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Prospects for U.S. Exports of Craft Beer Ingredients to South Africa

Report Categories:
Beverages
Promotion Opportunities

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Report Highlights:
The craft beer market in South Africa is very small in comparison to the United States. However, the growing popularity of craft beer in South Africa, may present opportunities for U.S. exporters of brewing ingredients; hops, brewer's yeast, and malted barley (malt). U.S. exports of beer ingredients to South Africa grew by 27 percent to US$5.1 million in 2018, from US$3.7 million in 2017, based on the increase in craft beer production, demand for high quality ingredients, and price competitiveness of some U.S. exports. South Africa imported a total of US$52.3 million worth of beer ingredients in 2018, with malt being the leading import accounting for 83 percent of the total imports, followed by hops (11 percent) and yeast (6 percent).

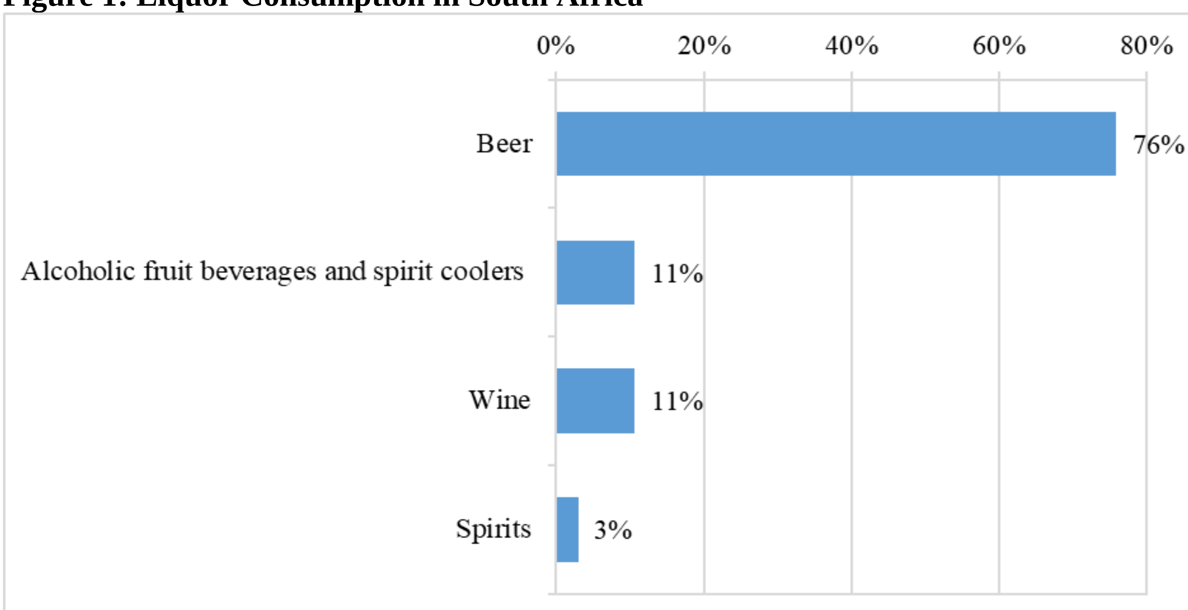
Sources:
Beer Companies - SAB, Anheuser-Busch InBev, Heineken South Africa
Craft Breweries Association of South Africa - http://cbasa.org/
Craft Bru Tours - https://craftbru.com/
Global Trade Atlas (GTA)
South African Revenue Authority - http://www.sars.gov.za/
South Africa Wine Industry Statistics - https://www.wosa.co.za/The-Industry/Statistics/Sawis-Annual-Statistics/

MT – Metric Tons
1US$ = R14

Background

The craft beer market in South Africa is very small in comparison to the United States. In 2018, South Africa produced about 27 million liters of craft beer, while the United States craft beer production was 4 billion liters. However, the strong domestic demand for mainstream beer, and the growing popularity of craft beer in South Africa, may present opportunities for U.S. exporters of brewing ingredients (hops, yeast, and malted barley (malt)). Beer is the most widely consumed alcoholic beverage in South Africa accounting for 76 percent (3.2 billion liters) of the total alcohol consumption as shown in **Figure 1**. While the mainstream beer market and demand is stable, the substantial growth in the consumption and production of craft beer is of main interest. This is because the production of beer hops, malt and brewer's yeast suitable for craft beer production is currently insufficient to meet domestic demand in South Africa, and price considerations of some ingredients such as malt is important to importers. As a result, the growing craft beer market may present opportunities for U.S. exporters.

Figure 1: Liquor Consumption in South Africa



Source: https://www.wosa.co.za/The-Industry/Statistics/Sawis-Annual-Statistics/

U.S. exports of beer ingredients to South Africa grew by 27 percent to US$5.1 million in 2018, from US$3.7 million in 2017, based on the increase in craft beer production and demand for high quality ingredients. While U.S. exports accounted for only 2 percent of the total South African beer ingredient imports by quantity, the U.S. market share is much higher at 10 percent by value. U.S. exports to South Africa, especially hops and yeast, are high value and quality beer ingredients. Malt was the leading imported ingredient by South Africa in 2018 at US$43.6 million (83 percent of total imports), followed by hops (11 percent) and yeast (6 percent). Malt imports are largely driven by price competitiveness.

Table 1: South African Imports of Beer Ingredients and the U.S. Market Share

	S.A Total Imports		**U.S. Exports to S.A**		**U.S. Market Share**	
	Total Imports (MT)	**Total Imports (US$)**	**U.S. Exports (MT)**	**U.S. Exports (US$)**	**Quantity**	**Value**
Hops	336	5,839,397	134	3,369,815	40%	58%
Yeast	362	2,871,361	47	753,805	13%	26%
Malt	93,308	43,622,976	1,489	939,508	2%	2%
Total	**94,006**	**52,333,734**	**1,670**	**5,063,128**	**2%**	**10%**

Source: Global Trade Atlas (GTA)

South African Beer Market

The South African mainstream beer market is oligopolistic, as it is dominated by two companies. South African Breweries (SAB) commands 87 percent of the total beer market in South Africa, followed by Heineken South Africa with a 12 percent market share as shown in **Table 2**. Craft breweries only account for 0.7 percent of the total beer market. SAB is owned by the multi-national company Anheuser-Busch InBev, while Heineken South Africa is a joint venture between Heineken N.V and Namibia Breweries. **Table 2** also shows the beer brands owned by the respective beer companies.

Table 2: South African Beer Companies

Company	**Production (million liters)**	**Market share (%)**	**Beer Brands**
SAB	3,200	87.03%	Carling Black Label, Castle, Hansa, Castle Milk Stout, Castle Lite, Corona, Stella Artois, Becks Blue and various craft beers.
Heineken South Africa	450	12.24%	Heineken, Amstel, Windhoek, Soweto Gold (Craft), Miller Genuine Draft, Guinness, Kilkenny and Tafel Lager.

Craft Breweries	27	0.7 3%	Over 220 brands. The list of some craft breweries can be obtained from the following website, https://craftbru.com/breweries/south-africa/
Total	**3,677**	**100 .0 %**	

Source: SAB, Anheuser-Busch InBev, Heineken South Africa and Centre for Competition Regulation and Economic Development

While the craft beer market share is still relatively small accounting for 0.7 percent (27 million liters) of the total South African beer market in 2018, it has doubled from 0.4 percent (15 million liters) in 2014. The number of craft breweries have also increased substantially from 86 producers in 2014 to over 220 producers in 2018. The value of the South African craft beer market is estimated at R1.4 billion (US$100 million) in 2018, and is forecast to grow at more than 3 percent per year between 2019 and 2024 (Download the South African Craft Beer Market Analysis). The growth in demand and popularity of craft beer in South Africa is also evidenced by the acquisition and ownership of some high performing craft beer brands (Soweto Gold, and Newlands Spring) by the mainstream beer companies.

The South African craft beer industry also faces several challenges. Craft beer is a premium product and is too expensive for most people in South Africa. This is compounded by the current economic pressures faced by most consumers in South Africa, especially the middle class who are the target market for craft beer. Craft beer also faces stiff competition from mainstream beers, which are usually over 50 percent cheaper. While the craft beer market has grown, there are media reports that many craft breweries have closed down due to the challenges of running a financially sustainable craft brewery in South Africa. Some media reports have also indicated that mainstream beer companies may be engaging in uncompetitive practices, as they control the majority of the domestic ingredients used in beer production, and also have an influence on retail and bar shelf spaces, making it difficult for craft breweries to penetrate the market. Finally, the South African craft beer industry only established an industry association in 2014, to increase market share of craft beer, support craft breweries and lobby government for policies, regulations and taxes that are favorable to the growth of craft beer in South Africa. All these challenges and developments seem to suggest that the industry is still in its infancy stages. Post forecasts that the future success or continued growth in market share of the South African craft beer industry is highly dependent on South Africa's economic growth; increasing size and purchasing power of the middle class; effective marketing of craft beer; craft beer`s adaptability to competition from the mainstream beer companies; strategy and effectiveness of the South Africa Craft Beer Association; and government`s support.

The following sections provide a detailed analysis of the production and trade opportunities of the various beer ingredients in South Africa.

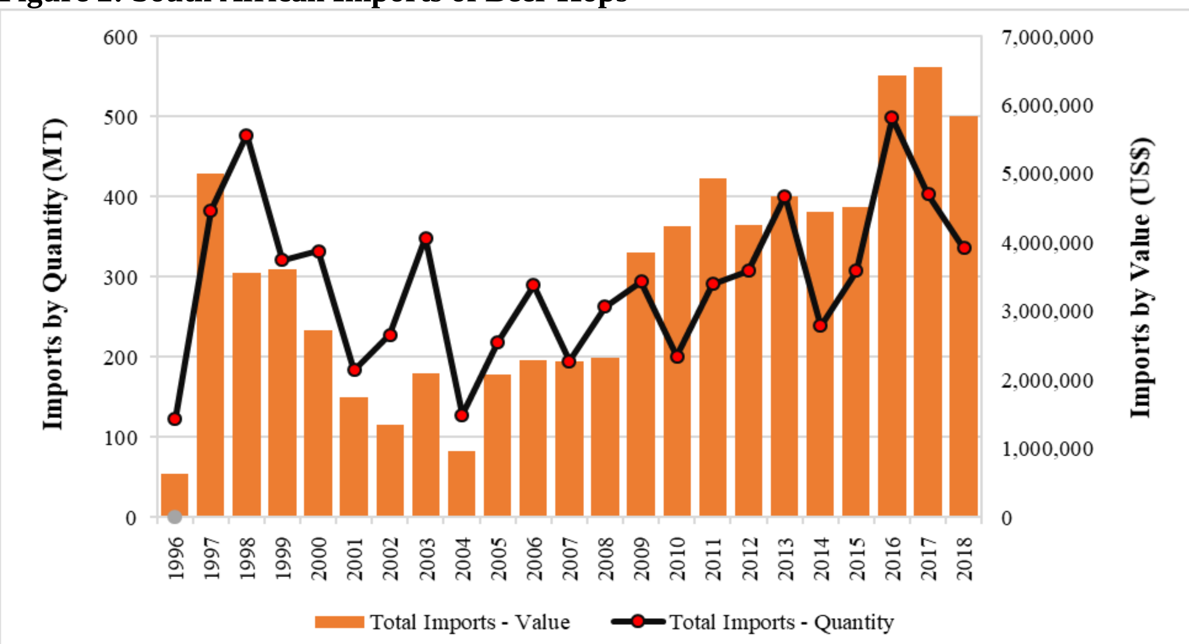
Trade in Beer Ingredients:

Hops - (HS Codes 121010, 121020, 130213)

Hops in South Africa are only grown in George, in the Western Cape Province. All the hop varieties (Southern Brewer, Southern Star, Southern Promise, Southern Dawn, Southern Aroma, Southern Passion, and J17 - our African Queen) grown commercially in South Africa have been bred in George for warm winters and shorter days in summer, as international varieties are not adapted to the South African climate and 34° latitude. The optimum growing conditions for hops are; latitude of 45° north and south of the equator; freezing temperatures, and 15 hours of sunlight. As a result, South African hops constitute just under 1 percent of global production due largely to the tough growing conditions. South Africa only produces about 850 Metric Tons (MT) of hops, with about 450 hectares of area planted. About 40 to 50 percent of the total water requirement for hop production in South Africa is from rainfall, and the rest is supplied by drip irrigation. SAB controls hop production through its ownership of 35 percent of the hop farms in South Africa and contracts the remaining 65 percent of the farms.

South African hop production costs are at least 15 percent higher than average global production costs including the United States. In addition, the current production levels and quality are not sufficient to satisfy the local demand for hops, especially for craft breweries. Due to SAB having control of hop production in South Africa, the hops grown locally are suited for lager production and not craft beers. As a result, South Africa is a net importer of beer hops based on insufficient production and the limited variety of hop flavor profiles demanded by craft breweries. Notably, some craft breweries are now owned by the mainstream beer companies. **Figure 2** shows that the import of beer hops has grown significantly, from 123 MT in 1996, to 336 MT in 2018, driven by growth in craft beer consumption and production. The fluctuations in beer hop imports is driven by global supply availability and local production.

Figure 2: South African Imports of Beer Hops

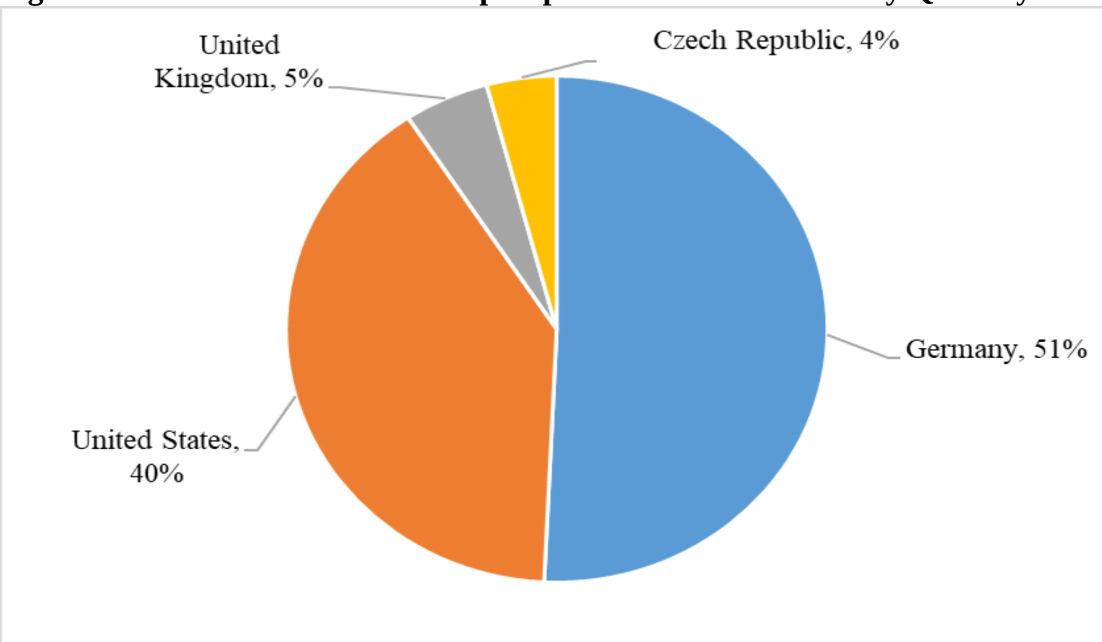


Source: Global Trade Atlas (GTA)

Germany is the leading exporter of hops by quantity, accounting for 51 percent of the total South African imports, followed by the United States (40 percent) and United Kingdom (5 percent) as shown in **Figure 3**. However, the United States is the leading exporter of beer hops to South Africa by value, accounting for 58 percent of the total South African beer hops imports, followed by Germany (32 percent), and United Kingdom (7 percent). This is an indication that U.S. beer hop exports to South

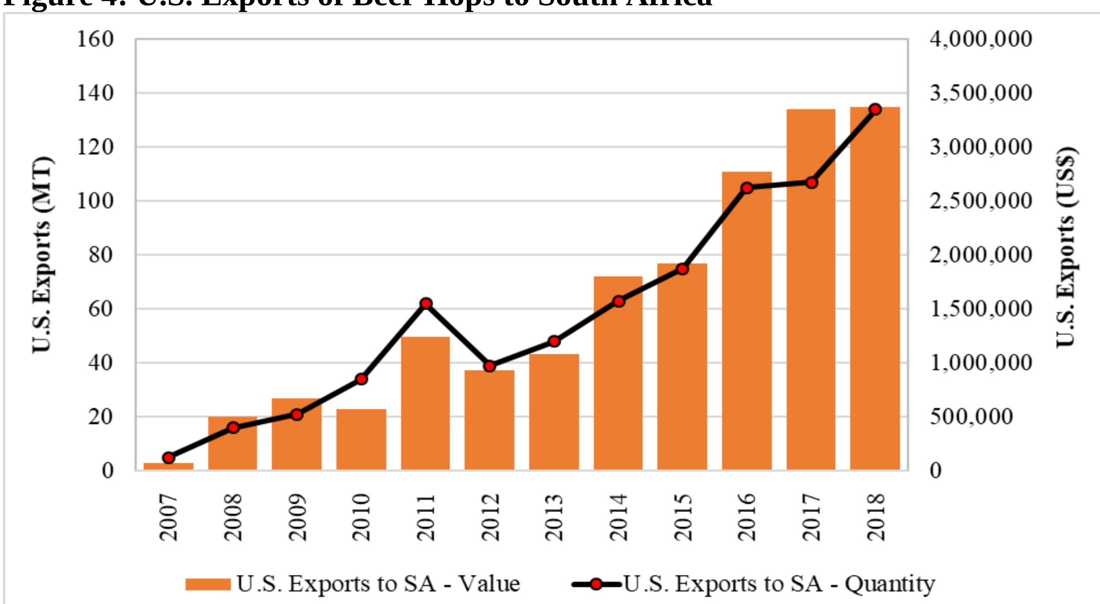
Africa are of premium quality and targeted to the craft beer market. **Figure 4** also shows that U.S. beer hop exports to South Africa have substantially grown from 14 MT in 1997, to 134 MT in 2018, driven by the growth in demand from craft breweries. Post expects the growth of U.S. hop exports to continue in 2019, at the back of increases in the volume of craft beer consumption and production in South Africa, inconsistent supply of South African beer hops to local craft breweries, and future marketing activities to support U.S. beer hops.

Figure 3: Market Share of Beer Hop Exporters to South Africa by Quantity



Source: GTA

Figure 4: U.S. Exports of Beer Hops to South Africa



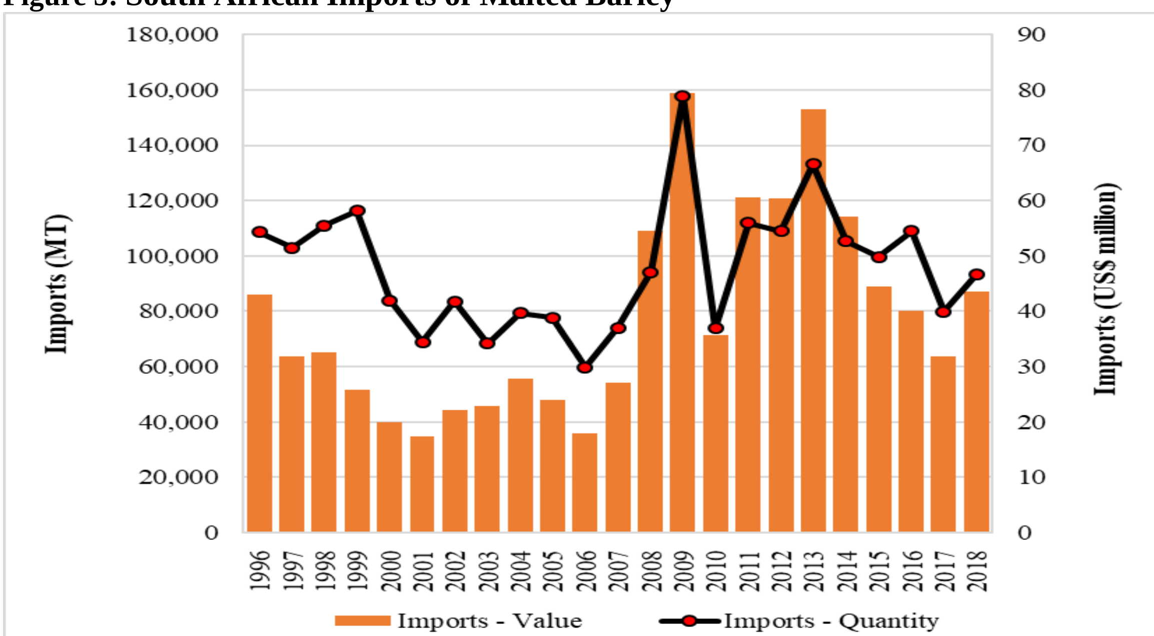
Source: GTA

Malted Barley - (HS Codes 11071020, 11072020)

The Western Cape Province is the leading area for malted barley production, and accounted for 89 percent of the total South African production, followed by the Northern Cape (6 percent), North West (3 percent) and Limpopo Province (2 percent) in 2018. The Western Cape is a winter rainfall area, which makes it the only suitable area for dry-land production of barley and other winter cereals. Most of the malted barley produced in South Africa is procured by SAB through contract farming from approximately 800 – 900 farmers with an area planted of 119,000 hectares. Barley production has been increasing by an average of 7 percent per year from 192,000 MT in 2008, to 391,000 MT in 2018, based on the increase in area planted. The main varieties of malted barley grown in South Africa are Erica, Nemesia, SSG 564, SSG 585, S5, S6, and S9.

While South Africa`s barley production is increasing, it is still slightly below the national demand. Hence, there are always imports from Europe (Belgium, France, Germany, Poland and United Kingdom), United States, Canada and sometimes Australia. Imports are to satisfy the deficit in the market, the quality requirements of some breweries, and the price competitiveness of imported barley. The peak imports in 2009 and 2013 are due to the drought which resulted in low production in South Africa. Barley imports range from 60,000 MT to 120,000 MT, dependent on domestic supply. The European Union (EU) was the leading exporter of barley to South Africa, accounting for 95 percent of the total South African imports in 2018, followed by Canada (4 percent) and the United States (2 percent). While **Figure 5** shows the overall decline in barley imports since 2013, there is still a market for imported malt of barley in South Africa. Most craft breweries use imported malt due to its price competitiveness, inconsistent local supply, quality reasons, innovation and because the domestic malt of barley is better suited for mainstream beer.

Figure 5: South African Imports of Malted Barley



Source: GTA.

United States exports of malted barley to South Africa have also been impacted by the growing domestic production. U.S. exports have fallen from 23,987 MT (US$ 9.4 million) in 1996, to 1,489 MT (US$0.9

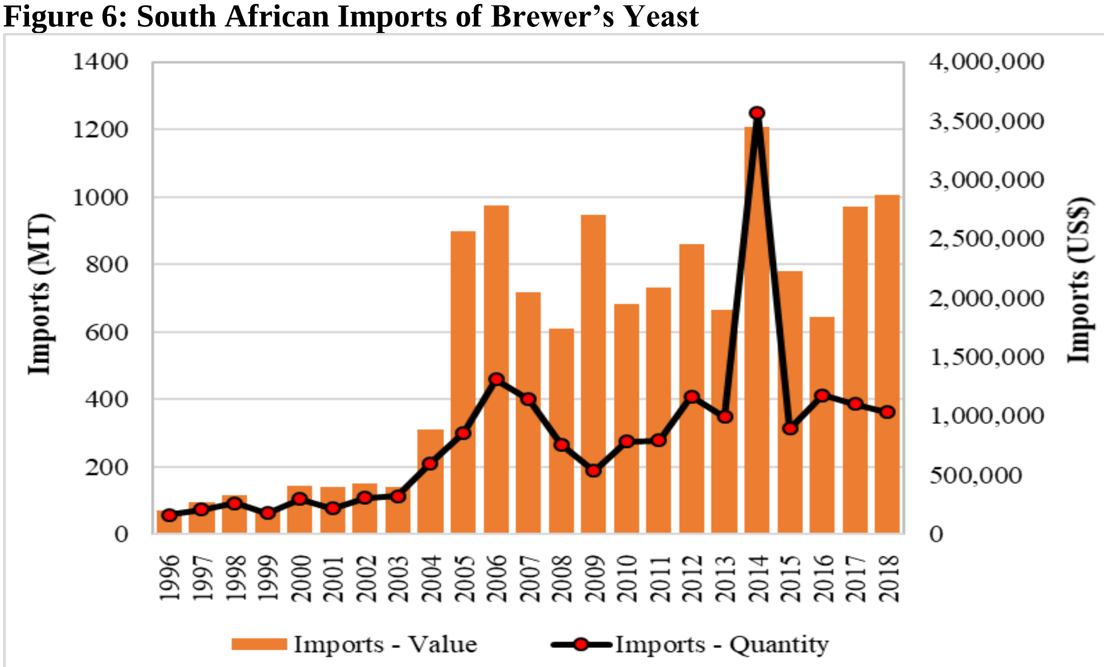
million) in 2018. Current U.S exports of malted barley are exclusively to craft breweries, and an increase in this sector may see a rebound of U.S. barley exports to South Africa. Future growth in U.S. exports of malted barley to South Africa is also dependent on the price competitiveness of U.S. exports against European malted barley exports.

Brewer's Yeast - (HS Code 210220)

Yeast is a vital ingredient in craft beer production, and many famous brewers do not disclose the type of yeast they utilize. South Africa is generally a net importer of brewer's yeast. While imports of brewer's yeast fluctuate every second or third year as shown in **Figure 6**, the long term trend shows that imports of brewer's yeast have been growing due to the demand for high quality yeasts and lack of consistency in the domestic production. South African imports of yeast has grown from 57 MT in 1996, to 362 MT in 2018. Post expects this growth to continue, based on the demand from craft breweries who are particular about the quality of yeast they use. China is the leading exporter of yeast to South Africa, accounting for 31 percent of the total South African imports in 2018. Other exporters include the United States (13 percent), Switzerland (12 percent), France (10 percent), Estonia (9 percent), Poland (6 percent), Germany (5 percent), United Kingdom (4 percent), Netherlands (4 percent) and Belgium (2 percent), as shown in **Figure 7**.

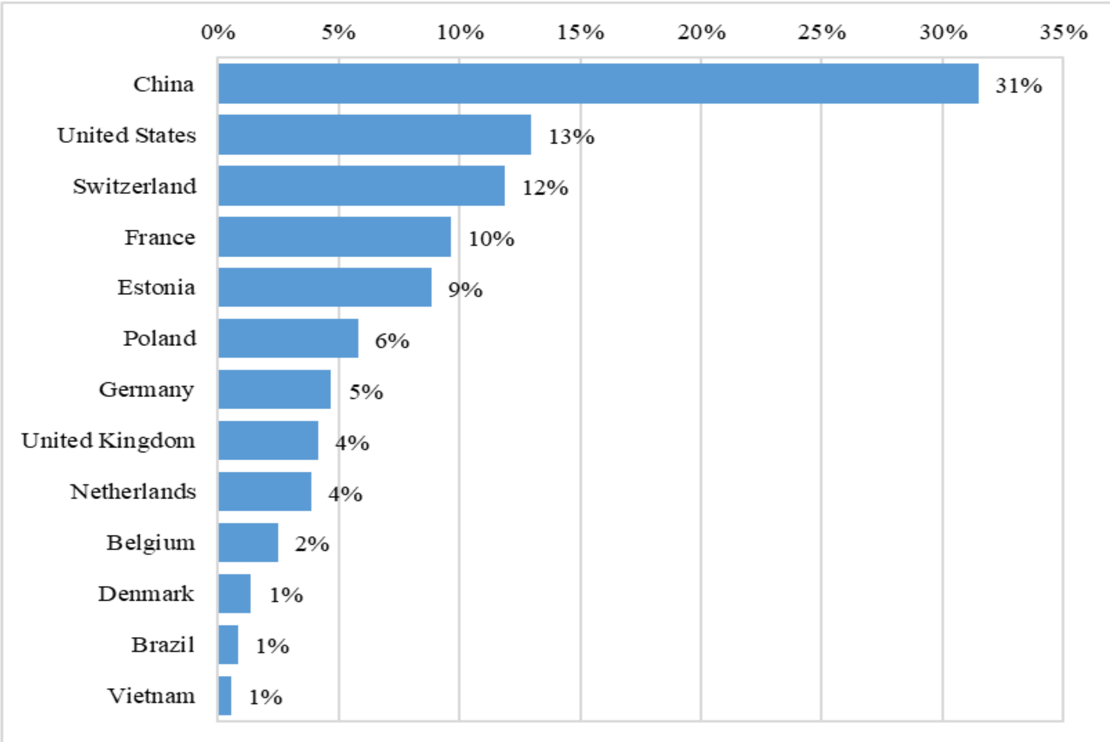
In the past three years, U.S. yeast exports have increased annually from 20 MT in 2016, to 47 MT in 2018, despite being subjected to a 15 percent customs duty. EU exports to South Africa are duty free due to the Free Trade Agreement with the South African Customs Union.

Figure 6: South African Imports of Brewer's Yeast



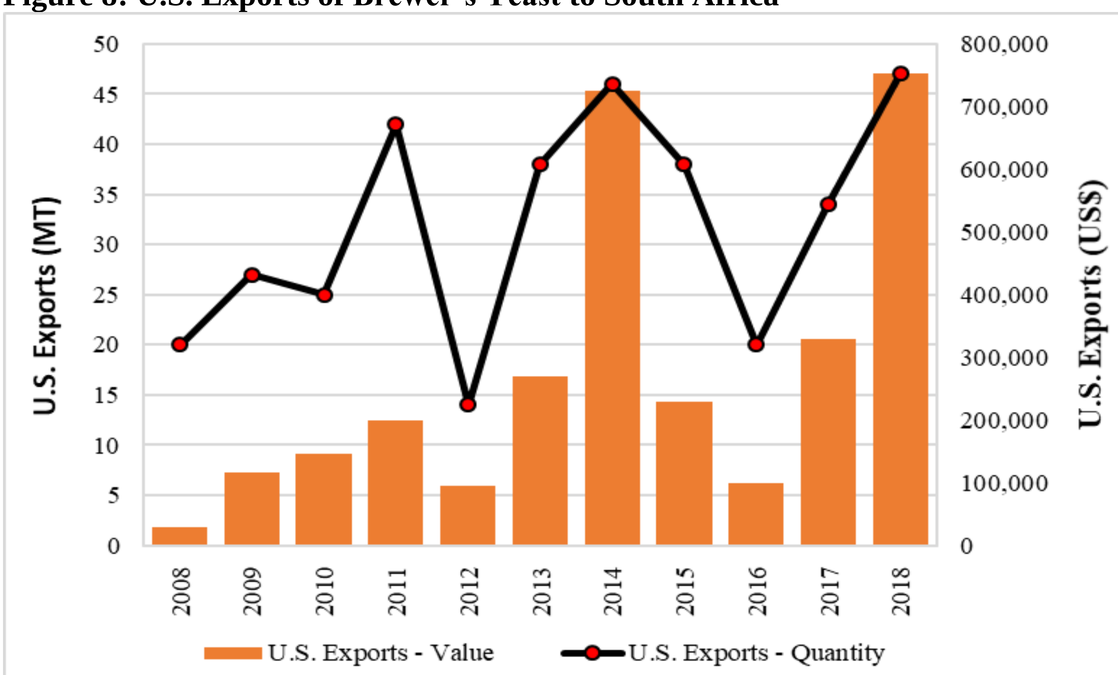
Source: GTA

Figure 7: Market Share of Brewer's Yeast Exporters to South Africa



Source: GTA

Figure 8: U.S. Exports of Brewer's Yeast to South Africa



Source: GTA

Import Customs Duties

U.S. exports of malted barley and beer hops are not subject to any customs duties in South Africa. However, U.S. exports of brewer's yeast are at a competitive disadvantage as they are subject to a 15 percent customs duty as shown in **Table 3**. The South African Development Community (SADC) and EU have a free trade agreement with South Africa, while Mercosur has a preferential trade agreement with South Africa. Hence their exports are not subject to import duties.

Table 3: South African Import Tariffs

HS Code	Article Description	Unit	Rate of Duty (c/kg)				
			General	EU	EFTA	SADC	MERCOSUR
11071020	Malt of Barley, Not Roasted	kg	free	free	free	free	free
11072020	Malt of Barley, Roasted	kg	free	free	free	free	free
121010	Hop cones, neither ground, nor powdered, nor in the form of pellets	kg	free	free	free	free	free
121020	Hop cones, ground, powdered or in the form of pellets	kg	free	free	free	free	free
130213	Of hops, Vegetable saps and extracts	kg	free	free	free	free	free
210220	Inactive yeasts, other single cell micro-organisms, dead	kg	15%	free	free	free	free

Source: South African Revenue Authority

Table 4: Other Related GAIN Reports and Useful Contacts

Report	Link
Food and Agricultural Import Regulations and Standards - Country Report	Download
Food and Agricultural Import Regulations and Standards - Certification Report	Download
Food Processing Ingredients Report	Download
U.S. and Southern Africa Agricultural Trade Reaches Record High	Download
Hop Growers of America	https://www.usahops.org/hop-finder/merchant-contacts.html
United States Grains Council	https://grains.org/member/national-barley-growers-association/