

Given a return to normal weather conditions in the 2016/17 summer season and an associated decline in corn prices, as well as the new brining regulations and an estimated six percent growth in demand, post forecasts a five percent increase in broiler production in 2017 to 1.4 million tons of meat or 1,070 million broilers slaughtered.

On April 22, 2016, the Government of South Africa published new brining regulations for poultry meat. According to the regulations the amount of salt solution that can be added to whole birds is limited to 10 percent and for individual portion it is limited to 15 percent. This new limits is much lower than the industry norm of more than 30 percent brining. As a result, the South Africa Poultry Association (SAPA) started legal action against the new regulations. However, these amendments regarding brining will come into effect in October 2016 i.e. six months after the publication date. With the new brining regulations, the broiler industry will have to increase production to compensate for the lower brining percentages.

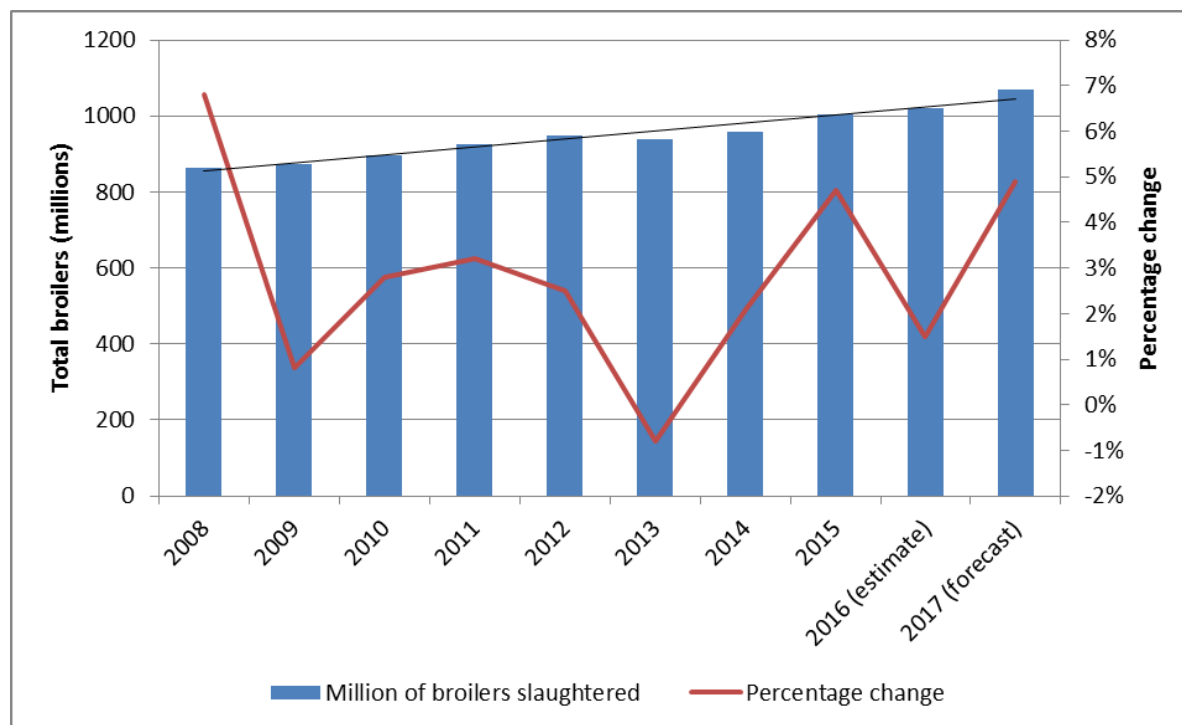


Figure 1: Total broilers slaughtered per annum in South Africa

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. Both white corn and yellow corn prices traded at historical high levels of R5,280/ton (\$391) and R4,130/ton (\$306), respectively, in mid-January 2016, 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. At that stage, white corn and yellow corn prices were trading, respectively, 36 percent and 17 percent higher than a year ago.

South Africa needs to import about 3.5 million tons of corn and as a result, local corn prices are expected to trade at these relatively high levels, most probably until next years' harvest season.

Consumption

Over the past two decades, steady economic growth and increased average income in South Africa pushed more people to the middle income class. Currently, the middle class represent about 70 percent of the South African population and 55 percent of total income earnings. With the growth in disposable income, more South Africans are choosing protein-filled diets. For example, in 1995, the average person ate a total of 40kg of meat a year; while 20 years later the average South African is eating 67kg of meat a year – an increase of almost 70 percent over the period. In 2015, the South African consumer spent approximately R186 billion (US\$14 billion) on meat products, which represented 35 percent of total expenditure on food. Twenty years ago South Africans spent R24 billion (US\$2 billion) on meat products, representing only about a quarter of total expenditure on food.

South Africa consumes about 3.6 million tons of poultry, beef, lamb and pork meat per annum, with poultry meat consumption representing more than 60 percent of total meat consumption. Although red meat consumption has also increased the past decades, it has seen more moderate growth than that of white meat. In 2000, South Africans were eating 22kg of red meat per person. Fifteen years later, this amount had increased to 27kg, which represent an increase of 21 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 almost 40 kg per person per year in 2015. As poultry meat is relatively inexpensive 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

Source: Department of Agriculture, Forestry and Fisheries

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 convenience 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 quicker than retail and wholesale trade in recent years.

In Table 2, the trends in the retail prices of different meat sources in South Africa are shown. From the table it is clear that chicken is the cheapest source (in terms of R/kg) of meat in South Africa, with the price changes over time relatively at the same level as with the other meats.

Table 2: The trends in the retail prices of different meat sources in South Africa

	Jul-2013	Jul-2014	Jul-2015	Jun-2016	Change 2015 - 2016	Change 2013 - 2016
	R/kg	R/kg	R/kg	R/kg	Percentage	Percentage
Pork chops	57.45	62.50	69.25	70.85	2.3	23.3

Lamb	96.88	100.00	109.30	120.86	10.6	24.8
Beef T-bone	77.46	80.76	81.15	88.96	9.6	14.8
Beef mince	60.36	63.97	65.36	69.50	6.3	15.1
Whole chicken (fresh)	34.55	37.97	39.96	42.17	5.5	22.0
Chicken portions (fresh)	44.42	47.00	51.12	54.84	7.3	23.5
Chicken portions (frozen)	25.07	27.22	29.29	28.82	-1.6	15.0

Source: The National Agricultural Marketing Council (NAMC)

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. South Africa's economy is expected to grow by less than two percent in the next three years, as lower commodity prices, labor unrest, corruption and prospects of a weaker global economy will impact negatively on economic growth.

Affordability being an important consideration in a slower income growth environment, broiler meat consumption is expected to outpace that of the other meats over the next ten years but at a slower rate.

According to the Bureau for Food and Agricultural Policy (BFAP), broiler meat consumption in South Africa is projected to increase by 29 percent over the next decade, compared to 60 percent through the past 10 years. This equates to about 500,000 tons of additional broiler meat consumption by 2025.

Given the above, post estimates a six percent increase in broiler meat consumption, excluding offal, in 2016 to 1.8 million tons, following the eight percent increase in consumption in 2015. In 2017, post forecasts also a six percent increase in broiler meat consumption to 1.9 million tons.

Trade

Imports: In value terms, South Africa's poultry meat imports represent only about two percent of world trade in poultry meat and approximately five percent in quantity. 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 almost 20 percent in 2016 to 520,000 tons, mainly driven by a six percent increase in demand, while only a marginal increase in local broiler slaughtering is predicted due to drought related high feed cost. In 2015, South Africa imported 436,000 tons of broiler meat, up 18 percent from 2014. These imports represent almost 30 percent of South Africa's local consumption of broiler meat. Post forecast that imports will increase by eight percent in 2017 to 560,000, driven by increased demand and market excess of United States broiler bone-in meat.

United States bone-in broiler meat exports to South Africa have been affected by an anti-dumping duty that was put in place in 2000. In 2012, the anti-dumping duty was extended for another 5 years 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 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 meant that South Africa will 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. So far in 2016, the United States already exported about 14,000 tons of bone-in broiler meat to South Africa at a value of almost US\$ 9 million.

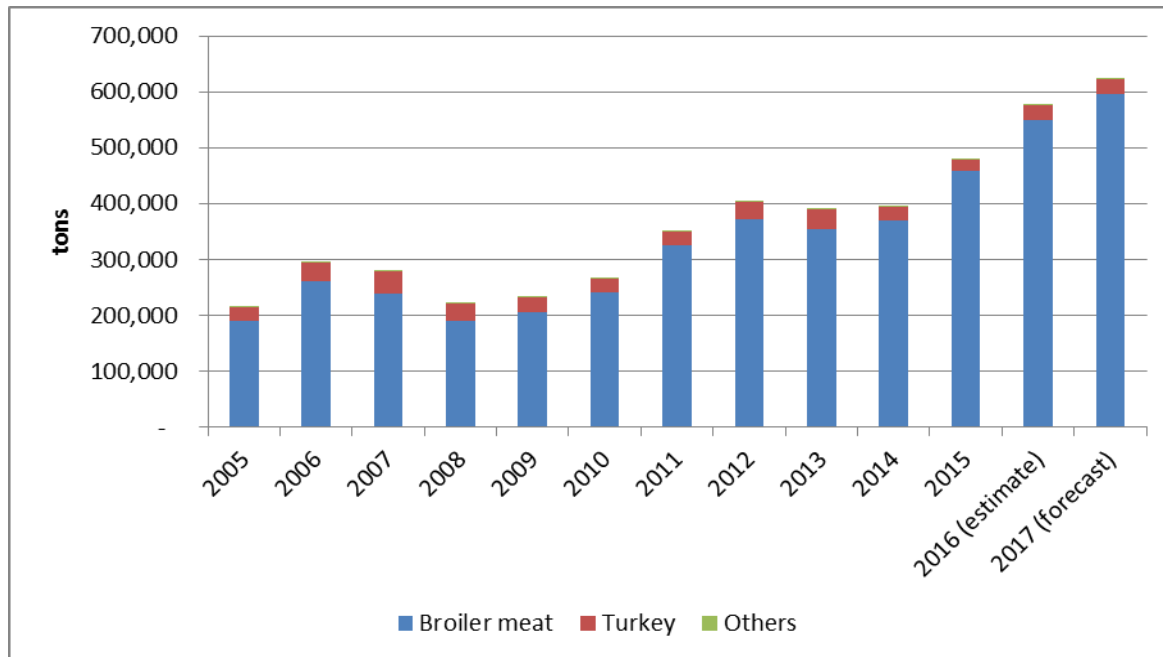


Figure 2: The trend in poultry meat imports by South Africa

Source: Global Trade Atlas (GTA)

Brazil is the most important trading partner for South Africa in terms of broiler meat, with an almost 50 percent market share of the import market in 2015 (see also Figure 3 and Figure 4). However, more than 70 percent of Brazil’s broiler meat export basket to South Africa consists of mechanically deboned meat. The Netherlands is the second largest exporter of broiler meat into South Africa with an almost 20 percent market share of the import market, growing from zero percent market shares in 2010. The Netherland mainly exports frozen bone-in portions to South Africa and has the biggest (more than 25 percent) market share in this category of poultry meat imports. The United Kingdom is the third largest exporter of poultry meat into South Africa with an almost ten percent market share and is followed by the Spain (seven percent) and the United States (seven percent). The five largest importing countries supply almost 85 percent of South Africa’s imported broiler meat.

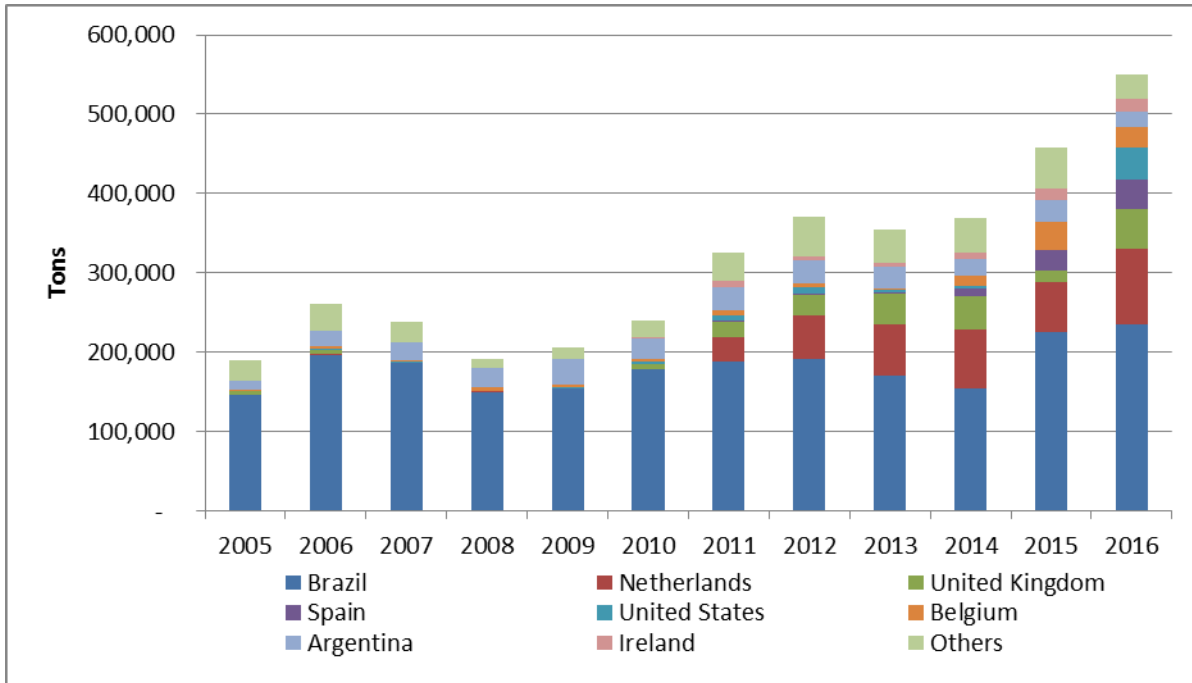


Figure 3: The origin of poultry meat imports into South Africa over time

Source: GTA

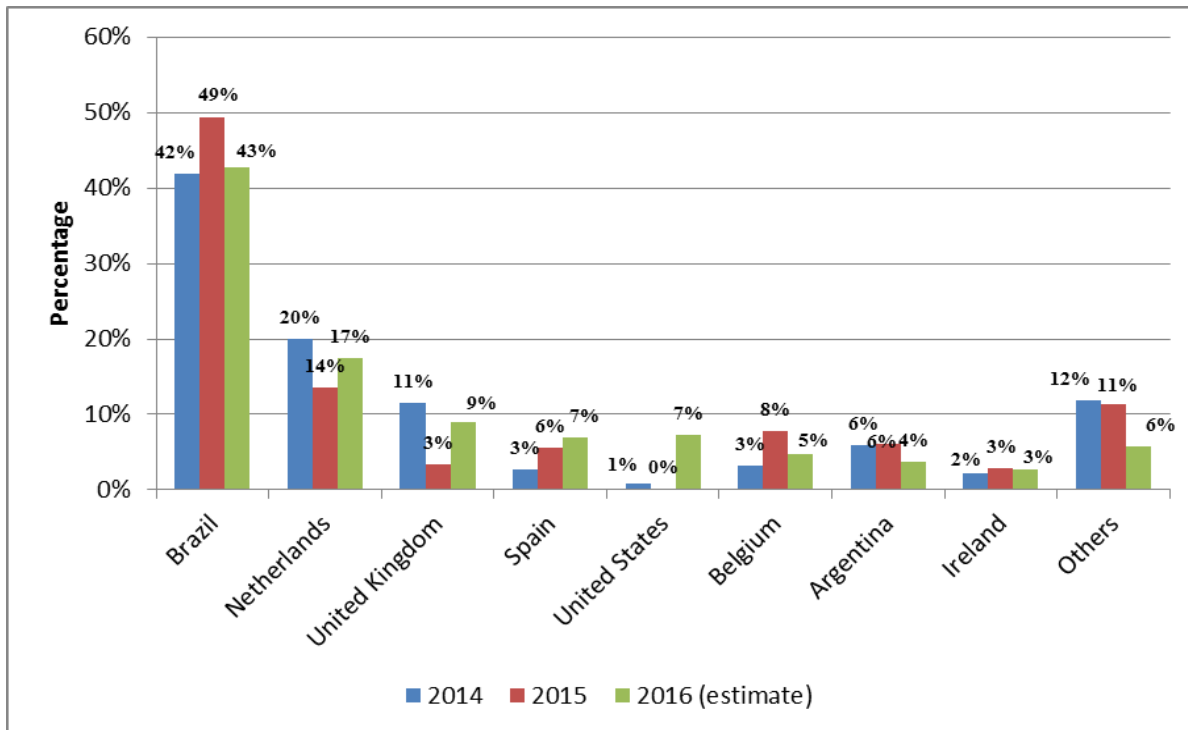
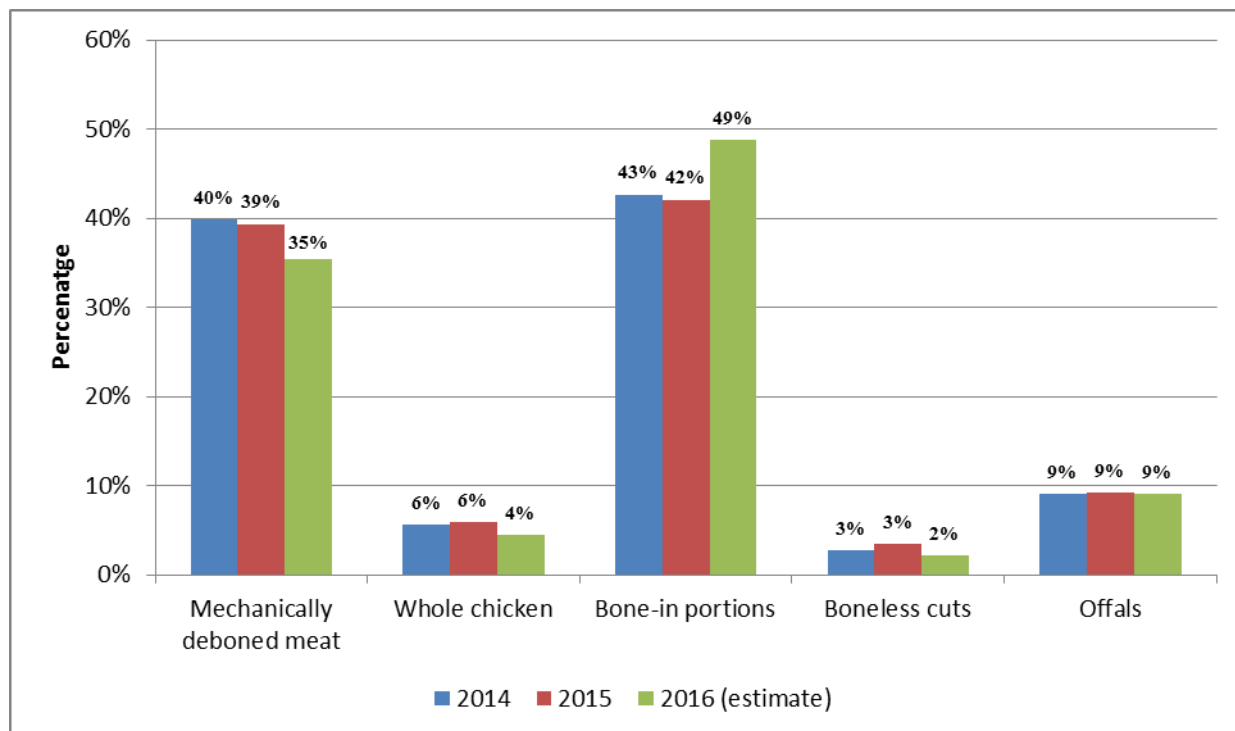


Figure 4: Origin of poultry meat imports into South Africa the past three years

Source: GTA

Figure 5 illustrates the percentage contribution of specific broiler meat products imported by South Africa since 2014. In 2016, post estimate that broiler bone-in portions will represent the largest category of broiler meat imports at almost 50 percent or 270 thousand tons. The share of broiler bone-in portions as percentage of total broiler meat imports increased significantly since 2014, when it was 43 percent. One reason for this is the United States’ new 65,000 tons tariff rate quota market access for bone-in broiler meat.

The second largest category in volume is mechanically deboned meat with a share of 35 percent or about 195,000 tons in 2016 (estimate). The share of mechanically deboned meat chicken as percentage of total poultry meat imports decreased since 2014, when it was 40 percent. However, in tonnage terms, South Africa imported almost 50,000 tons more mechanically deboned meat in 2016. Broiler bone-in portions and mechanically deboned meat represent almost 85 percent of total broiler meat imports in quantity by South Africa and are followed by offal (nine percent), whole chicken (four percent) and boneless cuts (two percent).



Figure

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

Source: GTA

In Table 4, South Africa’s current import tariff structure for broiler meat products are indicated. For most products, the European Union, due to the Free Trade Agreement with South Africa, can import broiler meat tariff free into South Africa, while other countries faces import tariffs that range from 12 percent to 82 percent. For this reason, SAPA applied in February 2016, for the imposition of safeguard measures in terms of Article 16 of the Trade, Development and Cooperation Agreement (TDCA) between the European Community and its member states and South Africa on frozen broiler bone-in portions. The International Trade Administration Commission of South Africa (Itac) is still investigating the application and no safeguard measures have yet been published.

Table 4: South Africa’s import tariffs for specific broiler meat products

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)

Exports: Post estimates that South Africa will export a total of about 70,000 tons of broiler meat in 2016, which is on the same level as the 71,000 tons exported in 2015. South Africa's neighbors i.e. Mozambique, Namibia, Lesotho etc. are the major customers for these broiler meat exports. Exports represent about five percent of broiler meat production in South Africa. Post forecasts that the same scenario will prevail in 2017, with South Africa exporting approximately 70,000 tons of poultry meat.

Table 5: PS&D table for broiler meat

Poultry, Meat, Broiler Market Begin Year South Africa	2015		2016		2017	
	Jan 2015		Jan 2016		Jan 2017	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post

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	1295	1325	1310	1345	0	1410
Total Imports	436	436	470	520	0	560
Total Supply	1731	1761	1780	1865	0	1970
Total Exports	71	71	60	70	0	70
Human Consumption	1660	1690	1720	1795	0	1900
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1660	1690	1720	1795	0	1900
Total Use	1731	1761	1780	1865	0	1970
Ending Stocks	0	0	0	0	0	0
Total Distribution	1731	1761	1780	1865	0	1970

(MIL HEAD) ,(1000 MT)

Note: Not official USDA data