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South Africa Poultry Update: the supply and demand for broiler meat in South Africa

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Poultry and Products

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Report Highlights:

Post estimates that South Africa will slaughter about 1,010 million broilers (equal to 1.42 million tons of meat) in 2013, only marginally more than the 997 million broilers slaughtered in 2012, as the cost of poultry feed is expected to remain at relative high levels. South Africa consumed approximately 1.8 million tons of broiler meat in 2012, a rise of almost 70 percent since 2000. Post expects a seven percent increase to 395,000 tons in broiler meat imports for 2013, on a relative weaker rand exchange rate, after a 13-percent increase the previous year. The United States supplies only three percent of South Africa's total poultry meat imports; its market share of chicken bone-in portions declined rapidly after punishing anti-dumping duties were instituted in 2012 against bone-in portions.

Executive Summary:

The South African poultry meat industry, with a gross value of more than R27 billion (US\$3.1 billion), is the country's largest individual agricultural industry and contributes almost 17 percent to the total gross value of agricultural products. In 2011, South Africa slaughtered 979 million broilers that produced 1.37 million tons of broiler meat, while in 2012, production was slightly higher, i.e., 997 million broilers that produced 1.4 million tons of meat. In 2013, with corn and soybean prices (key cost drivers in feed) expected to remain at relative high levels, production is forecast to remain flat. As a result, post forecasts that South Africa will slaughter about 1,010 million broilers (equal to 1.42 million tons of meat) in 2013, marginally more than in 2012.

South Africa consumes about 1.8 million tons of broiler meat annually. Post expects that broiler meat demand will increase by only about three percent in 2013, due to prospects of slower economic growth, the main overall driver for increased demand for broiler meat in South Africa.

Broiler meat accounts for 92 percent of all poultry meat imports by South Africa, with the balance largely being turkey products. Broiler meat imports increased by 13 percent to 367,500 tons in 2012 from 325,052 tons imported in 2011. In 2011, broiler meat imports increased by 36 percent on the back of a relative strong R/\$US exchange rate. The rand weakened in 2012, and expectations are that this trend will continue through 2013; hence, post forecasts only a seven percent increase in broiler meat imports to 395,000 tons for 2013. These imports will represent almost 28 percent of South Africa's local production of broiler meat.

The United States supplies three percent of South Africa's total poultry meat imports, with whole turkey and turkey products the major poultry products exported. Turkey products are followed by chicken fillets and chicken offal. The U.S. market share of imported chicken bone-in portions declined rapidly after South Africa, in February 2012, extended and increased the anti-dumping duties on frozen chicken bone-in portions originating in or imported from the United States for another five years. The anti-dumping duties were increased to R9.40 per kilogram, without differentiating among suppliers as in the past.

US\$1 = Rand 8.70 (01/14/2013)

Production

The South African poultry meat industry, with a gross value of more than R27 billion (US\$3.1 billion), is the country's largest individual agricultural industry and contributes 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 1.7 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.

From 2004 to 2008, broiler production in South Africa grew by an average of more than six percent per annum, driven mainly by an increase in demand due to strong and steady economic growth of more than five percent per annum. 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 increased by four percent to 969 million broilers slaughtered in 2010.

However, the past two years were again characterized by slow economic growth and high feed prices, and consequently growth of less than two percent per annum in broiler production resulted. In 2011, 979 million broilers were slaughtered (1.37 million tons of meat), and in 2012, 997 million broilers were slaughtered (1.4 million tons of meat). See also Figure 1, below.

The business environment for broiler production is not expected to improve in 2013, as corn and soybean prices -- the key cost drivers in poultry feed -- are expected to remain at relatively high levels. Post estimates that South Africa will slaughter about 1,010 million broilers (equal to 1.42 million tons of meat) in 2013, marginally more than in 2012.

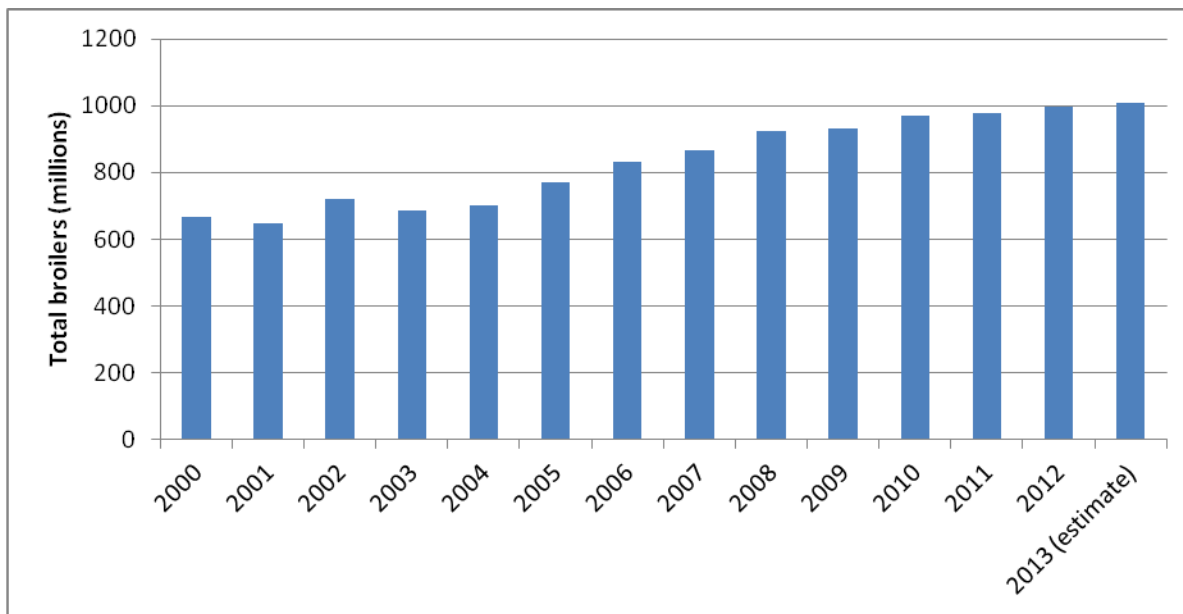


Figure 1: South Africa: total broilers slaughtered per annum, 2000-2013

Source: The South Africa Poultry Association (SAPA)

Structure: The broiler industry in South Africa is dominated by two large producers, namely Rainbow Chicken Limited and Astral Foods (see also Figure 2). Together, these two companies produce 46 percent of total broiler meat in South Africa. Rainbow produces approximately 235 million broilers per annum and Astral Foods about 220 million broilers per annum. The third largest producer, Country Bird, produces 68 million broilers per annum, or seven percent of total broiler production. Country Bird is followed by four medium-sized producers (producing more than 50 million broilers per annum) that collectively supply 22 percent of the market. The top seven companies provide about 75 percent of total broiler meat in South Africa, while hundreds of smaller producers supply the balance. The major broiler producers manage integrated broiler meat supply chains that include the production of day-old chicks, broiler farms, feed milling, meat processing, and distribution to customers. However, as the major producers are starting to focus more on the front-end of the supply chain (e.g., value-adding and distribution), broiler production under contract by smaller producers is on the increase.

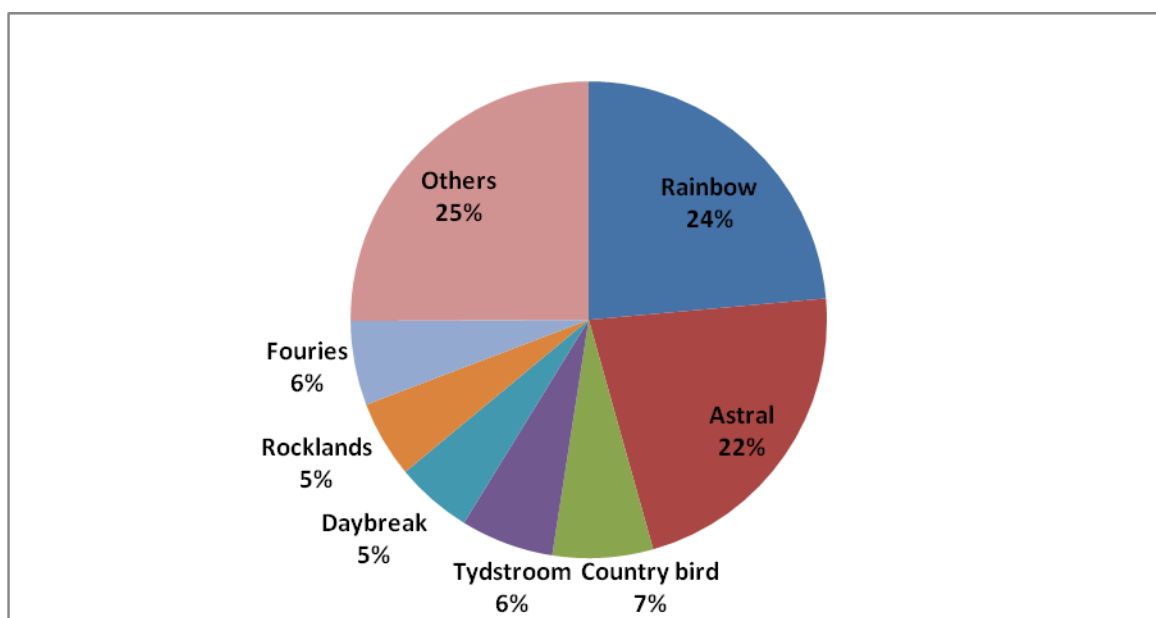


Figure 2: South Africa: the major producers in the boiler industry

Source: Rainbow Chicken Limited

Feed cost: Feed cost is one of the major factors in the broiler industry and can contribute as much as 75 percent of the total cost to a producer. The broiler industry suffered dramatic feed price increases in 2012, as the prices of corn increased significantly (by almost 60 percent) due to drought in the United States. 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 producers. The poultry industry consumes approximately 2.8 million tons of corn (mainly yellow corn) or 30 percent of total corn consumption in South Africa on an annual basis. Another important component in the 4.1 million tons of poultry feed (more than 40 percent of all animal feed manufactured in South Africa) consumed by the industry annually, is soy meal, which is mainly imported from Argentina.

Animal health and diseases: The poultry industry's emphasis is largely on precautionary measures, disease surveillance and control, all in order to reduce the incidence of animal disease and minimize the impact of outbreaks when they occur. The spread of Notifiable Avian Influenza remains of great concern

for the South African poultry industry as the threat of avian influenza also has the potential to reduce consumer demand. A routine surveillance program for Notifiable Avian Influenza using a protocol in line with the World Organization for Animal Health (OIE) guidelines has been in place since 2005. According to the protocol, all commercial ostriches and chickens, as well as non-commercial chickens, are sampled and tested on a six-monthly basis for both the H5 and H7 Avian Influenza subtypes. So far all chickens tested were negative for the Highly Pathogenic Notifiable Avian Influenza.

In addition, a Poultry Disease Management Agency was implemented by the South African poultry industry in March 2012. The focus of this agency is on disease surveillance and monitoring in both the established commercial and small-scale poultry sectors. It works closely with the South African Government to ensure the protection of the national flock.

Consumption

The South African per capita consumption of poultry meat (of which most is broiler meat) is estimated at 36 kg per annum. In comparison, each South African consumes only three kilograms of mutton, five kilograms of pork, and 17kg of beef per annum. The trends in total per capita consumption of meat in South Africa are illustrated in Table 2 below. Broiler meat consumption increased by about 70 percent since the start of the millennium and has grown to be the most important protein source in the diet of the majority of South Africans. In 2012, South Africa consumed about 1.75 million tons of broiler meat.

Table 2: South Africa: per capita consumption (kg) of meat, 2000-2012

Years	Beef	Poultry meat	Pork	Mutton/lamb
2000	15.6	21.5	3.1	3.7
2001	12.7	21.5	2.6	3.6
2002	13.5	22.7	2.7	3.3
2003	14.2	23.3	3.2	3.2
2004	14.5	25.9	3.8	3.3
2005	15.5	29.5	3.9	3.2
2006	17.3	31.0	4.1	3.4
2007	17.9	31.5	4.4	3.9
2008	15.6	32.0	4.2	3.5
2009	15.7	33.4	4.1	3.4
2010	17.3	34.9	4.4	3.2
2011	17.1	35.8	4.6	2.8
2012 (estimate)	17.0	36.1	4.6	2.9

Source: Department of Agriculture, Forestry and Fisheries

This rise in poultry meat consumption can be attributed to the steady economic growth South Africa has experienced since the mid-nineties, with rising living standards that pushed large numbers of consumers towards protein-filled diets and convenience. 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 accounts for about 50 percent of total chicken sales (see also Figure 3), followed by wholesale (25 percent) and foodservices (15 percent), with the foodservice sector growing more quickly than retail and wholesale trade in recent years.

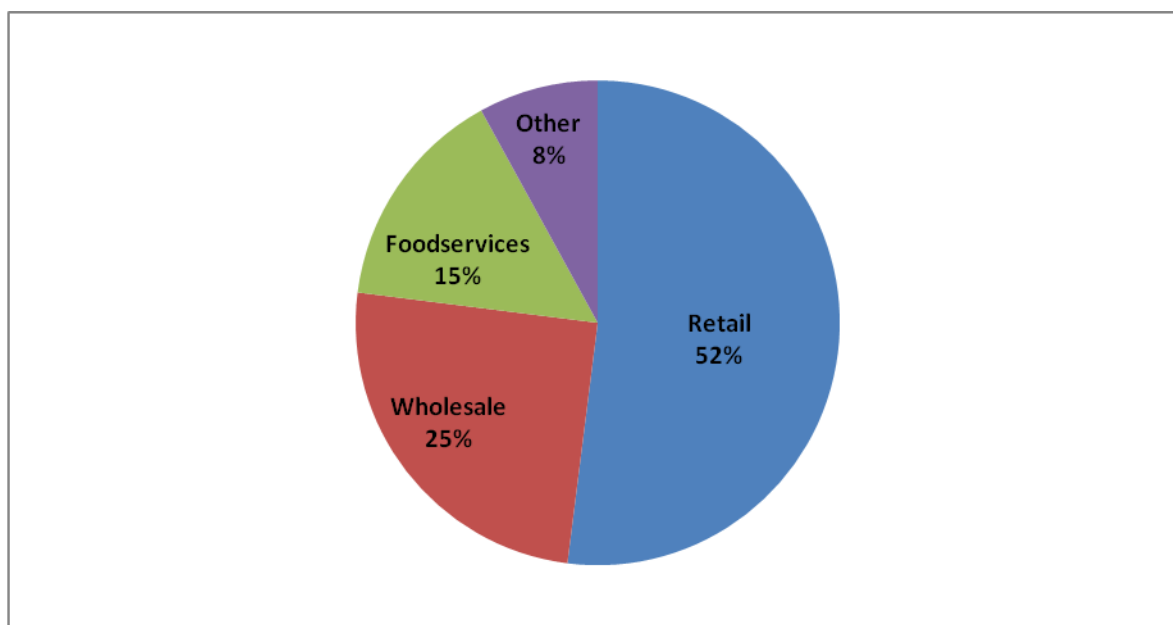


Figure 3: South Africa: market share per sector of chicken meat sales

Source: The South Africa Poultry Association (SAPA)

In Table 3, 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. However, in the past year, the price of chicken meat increased in percentage terms more than that of pork, lamb or beef, as broiler producers tried to pass on the sharp increases of feed costs to the consumer.

Table 3: South Africa: the trends in the retail prices of different meat sources, 2010-2012

	Oct-2010	Oct-2011	Oct-2012	Change 2011 - 2012	Change 2010 - 2012
	<i>R/kg</i>	<i>R/kg</i>	<i>R/kg</i>	<i>Percentage</i>	<i>Percentage</i>
Pork chops	48.04	55.41	53.69	-3.1	11.8
Lamb	75.45	97.21	92.37	-5.0	22.4
Beef T-bone	60.57	73.03	77.54	6.2	28.0
Beef mince	47.67	56.85	62.71	10.3	31.6
Whole chicken (fresh)	28.50	30.11	33.96	12.8	19.2
Chicken portions (fresh)	37.68	39.79	44.19	11.1	17.3
Whole chicken (frozen)	24.82	25.62	28.03	9.4	12.9
Chicken portions (frozen)	21.46	23.08	25.77	11.7	20.1

Source: The National Agricultural Marketing Council (NAMC)

Post expects that broiler meat demand will increase by only about three percent in 2013 to 1.8 million tons, due to prospects of slower economic growth in South Africa. The economy is expected to grow by less than three percent in 2013, as labor unrest and prospects of slower global economic recovery will

impact negatively on economic growth. As already mentioned, economic growth is the main overall driver for the increased demand for broiler meat.

Trade

Imports: In value terms, South Africa’s poultry meat imports represent two percent of world trade in poultry meat and four percent in quantity. Post estimates that South Africa imported 400,120 tons of poultry meat in 2012, which is 14 percent more than the 349,464 tons of 2011. The rate of poultry meat imports by South Africa is highly correlated with the percentage change in the value of the rand against the U.S. dollar (as can be seen in Figure 4). In 2011, poultry meat imports increased by 32 percent on a year-on-year basis as the rand strengthened against the U.S. dollar, while in 2012 poultry meat imports increased by only 14 percent as the rand weakened by about 12 percent against the U.S. dollar. As the rand is expected to weaken further against the U.S. dollar in 2013, due to South Africa’s financial and labor uncertainties, post forecasts that poultry meat imports will increase by only seven percent to 430,000 tons.

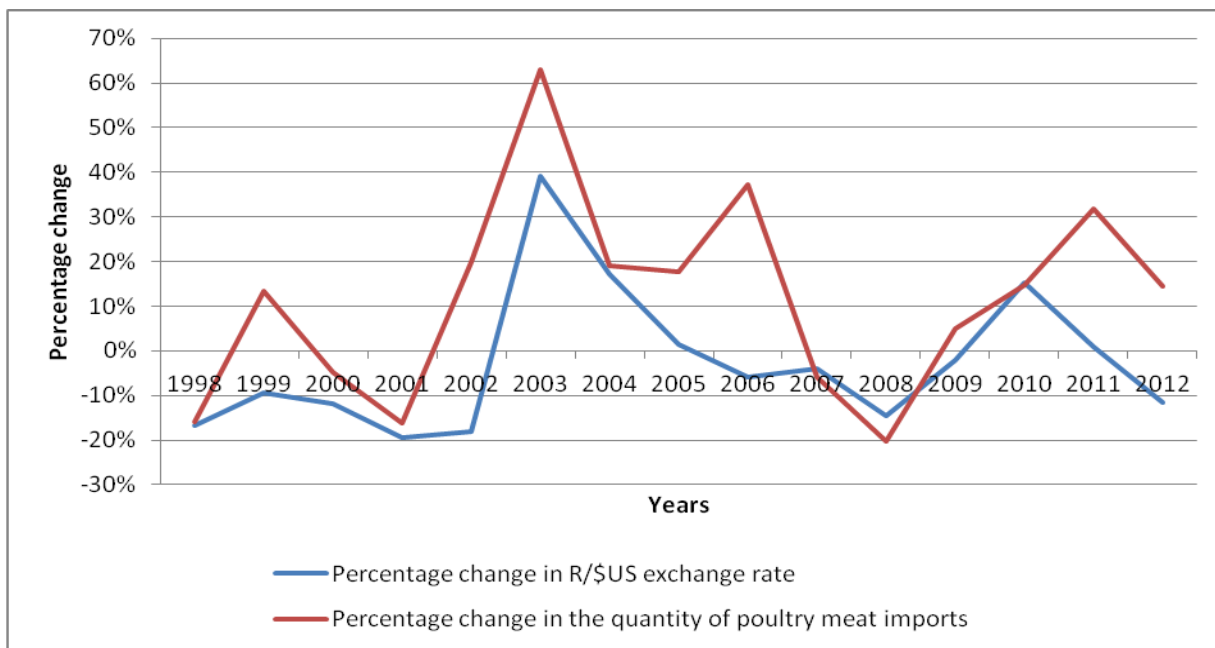


Figure 4: South Africa: the positive correlation between the rate of poultry meat imports and R/US\$ exchange rate, 1998-2012

Source: Own calculations

Broiler meat accounts for 92 percent of all poultry meat imports by South Africa, with the balance largely being turkey products (Figure 5). Broiler meat imports increased by 13 percent to 367,500 tons (post estimate) in 2012, up from 325,052 tons in 2011. In 2011, broiler meat imports increased by 36 percent on the back of a relative strong R/US\$ exchange rate as mentioned above. The rand weakened in 2012 and expectations are that this trend will continue into 2013, hence post forecasts only a seven percent increase to 395,000 tons of broiler meat imports for 2013. These imports will represent almost 22 percent of local consumption of broiler meat.

Post estimates the value of poultry meat imports in 2012 at \$US412 million, 10 percent more than the \$US374 million of 2011.

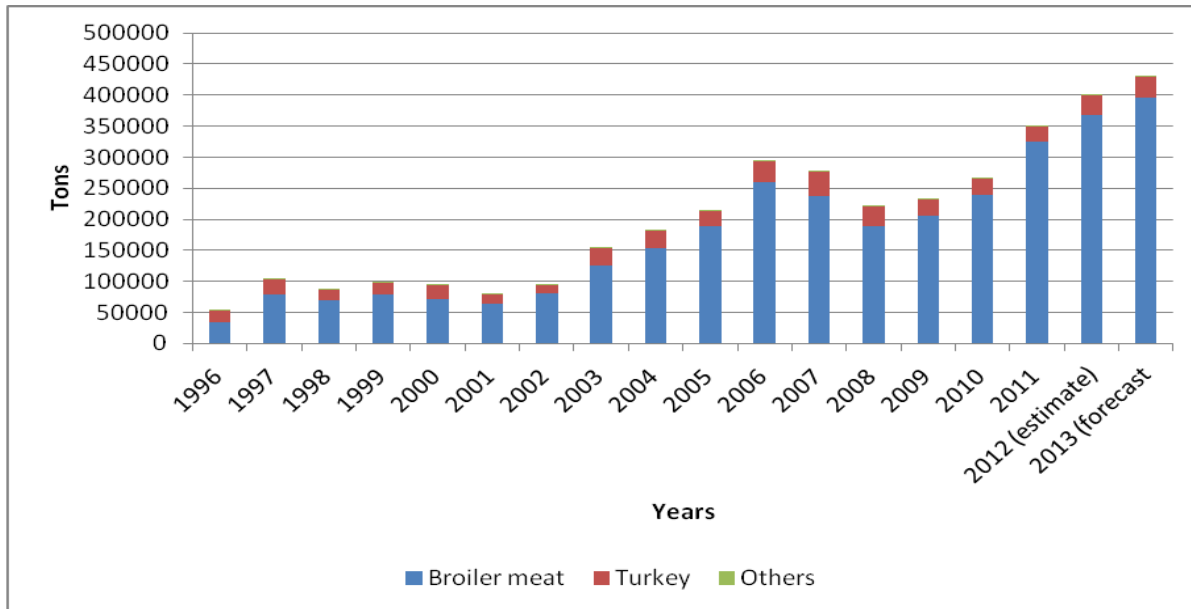


Figure 5: South Africa: the trend in poultry meat imports, 1996-2013

Source: Global Trade Atlas (GTA)

Brazil is the most important trading partner for South Africa in terms of imported poultry meat, with a 53 percent market share of the market (see also Figure 6 and Figure 7). However, Brazil's market share is on a declining trend and has dropped from a high 73 percent in 2010, as EU producers found a niche in the growing import market. One reason for Brazil's decline in market share was the anti-dumping duties imposed on imports of chicken fillets (boneless cuts) and whole chicken in 2012. However, Brazil poultry meat imports still grew by about seven percent in 2012, as almost 60 percent of Brazil's poultry meat export basket to South Africa consists of mechanically deboned meat (see Figure 8). Post believes that Brazil's share of the imported poultry meat market will remain at above 50 percent in 2013, as the anti-dumping duties against Brazil were lifted at the end of 2012, after the matter was taken to the World Trade Organization.

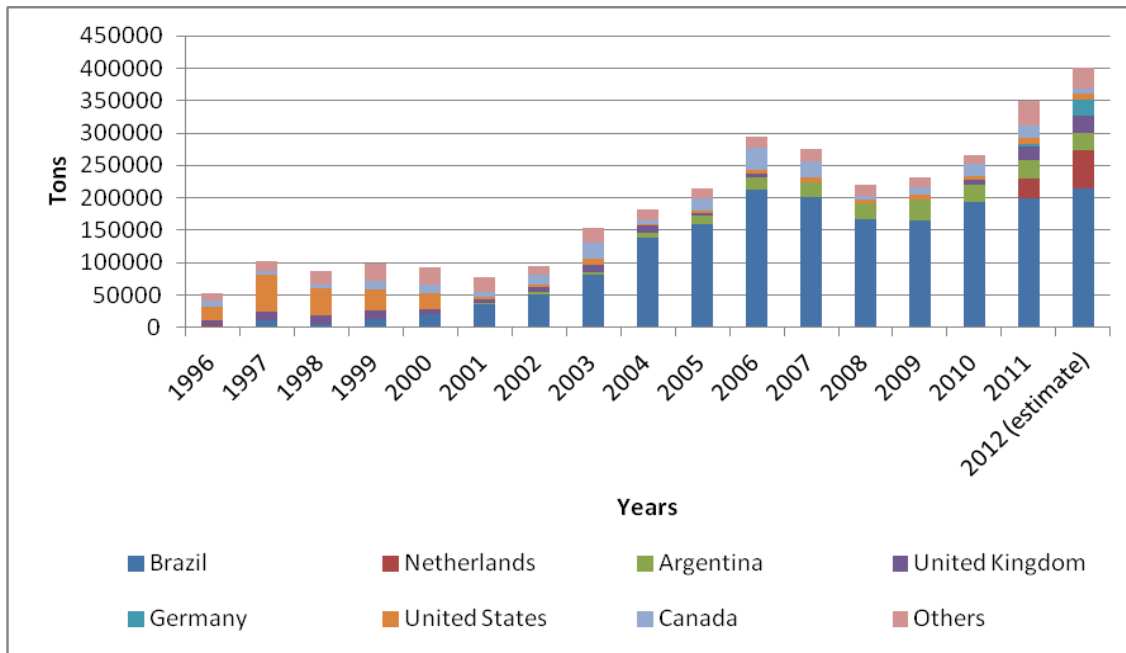


Figure 6: South Africa: the origin of poultry meat imports, 1996-2012
 Source: GTA

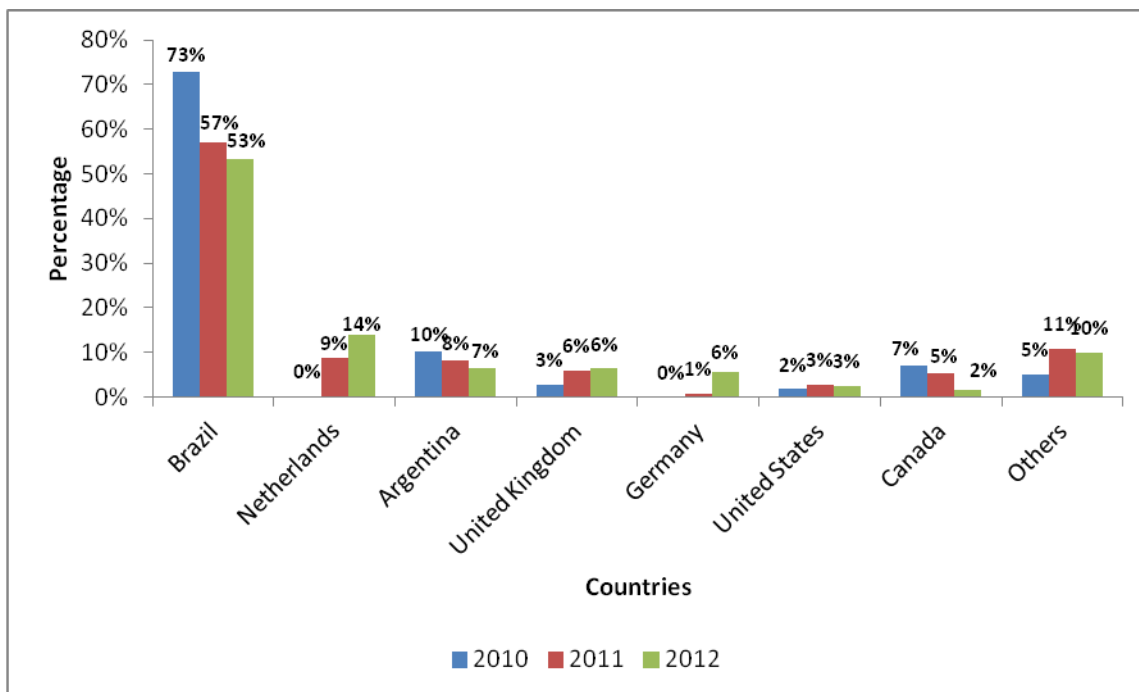


Figure 7: South Africa: origin of poultry meat imports, 2010-2012
 Source: GTA

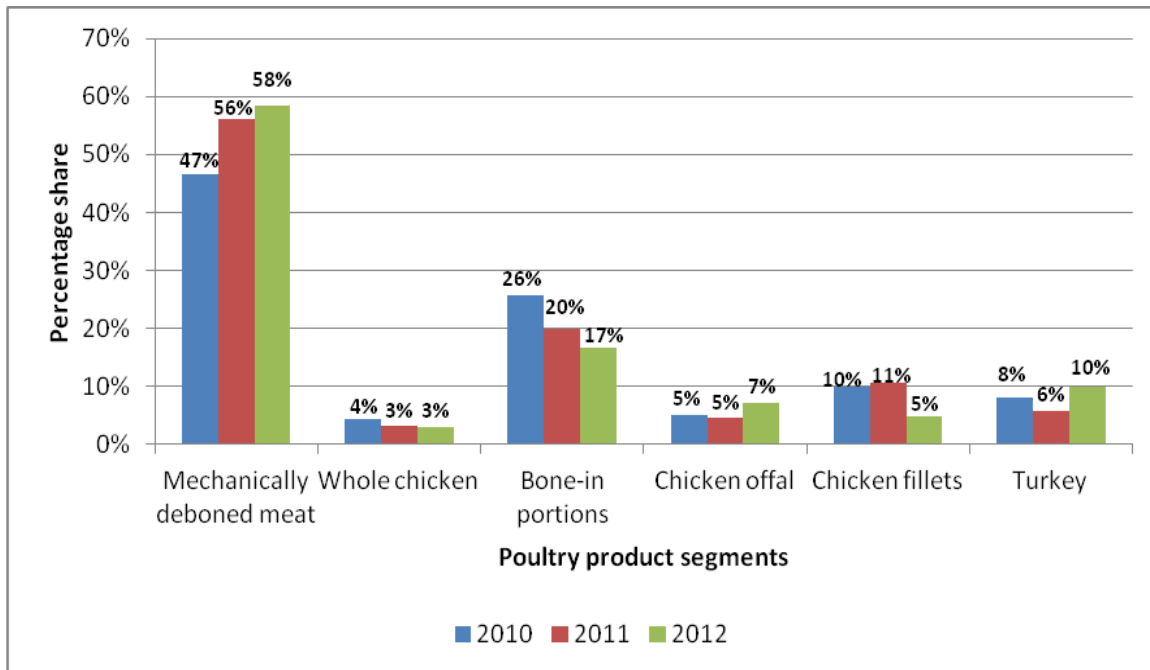


Figure 8: South Africa: the import market share of Brazil poultry, by category, 2010-2012
Source: GTA

The Netherlands is the second largest supplier of poultry meat to South Africa, with 14 percent market share, growing from almost zero in 2010. With the recent growth in poultry meat production in Europe, coupled with a decline in consumption, European Union countries are exploring new export opportunities, especially in Africa. The Netherlands mainly exports frozen bone-in portions to South Africa, and has the largest share (33 percent) in this category of poultry meat imports. Argentina is the third largest exporter of poultry meat with a seven percent market share, followed by the United Kingdom (6 percent) and Germany (6 percent). The five largest supplying countries account for 85 percent of South Africa's imported poultry meat.

The United States supplies three percent of South Africa's total poultry meat imports. This represents about 10,000 tons of poultry meat, with a value of approximately \$US14 million. Figure 9, below, illustrates the United States poultry meat export basket to South Africa. Whole turkey and turkey products are the major poultry products exported to this market. Turkey products are followed by chicken fillets and chicken offal. The share of U.S. chicken bone-in portions declined from 27 percent in 2010 to five percent in 2012, after renewed anti-dumping duties were instituted at the beginning of 2012.

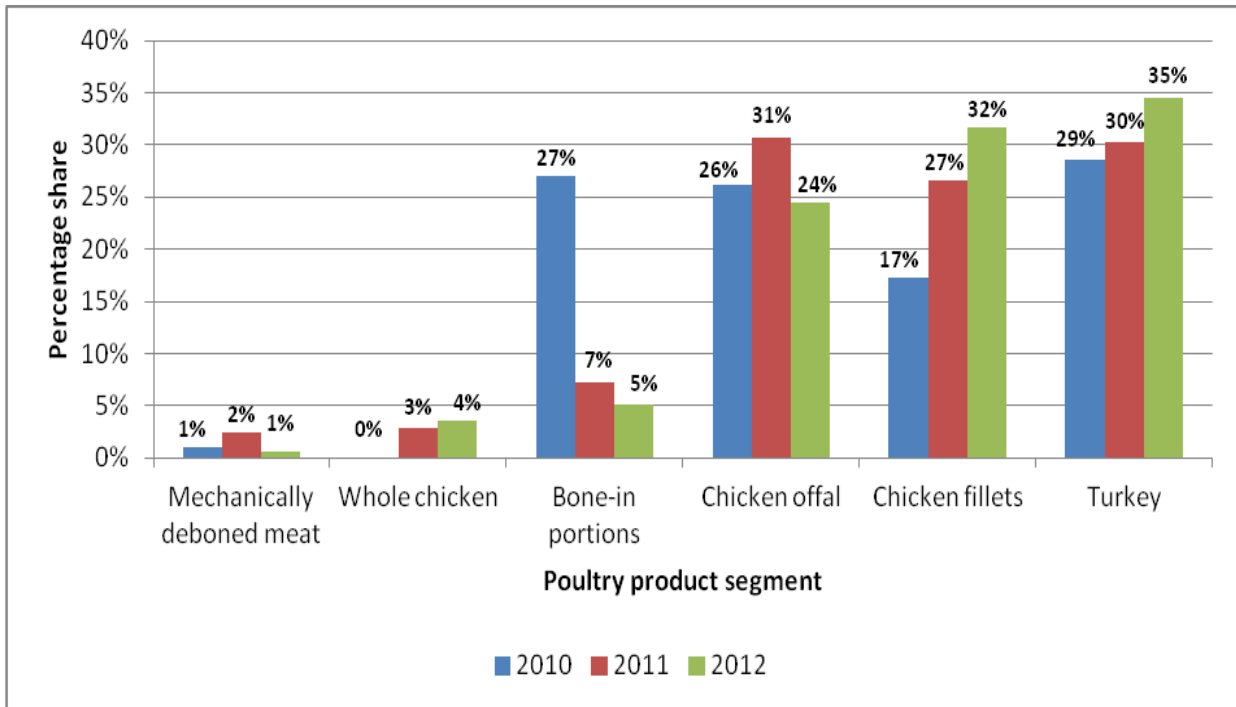


Figure 9: South Africa: the import market share of U.S. poultry, by category, 2010-2012

Source: GTA

Figure 10 illustrates the percentage contribution of specific poultry meat products imported by South Africa since 2010. In 2012, chicken bone-in portions represented the largest category of broiler meat imports, namely 40 percent or almost 160,000 tons, at a value of \$US224 million (55 percent of the total value of poultry meat imports). The share of chicken bone-in portions as a percentage of total poultry meat imports increased significantly since 2010, when it was 29 percent, on added volumes from EU suppliers.

The second largest category by volume is mechanically deboned meat (MDM), with a share of 33 percent or 132,000 tons, at a value of \$US60 million (15 percent of the total value of poultry imports). The share of MDM chicken as a percentage of total poultry meat imports decreased since 2010, when it was 38 percent. Combined, bone-in and MDM chicken represent almost 75 percent of total poultry meat imports, by volume, and are followed by turkey (8 percent), chicken offal (8 percent), whole chicken (6 percent), and chicken fillets (5 percent).

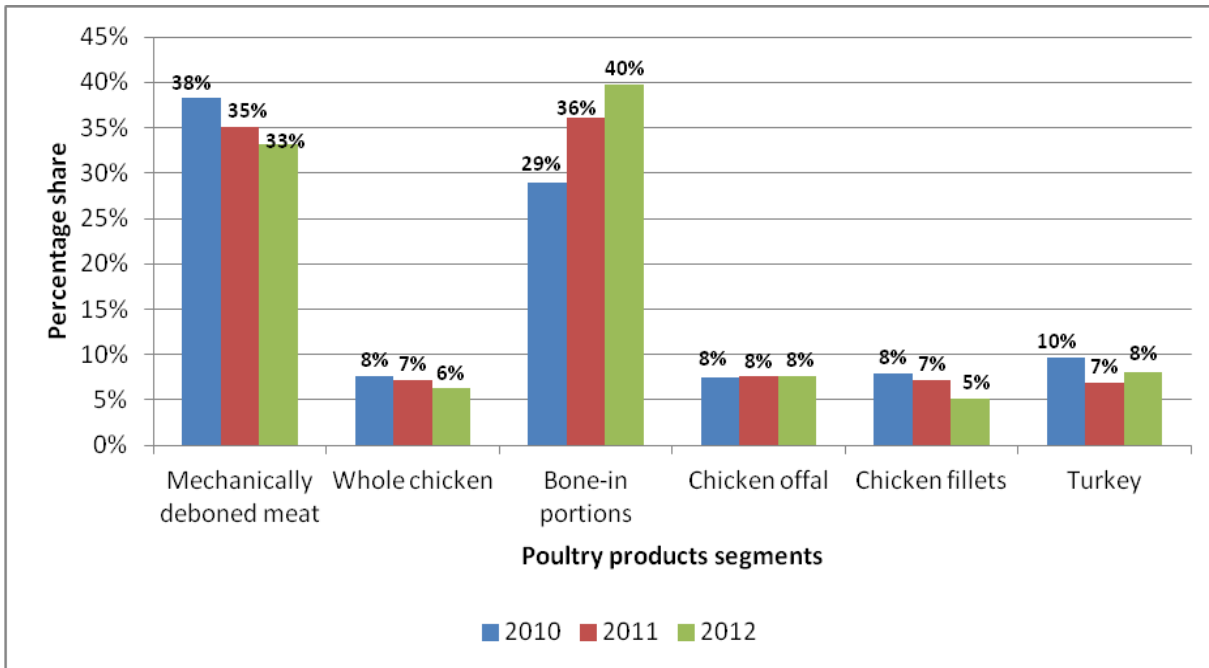


Figure 10: South Africa: poultry meat import market, by volume, 2010-2012

Source: GTA

Figure 11 presents the South Africa market share of supplier countries, by poultry product segment, for 2012. From the figure, the dominance of Brazil at each product segment is clearly visible except for bone-in portions, where Europe has recently become dominant.

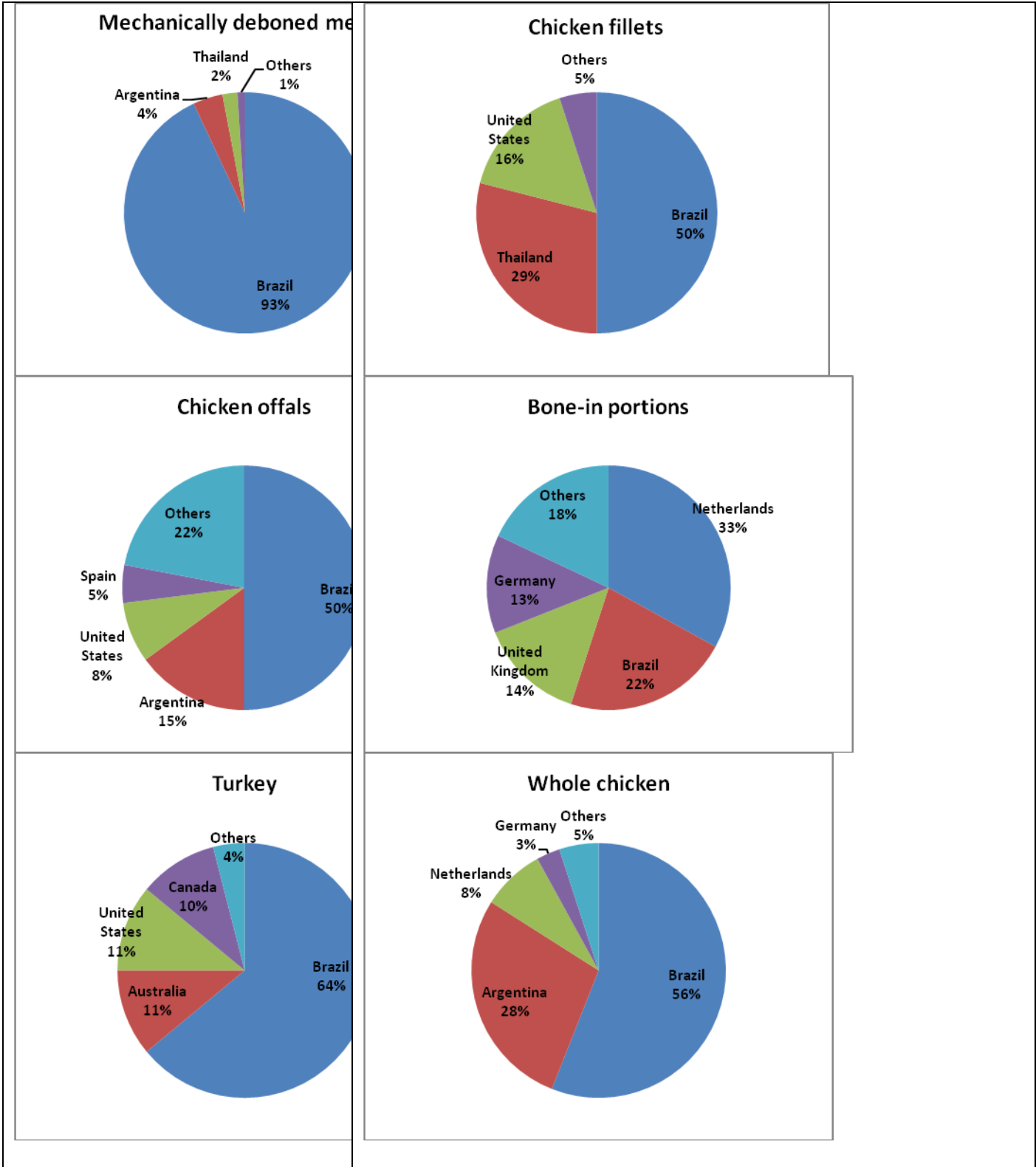


Figure 11: South Africa: market share of supplier countries, by product segment, 2012
Source: GTA

Exports: Post estimates that South Africa exported about 9,000 tons of poultry meat (most of it broiler meat) in 2012, 16 percent less than the 10,748 tons exported in 2011. The value of these exports was about US\$14 million. Mozambique and Zimbabwe are South Africa's major customers. Post forecasts that South Africa will export approximately 10,000 tons of poultry meat to neighboring countries in 2013.

Anti-dumping duties

United States: In February 2012, South Africa extended and increased the anti-dumping duties on frozen meat of Gallus domesticus, cut in pieces with bone-in (tariff subheading 0207.14.90), originating in or imported from the United States, for another five years. The anti-dumping duties were increased to R9.40 per kilogram, without differentiating between suppliers as in the past.

Anti-dumping duties against U.S. poultry products were first instituted in 2000 for 5 years, with the predicted impact of reducing imports for the U.S. from about 31,000 tons in 1999, to only 344kg in 2005. Anti-dumping tariffs, ranging from R2.24/kg to R6.96/kg, depending on the U.S. supplier, were imposed in addition to an import duty of R2.20/kg, effectively pricing United States chicken pieces out of the local market.

The U.S. industry applied to have the anti-dumping ruling reviewed in 2005, but the South African Poultry Industry opposed the application and a year later the anti-dumping duty was extended to 2011. However, in 2007, the South African Supreme Court of Appeals found that the International Trade Administration Commission (ITAC) had improperly calculated the timetable for the anti-dumping sunset review under South African law. The ruling was applicable to more than 70 products, including U.S. poultry. This meant that the anti-dumping duties that were renewed in 2006 on bone-in chicken portions from the United States could be declared unlawful due to the sunset review not being performed in a timely fashion. As a result of the court ruling, ITAC launched an appeal to address the consequences of the ruling, which would determine whether it could eliminate the anti-dumping duties called into question after the Supreme Court of Appeal opinion in 2007. The case was heard at the end of April 2011. A year later the court ruled that the South African government's anti-dumping duties on imports of United States chicken parts were indeed illegal. In the same ruling, however, the court gave the South African government three years to review the legal grounds on which it established the duties in the first place, while leaving the duties in place in the interim.

Brazil: In February 2012, provisional anti-dumping duties of 62.93 percent and 46.59 percent, on whole chickens and boneless cuts, respectively, imported from Brazil were introduced by ITAC. In June 2012, Brazil initiated a dispute against South Africa at the World Trade Organization (WTO) because of South Africa's imposition of these provisional anti-dumping duties, and requested consultations with the South African government to reach a friendly solution. South Africa and Brazil are close political allies, as both are members of BRICS.

Subsequently, in December 2012, the South African government decided not to impose definitive anti-dumping duties on whole chickens and boneless cuts imported from Brazil. According to the Minister of Trade and Industry, the South African Government would instead look at raising the general tariff on all imported chicken, which is currently much lower than the allowed maximum tariff. However, a government notice for the review of the applied customs tariff rate has not yet been issued. Once

formally informed of ITAC's decision not to impose definitive anti-dumping duties against Brazil, the applicant in this case, South African Poultry Association, may decide to take the decision on judicial review before it explores the alternative option of applying for a general tariff increase.

PS&D Table

Poultry, Meat, Broiler South Africa	2011		2012		2013	
	Market Year Begin: Jan 2011		Market Year Begin: Jan 2012		Market Year Begin: Jan 2013	
	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	1,315	1,370	1,340	1,395	1,366	1,415
Total Imports	326	325	370	368	380	395
Total Supply	1,641	1,695	1,710	1,763	1,746	1,810
Total Exports	8	10	8	9	8	10
Human Consumption	1,633	1,685	1,702	1,754	1,738	1,800
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1,633	1,685	1,702	1,754	1,738	1,800
Total Use	1,641	1,695	1,710	1,763	1,746	1,810
Ending Stocks	0	0	0	0	0	0
Total Distribution	1,641	1,695	1,710	1,763	1,746	1,810

MIL HEAD, 1000 MT, PERCENT, PEOPLE, KG