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Report Highlights:

South Africa continues to be the continent's epicenter for investment and marketing, as a result of consistent GDP growth. In 2005, the U.S. exported \$172 million (\$192 million in 2004) of agricultural, fish, and forestry products to South Africa. The decline is attributable to lower wheat exports. Intermediate agricultural products such as planting seeds continue to be important for South Africa, in addition, animal fats have shown consistent and substantial growth, although exports were lower in 2005. A variety of high value products, including almonds, pistachios, canned salmon, and whiskey, and frozen food preparations have grown consistently.

Includes PSD Changes: No
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SECTION I: MARKET OVERVIEW

The Republic of South Africa has a market-oriented economy and is a net exporter of agricultural products. It has a highly diversified agribusiness sector and is self sufficient in primary foods with the exceptions of wheat, oilseeds and rice. Because of South Africa's well-developed processed food and competitive horticultural sectors, U.S. exports to South Africa consist mostly of bulk and intermediate agricultural products. The economic sectors of South Africa consist of agriculture: 3.0%, industry: 30%, and services: 67%.

In 2005 the value of the rand declined slightly to 6.30 compared to 6.44. This slight decline did not negatively impact U.S. exports. In previous years U.S. exports were negatively impacted by the decline in the value of the rand compared to the dollar. The average weighted exchange rate of the rand to the U.S. dollar dropped to 6.44 in 2004 from 7.56 in 2003 and R10.52 in 2002. The combination of the weak dollar against the strong rand and euro is helping to make U.S. products more affordable and increase U.S. exports to South Africa.

Over the last six years the United States has exported an average of \$163 million per year of agricultural, fish and forestry products to South Africa. Bulk agricultural commodities such as wheat and course grains were exported in substantial quantities in 2003 and 2004, however, there was a slight drop off in 2005. U.S. rice exports to South Africa decreased drastically in 2004/2005 compared to 2002/2003 due to high prices. U.S. wheat exports to South Africa were especially high in 2003 and 2004 due to poor wheat crops in competing countries, a newfound preference for U.S. hard red winter wheat, and a favorable exchange rate. In 2005 U.S. wheat exports fell more than 60 percent compared to 2004 wheat exports. Intermediate agricultural products, such as planting seeds, are an important export to South Africa. Animal fats have shown consistent and substantial growth over the past five years, and exports of animal hides have significantly grown for the past three years as well. Several high value products like almonds, pistachios, canned salmon, whiskey, and frozen food preparations have shown consistent growth over the last five years and represent important opportunities for U.S. exporters. The exports of edible fish and seafood continued their upward trend in 2005 as in 2004 and there are many opportunities for sustained growth in this sector as well.

The South African food and beverage market is becoming increasingly sophisticated and now offers a wide range of imported products. The market is divided into two segments, the first prosperous and largely white, the second poor and largely black. (However, the black population's buying power is increasing and improving the market for imported food products.) South Africans in the middle and upper income levels are demanding healthier, convenient, quality foods, while the poor majority requires basic staple foods at affordable prices. For example, the organic foods market is growing rapidly in South Africa and supermarkets are using promotions that emphasize the health benefits of various products. Also, the food retailer Pick 'n Pay has opened stores in township areas, places that have been historically underserved by large supermarkets.

Market surveys have repeatedly shown that price sensitivity rules consumer behavior. South African industry leaders concur with a current ACNielsen study that supports this conclusion, stating that price, above other factors like quality or appearance, is the primary factor in selecting a product. However, an interesting idiosyncrasy of the South African market is that price may be less of a factor in townships, where consumers often show significant brand loyalty for certain branded items.

A. U.S. Market Position:

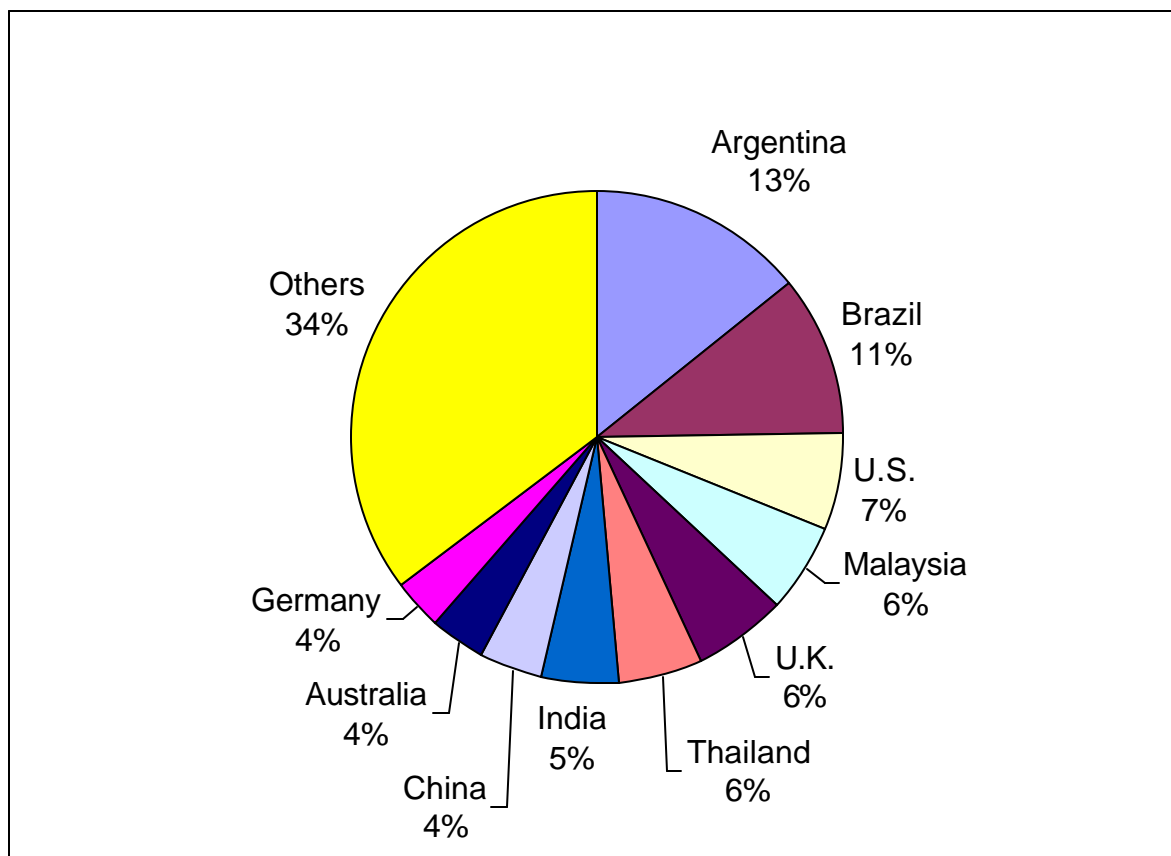
As reported by the South African government, South Africa's total agricultural imports for July 2005- June 2006 rose to \$3.1 billion from \$3.0 billion of same period last year. The leading suppliers were Argentina (\$439.859 million), Brazil (\$329.187 million), the United States (\$202.189 million), Malaysia (\$182.589 million), and the U.K. (\$182.503). South Africa's major imported agricultural commodities from the United States in 2005 were wheat, coarse grains, other prepared foods such as frozen and canned vegetables, other intermediate agricultural products, hardwood lumber and hides & skins. See table below;

Table: Trade of major agricultural, forest and fishery products between US and South Africa for calendar year 2005. ¹ As reported by the U.S. Bureau of Census.			
South Africa's Major Bulk, Intermediate and Consumer-Oriented Agricultural Imports from the United States		South Africa's Major Bulk, Intermediate and Consumer-Oriented Agricultural Exports to the United States	
Jan-Dec 2005	\$millions	Jan-Dec 2004	\$millions
Wheat	\$41.4	Other Fresh Fruit	\$42.0*
Coarse Grains	\$19.5	Wine and Beer	\$42.4*
Hides & Skins	\$3.2	Tree Nuts	\$22.3*
Animal Fats	\$6.3	Fruit and Vegetable Juices	\$6.3
Planting Seeds	\$6.0	Processed Fruits & Vegetables	\$9.4
Tree Nuts	\$7.4*	Raw Beet & Cane Sugar	\$10.8
Sugars, Sweeteners & Beverage Bases	\$6.3*	Other Value Added Wood Products	\$28.7*
Other Consumer Oriented Products	\$10.5*	Nursery Products & Cut Flowers	\$5.0*
Hardwood Lumber	\$11.9	Tea	\$1.7*
Panel Products (including Plywood)	\$4.5	Lobster	\$17.6
Edible Fish & Seafood Products	\$5.1*	Other Edible Fish & Seafood	\$11.1
Agricultural Total	\$146.22	Agricultural Total	\$166.02*
Agricultural Fish & Forestry Total	\$172.34	Agricultural Fish & Forestry Total	\$229.84*

"*" Denotes highest export level since at least CY 1970.

Note that the category "Other Consumer-Oriented Products" has grown significantly since 2001 and is expected to continue to increase in 2005. The specific products in this category, which showed growth or were substantial US exports, are Other Food Preparations, Other Frozen Food Preparations, Carbonated Soft Drinks, Gelatin Food Preparations and Spices.

**Top Exporting Nations of Agricultural Fish and Forestry Products to South Africa
July 2005 - June 2006**



B. Advantages and Challenges Facing Sales of U.S. Products in South Africa

Advantages	Challenges
South African consumers view U.S. products as high quality.	Retailers and consumers have limited knowledge about the variety of U.S. products.
South African importers seek suppliers who can offer quality products at competitive prices.	Acquired tastes and preferences for traditional, locally produced products.
The growing retail industry needs imported food and beverage products.	Challenging for U.S. suppliers to respond to trade-lead inquiries in a timely fashion.
Transparent import regulations.	Competition from other countries and locally produced products.
A steady decline in tariff levels on most products.	Exchange rate. The South African Rand has fluctuated widely over the past decade, making long-term trading difficult. On October 2, 2006 the Rand is 7.70 to \$1.00, about 20% weaker to the dollar than in 2004 or 2005

Section II: EXPORTER BUSINESS TIPS

A. Local Business Customs:

Generally, business hours are weekdays from 8:00 a.m. to 1:00 p.m. and 2:00 p.m. to 4:30 p.m. Most offices observe a five-day week, but shops are generally open from 8:30 a.m. to 5:30 p.m. weekdays and from 8:30 a.m. to 1:00 p.m. on Saturdays. Banks are open weekdays from 9:00 a.m. to 3:30 p.m. and Saturdays from 8:30 a.m. to 11:00 a.m. The monetary unit of South Africa is the rand (R), which is divided into 100 cents (c). Shopping is similar to that in the United States, with large and very modern shopping centers providing diverse product lines similar to those found in the United States but there are no stores open 24-hours per day.

Terms of Payment: Business transactions in South Africa are commonly carried out on open terms with payments being made within 45 to 50 days after bill of lading. However, when working with new clients, irrevocable letters of credit are advisable. Cash against documents arrangements are also used, although there are some risks in these arrangements that make letters of credit a safer alternative for the exporter.

B. Trade and Marketing Services:

Franchising: According to the Franchise Association of Southern Africa, the largest franchise sector in South Africa is fast food, representing 29% of the franchise industry. According to 2002/2003 surveys, South Africa's most popular take-out food item is chicken. However, pizza, hotdogs and chips (french fries), and hamburgers are also popular choices. The survey also specified that of the consumers, who preferred chicken, 66% were black and 18% were white. An example of a successful franchising operation is "Famous Brands," which has recently doubled its number of restaurant outlets from 562 to 1040. The Famous Brands franchise model includes a manufacturing facility that supplies bakery, butchery and sauce products to franchises including Steers and Wimpy's (hamburger restaurants), Church's Chicken, Debonairs Pizza, Brazilian Coffee and House of Coffees. The Franchise Association held its annual Franchise Exposition at the Sandton Convention Center in May 2005 and had a record attendance of 8,615 people. This was a 56% increase from 2004, and the franchise industry is expected to grow in the coming years with increased interest from producers and consumers. The addition of forecourts, which is a convenience store linked to a gas station, is an expanding venture that provides opportunities for U.S. producers as well. South Africa has fixed gasoline prices nationwide, and gas stations are realizing that there are more potential profits to be made by selling other items to consumers such as food, snacks, beverages and other products in addition to gasoline. Restaurant franchises are joining with gas stations to create an enticing atmosphere and to encourage customers to purchase more than gasoline. U.S. franchises have the ability to link with South African gas stations to reap the benefits in profit from the convenience provided for consumers in forecourts.

Direct Marketing: Although South Africa's foreign exchange controls and import documentation requirements have been relaxed, we recommend that U.S. companies contract with a South African agent or partner who would be responsible for marketing the product, holding stock, fulfilling purchasing transactions and remitting revenue to the U.S. company. Companies interested in learning more about South Africa's mail order sector may contact the South African Direct Marketing Association.

Joint Venture/Licensing: Exchange control regulations stipulate that the South African Reserve Bank (SARB) must approve the payment of royalties. When a licensing agreement involves no manufacturing, the request for exchange control approval is sent directly to SARB. For a company interested in entering into a licensing agreement with a local company to manufacture a product in South Africa, the South African licensee must submit an application to the industrial Development Branch of the Department of Trade and Industry.

The application should include a draft licensing agreement and a questionnaire (Form MP 337). The Department of Trade and Industry, in turn, will make a recommendation to the SARB. Additional information on licensing regulations can be obtained from the Directorate of Technology Promotion.

Steps in Establishing an Office: Foreign companies that wish to establish a subsidiary in South Africa must register in accordance with the Companies Act of 1973. The Act, which is administered by the Registrar of Companies, regulates the formation, conduct of affairs, and liquidation of companies. The Act makes no distinction between locally owned or foreign owned companies, and companies may be either private or public. For more information, please see the Department of Trade and Industry website at www.dti.gov.za.

C. Consumer Tastes and Preferences:

South African food retailers serve a wide range of consumers. At one end, there are supermarkets very similar to those found in the United States. These shops provide most of the products and services found in U.S. grocery stores such as processed foods, packaged meats and fancy produce. South Africans are also able to purchase organic products such as vegetables, which are a fast growing segments of the retail food market (lead by organic baby food). Many supermarkets serve pre-assembled meal items such as roasted chickens and cut vegetables ready for soup, stir-fry, and salads, while others sell ready-made meals like sandwiches and sushi. At the other end, consumers are also well served by a thriving informal sector. Spazas are independent grocers that are typically found in townships and generally specialize in staple foods like cornmeal, rice, cooking oils and meats. They may also sell soft drinks and other low-priced consumer oriented goods. The food retailer Pick 'N Pay has also opened stores in township areas, which have been historically underserved by large supermarket style stores.

Despite the variety of options available to South African consumers, price sensitivity rules their behavior. A source survey in 2002 found that 47.8% based their decisions on price and 16.9% buy store brand (generic brand) items because they are good value for the money. Only 13.4% mentioned quality as a motivator, while 4.3% perceived the store brand to be equal to name brand items. Products that are successful with store brand labels include milk, syrups, dry pasta, nuts, canned fruits and jellies.

Although many South Africans choose products according to price, consumers in townships often demonstrate contradictory demands and characteristics. For example, spazas and other informal shops tend to only supply leading brand items because their customers demonstrate strong brand loyalty. Adding to this trend is the fact that the black population's buying power is increasing. Product attributes that may help a product succeed in township markets are those which are less expensive and/or single service package sizes and ambient-stable products that do not require refrigeration. A local research company recently reported findings that confirm this, stating, "we have heard for the past 20 years that the [low income] consumer wants smaller packaging, but it is still amazing how many manufacturers do not heed that call."

South Africans love meat, and barbeque, called braai, is very popular. Braai products, such as sauces, are also popular, especially sweet and spicy flavors. A wide variety of meats are available, such as beef, beef sausages, lamb, game meats, and poultry. Fish is also gaining popularity as consumers are seeking healthier alternatives to meat. (South Africans eat more beef and lamb than pork. It has been generalized that they eat about as much pork as Americans eat lamb, and as much lamb as Americans eat pork.)

According to ACNielsen research, health information is becoming an important component of food retailing. Consumers would like to see more health, nutritional and weight loss information in stores. These consumers will most likely fit in the categories of:

- 1) Older female consumers who are interested in diet as a way to obtain good health in place of exercise
- 2) Young people and high Living Standard Measurement (LSM) consumers who are becoming increasingly aware of the importance of a good diet and exercise in order to maintain good health
- 3) Low LSM consumers, many of whom are feeling the impact of HIV/AIDS on their families and are thus in need of healthy food products. However, due to hard financial times for poor South Africans, health products for low LSM consumers will not find a place on grocer's shelves unless they are developed as viable substitutes for basic staples

South African farmers and manufacturers are becoming increasingly responsive to food safety issues. As South African supermarkets and food distributors continue to integrate their food supply chains, they are able to better provide traceability/accountability services for consumers. This is especially important in order to satisfy export market demands. However, food safety has a much lower profile in South Africa than in the U.S. or Europe, perhaps due to fewer incidents or due to problems in identifying food safety problems. In 2002, South Africa approved a set of food safety regulations that embrace the important principles of HACCP and follow the Codex Alimentarius model. Under this regulation, exports to South Africa must meet the same food safety standards as apply to South African food producers. For more information on HACCP, please refer to [Regulations Relating to the Application of the Hazard Analysis and Critical Control Point System \(HACCP System\)](#) at www.doh.gov.za, (click on documents then regulations.) The South Africa Consumer Goods Council also created a Unified Food Standards Body in April 2005 that is similar to the European Union's. This has been established to unify the activities and actions related to food safety by the private sector, government, academic institutions and consumers, and it is hoped that the new governing body will clarify food regulations and standards.

D. Food Standards and Regulations:

Agricultural Standards: The Directorate of Plant Health and Quality with the National Department of Agriculture is responsible for setting standards for certain agricultural and agricultural-related products. This includes aspects such as composition, quality, packaging, marketing, and labeling as well as physical, physiological, chemical, and microbiological analyses. These standards are published in the Agricultural Product Standards Amendment Act of 1998 and the Liquor Products Act of 1989 as regulations for products to be sold on the local market and in the form of standards and requirements for products intended for export.

Food Labeling: According to the Foodstuffs, Cosmetics and Disinfectants Act of 1972: Regulations Relating to Labeling and Advertising of Foodstuffs, labels on food products must include the following points:

- a. The name of the product
- b. The name and address of the manufacturer, packer, seller, importer, or person on whose behalf the foodstuff is pre-packed
- c. A list of ingredients in descending order (of mass) under the heading "Ingredients"

- d. A label written in at least one of the official languages of South Africa. (This includes English)
- e. Instructions for special storage conditions, when applicable
- f. The product's country of origin

In practical terms, most U.S. products meet South African labeling regulations. However, there are regulations regarding the use of certain words and expressions that imply health-giving properties. Precise explanations of the terms and conditions for food product labeling can be found at <http://www.doh.gov.za/>. (Click on Documents, then Legislations, then Regulations Relating to Labeling and Advertising of Foodstuffs, August 8, 2002; #1055. Note that the annexure section of this document provides information on required nutrition analysis).

A useful reference is the GAIN Report SF6027, Food and Agricultural Import Regulations and Standards for South Africa, which was submitted by our office on July 17, 2006 and can be found at the following link: <http://www.fas.usda.gov/gainfiles/200607/146208337.pdf>

E. South Africa's Interaction with International Trade Organizations

South Africa is a member of the World Trade Organization (WTO) and follows the Harmonized System (HS) of import classification. South African exports are eligible for Generalized System of Preferences (GSP) and Africa Growth and Opportunity Act (AGOA) treatment in the United States, which brings US tariffs on most goods to zero. US shipments to South Africa qualify for Most Favored Nation treatment.

There is free trade between South Africa and the other four countries (Botswana, Lesotho, Namibia, and Swaziland) comprising the Southern African Customs Union (SACU). There will also be substantially free trade between South Africa and the European Union by 2008 as a result of the Free Trade Agreement between them. The Southern African Development Community (SADC) Free Trade Agreement should also allow the free exchange of goods among the 14 countries of the region when it comes into full effect, but this will be a long-term project.

A Trade, Development, and Cooperation Agreement containing a Free Trade Agreement (FTA) went into force between South Africa and the European Union (EU) on January 1, 2000. Under the FTA, the EU is committed to the full liberalization of 95 percent of South African imports over a 10-year transitional period, while South Africa is to liberalize 86 percent of EU imports over a 12-year transitional period.

F. General Import and Inspection Procedures:

Import Permits: All food consignments are subject to random checking and sampling at all points of entry in South Africa to ensure food items imported into the country are safe and comply with the prescribed standards and regulations. International freight forwarders normally handle documentation and other formalities with authorities at entry points. Provided all necessary documents are in order, no problems or delays should occur with customs clearance. Under the Import and Export Control Act of 1963, the Minister of Trade and Industry may control the import of certain goods into South Africa. The list of restricted goods has decreased in recent years. Products that still require import permits are fish and fish products.

New Export Procedures – SAD Roll out and implementation: On or about December 2006 we will see the introduction of the Single Administrative Document (SAD) for all customs clearances purposes. There will be a three-month implementation and grace period and perhaps by April 2007 all clearances with Customs will be done on a SAD.

The SAD will effectively replace the old DA forms, i.e the import bill of entry (DA 500) and the export bill of entry (DA 550), as well as all the other variants for different movements of goods. In summary the SAD is a multi-purpose document to be used for all types of importation and exportation, including permanent export, warehousing, temporary importation and temporary exportation to name a few.

The SAD is not new; in 2005 we saw it replacing the old CCA1 forms for cross border movement within the South African Customs Union (SACU). Its initial pilot was on the Trans-Kalahari Corridor (TKC) between Botswana, Namibia and South Africa.

The SAD is also capable of being used to clear a consignment through Customs in two or more countries. Such use of the SAD form will expedite Customs clearance and enhance the effectiveness of Customs Control.

Tariffs: Since 1994 South Africa has reformed and simplified its tariff structure in order to comply with its WTO commitments. It has reduced tariff rates from an import-weighted average tariff rate of more than 20 percent to 7 percent. Notwithstanding these reforms, importers have complained that South Africa's tariff schedule remains complex and can create uncertainty. Tariff rates mostly fall within eight levels ranging from 0 percent to 30 percent, but some are higher. There are high tariffs on imports of textiles and apparel. Antidumping duties remain on U.S. chicken parts and the South African Poultry Association has petitioned the Government (ITAC) to extend those duties for another 5 years. All imports are showing exceptional growth in 2006, but the delay in lifting the anti-dumping duty of US bone-in cuts limits US exports. Please read SF 6033 for further information on poultry duties.

Biotechnology: There has been an active debate in South Africa on food produced using modern biotechnology - often referred to as genetically modified food (GM). The Genetically Modified Organisms Act that came into force on December 1, 1999, aims to ensure that all activities involving the use of GMOs (including production, import, release and distribution) will be carried out in such a way as to limit possible harmful consequences to the environment. In June 2001, the South African government published the National Biotechnology Strategy for South Africa, expressing the South African government's intent to stimulate the growth of biotechnological industries. The document states that biotechnology can make an important contribution to national priorities, particularly in the area of human health, food security and environmental sustainability.

As of June 2005, South Africa had approved 10 different general release genetically modified seed varieties, known as "events," for commercial planting, import, export, human consumption or animal feed. There are several other events that are allowed for import only and are not locally planted, along with others that are being field tested for possible future South African production. Industry analysts estimate that cotton has seen the highest rate of adoption with 92% of the local crop now GM. The SA industry was also quick to adopt a new GM cotton seed with stacked traits of insect resistance and herbicide tolerance that were approved in September 2005. Stacked varieties constituted 40% of cotton planted last year, while varieties with only insect resistance constituted 39% and those with herbicide tolerance constituted 13%.

The South African Department of Health created regulations regarding GMO labeling. These regulations, issued on January 16, 2004, state that food with genetically modified ingredients require labeling only if its composition, nutritional value, or mode of storage or cooking is significantly different from conventional food.

For more information on GMO labeling and definitions of GMOs that require labeling, please refer to Regulations Relating to the Labeling of Foodstuffs Obtained Through Certain Techniques of Genetic Modification 16 January 2004 (www.doh.gov.za, click on documents then legislation, then regulations). For more information on biotechnology in South Africa, see www.africabio.com. Further references are the Gain reports SF6027 (Trade Policy Report and Food and Agricultural Import Regulations and Standards Report.) Also, see SF6029 (Biotechnology).

SECTION III: MARKET SECTOR STRUCTURE AND TRENDS

A. Competition:

Exports: South Africa's agricultural exports for 2005-06 reached a total of \$4.88 billion, up from \$4.81 billion in 2004-05. South Africa's five largest export destinations were Japan (\$512 million), the U.K. (\$498 million), the Netherlands (\$422 million), the United States (\$254 million) and Italy (\$219 million). South Africa's most important exports to the United States are fresh citrus, wine, tree nuts, fruit juice, lobster, non-coniferous wood chips, and value-added wood products.

Imports: South Africa's total agricultural imports for 2005-06 rose to \$3.1 billion from \$2.1 billion in 2004-05. The leading suppliers were Argentina (\$439 million), Brazil (\$329 million), the United States (\$202 million), Malaysia (\$161 million), and the U.K. (\$182 million). South Africa's major imported agricultural commodities from the United States in 2004 were wheat, coarse grains, other prepared foods such as frozen and canned vegetables, other intermediate agricultural products, hardwood lumber and hides & skins.

B. Distribution Systems for Processed Food Products:

Retail: Retail trade outlets in South Africa offer the full spectrum available in the United States. These range from the neighborhood convenience drugstore (called cafés), to the small general dealer, specialty stores handling a single product line (for example, clothing, electronics, furniture), exclusive boutiques, chain stores (groceries, clothing, toiletries, household goods), department stores, cash and carry wholesale-retail outlets, to co-operative stores serving rural areas. About 90 percent of inventories of consumer-ready products in these stores are domestically sourced. A major phenomenon in South Africa has been the evolution of hypermarkets, which sell large quantities of almost all consumer goods, similar to a Price Club retail store in the U.S. The hypermarkets, located in suburban shopping centers/malls, have disrupted the traditional distribution chain by purchasing directly from manufacturers and bypassing the wholesaler, and with low margins achieving high turnover, thereby placing price pressure on all competing outlets.

Most U.S. exporters of consumer goods sell directly to South African retail organizations, such as department stores, chain stores, and cooperative groups of independent retailers, which assume the functions of wholesale buying, selling, and warehousing.

It may be necessary to appoint an official after-sales agent for products of a technical nature in South Africa. This may be a company that does not import or market the product in question, but rather, because of its geographical reach, technical abilities and goodwill in the

market, acts as the certified service agent. Appointing an appropriate after sales agent is crucial in ensuring that the product develops a respected reputation in the South Africa. Importers: In South Africa, only a few importers specialize in one product. Most importers are generalists who import a wide range of food products. It is important for an exporter to work with someone locally who knows the market well for the specific product in question. Agents who represent one foreign supplier are also relatively rare.

Wholesalers: Catering Wholesalers: Catering wholesalers purchase food products from various manufacturers and resell these products predominantly to catering establishments. Catering wholesalers offer the establishments a variety of food products, and some carry a select product range of specially packed "house brands". They also import large volumes of products that are sold to catering establishments.

Broker Agents: Broker Agents are mostly involved with government or other large food supply contracts. They tender for government contracts on behalf of different manufacturers. Some agents have their own warehouses and distribution facilities.

Distributor Agents: The distributor agent distributes food products on behalf of manufacturers without necessarily taking ownership of the actual products. A distributor is usually required to adhere to prices determined by the manufacturer and is paid a fee to distribute the products.

Contract and Independent Caterers: Contract and independent caterers purchase food products directly from manufacturers, wholesalers, and catering wholesalers.

For more information on distribution systems, please refer to www.mbendi.co.za. Click on Trade Services (under Related) then guides to importing, then "Succeeding in the SA market"/ "Market Entry Strategies."

C. Trends in Advertising and Trade Promotion

South Africa has a sophisticated advertising industry. The four key players in South Africa's advertising industry are the Association of Advertising Agencies (AAA), the Association of Marketers (ASOM), and the two major media bodies, the National Association of Broadcasters (NAB) and the Print Media Association (PMA). Additional information can be obtained from the Association of Marketers and the Association of Advertising Agencies (see contact details at the end of the report).

More recently, food promotions have moved towards advertising goods based on health related issues and "nutrition function" claims. Some South African consumers are becoming diet and health conscious, and are becoming more responsive to products that address issues such as weight loss or disease prevention. Also, American television and culture is having an increasing influence on South Africans, leading to the adoption of social morays like "thin is beautiful."

D. Trends in Tourism:

Tourism, South Africa's fastest growing industry, with an estimated annual growth rate of 12 percent, is the fourth largest industry in South Africa, supporting about 700 hotels, 2800 guesthouses and 10,000 restaurants. The Travel and Tourism industry in South Africa is a major contributor to the economy and presently accounts for 8.2% of GDP. The current employment figure of 7% of South Africa's workforce is expected to grow to over 1.2 million people by 2010, when South Africa will host the FIFA World Cup (Soccer). Tourism plays a significant role in the domestic economy employing some 512,000 or 3% of the total

workforce and contributing R73 billion or 7.1% to Gross Domestic Product. An average tourist spends R1,548 per day, staying about 12 days in the country, but the strong rand has eroded South Africa's price competitiveness as a tourist destination. According to the South African Department of Environmental Affairs and Tourism, more than 1.3 million foreigners visited South Africa between January through September 2005, a 4.3% per cent increase from the previous year.

South Africa has the highest arrivals of any African country and represents 20% of the continent's arrivals. Considering competitors such as Thailand, Australia and Brazil, only Thailand surpasses South Africa in terms of total foreign arrivals. Tourism is central to growth and development in South Africa. In responding to this, the South African government has launched the Accelerated and Shared Growth Initiative (Asgisa), whose ultimate objective is to halve unemployment and poverty by 2014. The Asgisa aims to create at least 500,000 tourism jobs by 2014, while Environment Affairs and Tourism said in August 2005 that permanent jobs were created through domestic tourism during the first five months in 2005 or average of 100,000 per month. The increase in the first nine months of 2005 was 10.3% annually.

Statistics South Africa released the following tourism data on January 11, 2006: the number of tourists to SA rose 14.3% year on year in August, continuing the steady upswing in tourist figures seen in recent months on the back of a more stable rand. Data released by Statistics SA show that the total number of foreign travelers who visited SA from the rest of the continent, as well as overseas tourists, rose to 650,290 compared with 568,890 in August 2004. A dip in the numbers earlier this year, particularly from international markets, was attributed to the strong rand. The strength of the local currency has also affected tourists' spending patterns and length of stay.

The UK remained the leading country of origin of overseas travelers, 35,015 (21.4%) of total tourists, followed by the US with 23,914 (14.6%) travelers and Germany in third place, with 15,311 (9.3%) tourists visiting SA during that period. The highest increase in the number of arrivals from these leading source countries was from the U.S. Other main countries of origin of overseas travelers were Italy with 10,578, France (9,616) and the Netherlands (7,812). Overseas visitors in August totaled 163,888.

Travelers from African countries still constitute the majority of tourists coming into the country, with the largest increase coming from Mozambique. Travelers from Mozambique increased 93.4% to 64,181 in August, as visa requirements have become less stringent. "The most common mode of travel used by foreign travelers arriving in SA was road, involving 71% travelers, and for the total number of travelers departing, road constituted the most common mode of travel (69.9%)," Stats SA. Most foreign tourists bednights (44%) and particularly African tourist bednights (51%), are spent in the homes of friends and relatives, followed by in hotels with similar percentages both Africa and overseas (25% overall). Overseas visitors are more likely than Africans to use all other forms of accommodation such as game lodges and self-catering, except guest houses.

Benefiting from this growth in terms of increased trade and investment opportunities is the hospitality industry, which includes a vast array of well-developed and sophisticated hotels, restaurants, cafes, resorts, country clubs, fast food outlets, bars, airlines, supermarkets and convenience stores.

South Africa, with an expanding middle class and a relatively stable economy, presents growing opportunities for U.S. niche food products. In addition, with its well-developed transportation infrastructure, South Africa is ideally placed to serve as an export hub to markets throughout the region.

Eco-tourism is the fastest growing segment of the South African tourism industry, including bird watching, nature photography, hiking and mountaineering, visits to cultural heritage villages and sites of San (bushman) rock art.

The tourism accommodation industry in South Africa provides a wide spectrum of lodgings - from the formal hotel sector to the informal holiday flats and cottages, game lodges and reserves, guesthouses, youth hostels, and bed-and-breakfast inns. Rates are considered modest depending on the type of accommodations. Tap water is safe to drink in most areas, and there is normally a selection of still and sparkling waters in restaurants. Eating customs and menus are similar to those in Western Europe. According to the Department of Environmental Affairs and Tourism (DEAT) issue of February 21, 2006, since 2003 the Grading Council has officially graded 70% of all accommodation rooms in South Africa. In 2005, the Grading Council was invited by the World Tourism Organization twice to present South Africa's Star Grading System model case-study in promoting destinations.

For more information on South African tourism, please refer to South African Tourism's Research section at www.southafrica.net (at the bottom of the home page click on "research.")

E. Trends in Online Sales:

According to World Wide Worx, leaders in technology Research in South Africa, online retail in South Africa 2006 – Broadband and experience are the keys to online retail. As of January 2006, online retail in South Africa reportedly grew by 20% in 2005, down from the 25% growth rate of 2004, as the industry finds itself lagging due to the high cost of broadband internet access in South Africa.

The total spent on online retail goods in South Africa in 2005 was R514-million, up from R428-million in 2004, according to a new report from World Wide Worx, "Online Retail in South Africa 2006". A further 20% increase is anticipated in 2006. The full report is available on World Wide Worx website at: www.theworx.biz

SECTION IV: BEST CONSUMER ORIENTED PRODUCT PROSPECTS

Five-year trends show that some U.S. Consumer-Oriented Agricultural exports to South Africa are growing. Of interest is the Other Consumer-Oriented Products sub-category, which reached a 30-year high in 2005. Within this sub-category, other food preparations (HS210690) have shown consistent and substantial increases. Other high value exports that have shown sustained growth are almonds (HS08021200), pistachios (HS08025000), canned pink salmon (HS16041100), whiskey (HS220830) and vegetable seeds (HS120991).

According to 2005 data, the United States enjoys a dominant position in the almond, canned salmon and other food preparations markets, holding 90.10%, 77.54% and 20.19% market shares respectively. The whiskey market is significantly different. In 2004, the U.K. held 67.02% of market share while the United States held only 12.69%. However, the United States increased whiskey exports to South Africa in 2004 and 2005 and now holds 28.21% of the market. The U.S. has seen annual growth increases over the past 5 years by an average of 21% per year in this sector. This growth may be due, in part, to a South African preference for successfully promoted American branded products (Jack Daniels, for example). This preference is expected to continue and should help other American products be more competitive in South Africa. This along with successful marketing techniques and brand awareness may lead to the growth of other American-branded, high-value products.

Product Category	2005 South Africa Market Size	2005 U.S. Exports to S.A. (\$1,000)	Annual Import Growth U.S.	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S.
Whiskey HS220830	140.127	25.825	55.04	1.54	United Kingdom has large market share and a first mover advantage.	American brands are considered high quality and attract new, younger consumers.
Pistachios HS08025000	0.82	0.672	258.21 %	Free	Iran has 69.28% Market Share	
Almonds HS08021200	7.040	6.343	52.70%	Free		U.S. has largest market share.
Canned Pink Salmon HS16041100	1.324	1.026	-44.37%	25%		U.S. registered a decline in export but still holds largest market share.
Other Food Preparations HS210690	90.514	14.749	11.18%	Varied		American brands are becoming increasingly popular given their high quality attributes
Vegetable Seeds HS120991	12.630	2.592	-15.52%	Free	Netherlands leads sector with 31.09% Market Share	

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

A. Contact Information for Industries Mentioned in the Report.

Franchise Association of Southern African (FASA)

Tel: 27-11-615-0359

Fax: 27-11-615-3679

Contact: Ms. Vera Valasis, Executive Director

Website: <http://www.fasa.co.za>

Email: fasa@fasa.co.za

South African Paper Industry

Tel: 27-11-360-0000 or 27-11-407-8111

Fax: 27-11-816-1405 or 27-11-339-8022

Website: <http://www.sappi.com>

The Direct Marketing Association of South Africa
(Advertising Standards Authority of South Africa)

Tel: 27-11-781-2006

Fax: 27-11-781-1616

Email: Cheryl@asasa.org.za

Department of Trade and Industry
International Trade Administration Commission

Tel: 27-12-394-3590/1

Fax: 27-12-086-184-3888

Website: <http://www.dti.gov.za>

Department of Trade and Industry

Directorate: Technology Promotion

Tel: 27-12-394-9500 or

27-12-086-184-3384 (Customer Contact Center)

Website: <http://www.dti.gov.za>

CIPRO (Companies and Intellectual Property Registration Office)
South African Companies Regulatory Office - Registrar of Companies

Tel: 27-12-394-9500

Fax: 27-12-394-9501

Email: contactcentre@cipro.gov.za

<http://www.cipro.co.za>

School of Board of Advertising Agencies (AAA)
(Assist major retail companies with branding/concepts of products)

Tel: 27-11-781-2772

Fax: 27-11-781-2796

Email: lizelle@aaaltd.co.za

The Industrial Development Corporation of SA, Ltd (IDC)

Tel: 27-11-269-3000

Fax: 27-11-269-3116

Contacts: Mr. Geoffrey Qhena, Managing Director

Website: <http://www.idc.co.za>

World Wide Worx

Tel: 27-11-782-7003

Fax: 27-11-782-7063

Email: info@theworx.biz

Or Arthur Goldstuck, Managing Director

arthurg@internet.org.za

Mobile: 27-83-326-4345

B. Other Exporter Guides and General Market Information

www.ussatrade.co.za: The US Commercial Service has an annual South Africa Country Commercial Guide that presents a comprehensive look at South Africa's commercial environment, using economic, political and market analysis. The guide is currently being formatted for online access. Copies of the guide may be obtained through the US Commercial Service: Johannesburg.Office.Box@mail.doc.gov Tel: 27-11-778-4800

www.mbendi.co.za: This site contains information on different aspects of exporting to South Africa including an exporter guide entitled "Succeeding in the South African Market." In order to access the exporter guide, click on Trade Services (under Related) then on guides to importing. This page contains several links related to exporting goods to South Africa, including the guide, which provides an overview of South Africa and its trade environment.

www.werksmans.co.za: This site also contains general information on doing business in South Africa. In order to view it, go to the website and click on SA Business Guide.
Tel: 27-11-535-8000
Fax: 27-11-535-8600

The website of the law firm Cliffe Dekker provides general information on basic legal issues for doing business in SA. The topics range from establishing an office in South Africa to taxation and black economic empowerment. This can be found through their website at www.cliffedekker.co.za, click on literature, then Business and Investment in South Africa.

C. Post Contact

If you have any questions or comments regarding this report or need further assistance, please contact AgPretoria at the following address:

Foreign Agricultural Service
U.S. Embassy Pretoria, South Africa
Washington, D.C., 20521-9300
Tel: 011-27-12-431-4057
Fax: 011-27-12-342-2264
[Email: agpretoria@fas.usda.gov](mailto:agpretoria@fas.usda.gov)

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's website at: <http://www.fas.usda.gov>

APPENDIX I: STATISTICS**A. KEY TRADE & DEMOGRAPHIC INFORMATION**

2005 Agricultural Imports From All Countries (\$Million) / U.S. Market Share	\$2,475/8%
2005 Consumer Food Imports From All Countries (\$Million)/ U.S. Market Share	\$705/6%
2005 Edible Fishery Imports From All Countries (\$Million) / U.S. Market Share	\$96/5%
2005 Total Population (Millions) / Annual Growth Rate	47.4/.70%
Urban Population (Millions) / Annual Growth Rate	22/1.9%
Number of Major Metropolitan Areas	9
Size of Middle Class	9,478,480y
2005 Per Capita Gross Domestic Product Purchasing Power Parity	\$12,000
Unemployment Rate	25.6%
Per Capita Food Expenditure (U.S. Dollars)	\$458
Percent of Female Population Employed	51%
2005 Average Weighted Exchange rate	\$1=R6.36 ²

B. CONSUMER FOOD & EDIBLE FISHERY PRODUCT IMPORTS

South Africa Imports (In Millions of Dollars)	Imports from World			Imports from the U.S.			U.S. Market Share %		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
BULK AGRICULTURAL TOTAL	590	630	871	66	61	72	11	10	8
Wheat	88	110	199	7	34	64	8	31	32
Coarse Grains	134	27	19	38	6	2	28	22	13
Rice	118	153	207	17	15	1	15	10	.09
Soybeans	6	5	5	1	1	1	17	.06	.04
Other Oilseeds	6	8	16	1	1	1	2	2	.86
Cotton	59	74	118	0	1	1	0	.91	.03
Tobacco	63	75	115	1	1	4	2	.90	3
Rubber & Allied Gums	49	65	91	1	1	1	.24	.11	.31
Raw Coffee	13	17	21	1	1	0	.10	.18	0
Cocoa Beans	6	8	5	0	0	0	0	0	0
Tea (Incl. Herb Tea)	16	16	20	1	1	1	.34	.07	.02
Raw Beet & Cane Sugar	2	8	9	1	1	1	.38	.36	.11
Pulses	22	42	28	1	4	1	5	9	4
Peanuts	2	13	10	0	0	0	0	0	0
Other Bulk Commodities	5	8	10	1	1	1	.43	.34	.19

INTERMEDIATE									
AGRICULTURAL TOTAL	524	617	899	42	44	79	8	7	9
Wheat Flour	1	1	1	1	0	0	6	0	0
Soybean Meal	90	86	166	1	1	6	.02	0	4
Soybean Oil	41	64	101	1	1	1	.90	1	.29
Vegetable Oils (Excl. Soybean Oil)	137	173	248	3	1	1	2	.71	.48
Feeds & Fodders (Excl. Pet Foods)	18	24	34	3	5	6	15	20	17
Live Animals	7	9	13	1	1	1	1	8	3
Hides & Skins	17	28	25	1	1	8	2	.09	31
Animal Fats	16	12	16	5	5	7	28	40	44
Planting Seeds	23	22	29	10	7	10	42	32	35
Sugars, Sweeteners, & Beverage Bases	8	13	22	1	2	5	10	18	24
Essential Oils	30	33	46	5	5	5	15	14	12
Other Intermediate Products	137	1527	197	15	18	29	11	12	15
CONSUMER-ORIENTED									
AGRICULTURAL TOTAL	330	508	705	26	33	43	8	6	6
Snack Foods (Excl. Nuts)	17	437	85	1	1	1	4	2	2
Breakfast Cereals & Pancake Mix	4	4	4	1	1	1	3	2	2
Red Meats, Fresh/Chilled/Frozen	27	44	81	1	1	1	2	1	.14
Red Meats, Prepared/Preserved	2	5	7	1	1	1	.33	.09	.16
Poultry Meat	35	72	113	1	4	1	4	5	.61
Dairy Products (Excl. Cheese)	32	33	37	1	1	1	.13	.23	2
Cheese	9	14	16	1	1	1	2	1	3
Eggs & Products	1	2	2	1	1	1	38	38	35
Fresh Fruit	3	5	9	1	1	0	.92	.91	0
Fresh Vegetables	1	2	2	0	0	0	0	0	0
Processed Fruit & Vegetables	25	42	57	2	2	1	8	4	3
Fruit & Vegetable Juices	4	12	11	1	1	1	6	2	6
Tree Nuts	12	16	26	2	3	5	18	19	20
Wine & Beer	10	25	23	1	1	1	.18	.37	.19
Nursery Products & Cut Flowers	4	6	7	1	1	1	4	1	3
Pet Foods (Dog & Cat Food)	8	12	16	2	3	7	24	30	40
Other Consumer-Oriented Products	137	173	212	16	18	24	12	10	11
FOREST PRODUCTS (EXCL. PULP & PAPER)	140	178	232	25	23	24	17	13	10
Logs & Chips	4	7	6	1	1	1	15	11	9
Hardwood Lumber	56	63	85	12	11	12	21	18	15
Softwood and Treated Lumber	6	10	14	1	1	1	.45	.51	.28
Panel Products (Incl. Plywood)	37	47	61	10	9	8	27	19	13
Other Value-Added Wood Products	37	51	66	2	2	3	5	4	4

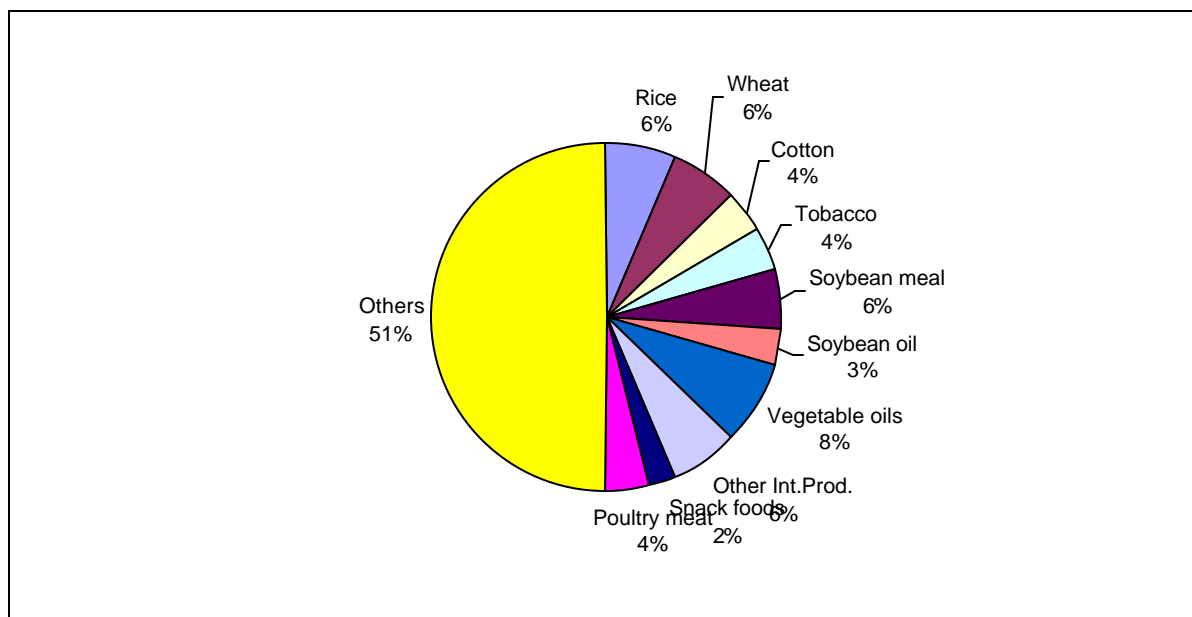
FISH & SEAFOOD PRODUCTS	48	71	96	1	2	5	2	3	5
Salmon	3	5	8	1	2	3	23	32	34
Surimi	1	1	1	0	0	1	0	0	13
Crustaceans	14	15	28	1	1	1	.85	.01	.23
Groundfish & Flatfish	5	9	12	1	1	1	.67	.45	5
Molluscs	7	13	15	1	1	1	.19	.75	9
Other Fishery Products	19	28	33	1	1	1	.08	.30	.30
AGRICULTURAL PRODUCTS TOTAL	1445	1754	2475	133	138	193	9	8	8
AGRICULTURAL, FISH & FORESTRY TOTAL	1633	2003	2804	159	163	222	10	8	8
Source: FAS Global Agricultural Trade System using data from the United Nations Statistical Office									

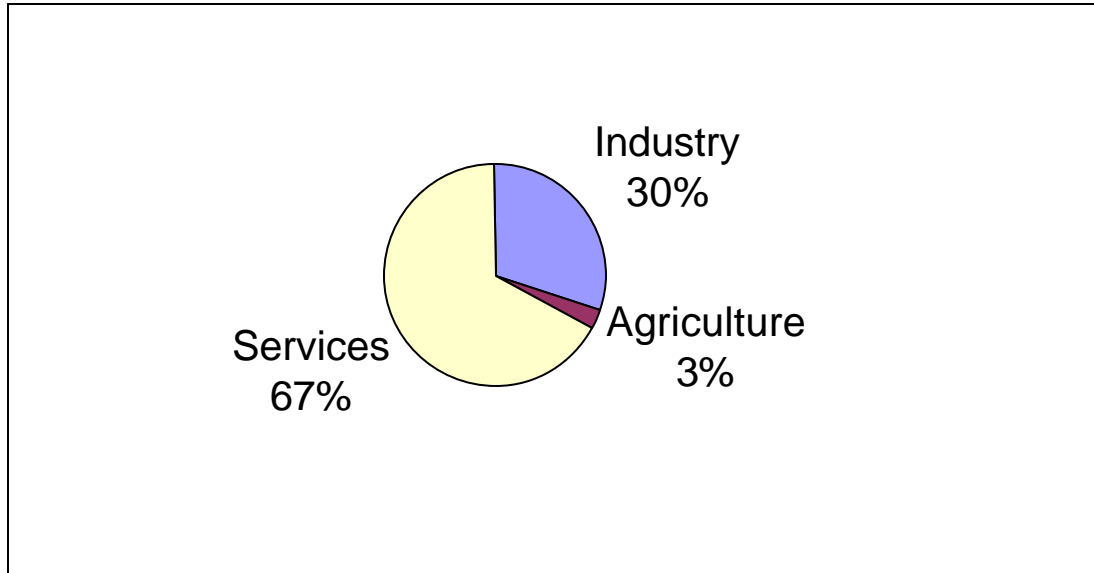
C. TOP 15 SUPPLIERS OF CONSUMER FOODS & EDIBLE FISHERY PRODUCTS

CONSUMER-ORIENTED AGRICULTURAL TOTAL - 400				FISH & SEAFOOD PRODUCTS – 700			
Reporting: South Africa Top 15 Ranking	Import 2002	Import 2003	Import 2004	Reporting: South Africa Top 15 Ranking	Import 2002	Import 2003	Import 2004
	Value 1000\$	Value 1000\$	Value 1000\$		Value 1000\$	Value 1000\$	Value 1000\$
Brazil	27022	60550	150976	India	4429	6799	20443
United States	25908	32954	42668	Thailand	7261	12245	14480
Netherlands	20409	28431	39503	Japan	1805	2017	6542
France	22113	24860	39164	Philippines	7039	8078	6274
Italy	17265	27727	35607	United States	849	1902	4895
Australia	23269	27847	30830	Norway	2570	3607	4762
New Zealand	17680	19455	28048	Mozambique	5577	7112	4411
United Kingdom	16645	26299	26805	Spain	1450	3900	4193
China (Peoples Republic of)	8509	26869	26242	New Zealand	1534	3331	3267
Germany	19290	21594	22433	Chile	687	1405	2553
Ireland	9118	19430	19980	China (Peoples Republic of)	1762	1495	2466
Argentina	10017	22333	19631	Argentina	978	3190	2220
Austria	8920	12628	15179	Taiwan (Estimated)	1813	3391	2205
Denmark	6585	10412	15123	Canada	496	1127	2048
Thailand	8616	9813	14583	Portugal	814	1332	1507
Other	88985	136249	178567	Other	8454	9611	14059
World	330434	507553	705437	World	47524	70553	96338

Source: FAS Global Agricultural Trade System using data from the United Nations Statistical Office

D. SOUTH AFRICA’S TOP AGRICULTURAL IMPORTS FROM THE WORLD



E. ECONOMIC SECTORS OF SOUTH AFRICA IN 2005

Note: Following sources at for Table of Appendix I: Statistics – Key Trade & Demographic Information

2 source: Statistics SA, www.statssa.gov.za PO302 (2006 midyear population estimates)

3 source: South Africa 2001 census, www.statssa.gov.za Middle class defined as employed South Africans, older than 15 years, who earn more than R3200 per month and includes their household dependents. According to census data, there were 3.8 people per average household in 2001 and 2,494,337 people earning an income greater than R3200.

4 source: National Department of Agriculture, Economic Review of South African Agriculture 2003", www.nda.agric.za

5 source: South Africa 2001 census, www.statssa.gov.za

6 Up from \$1=R6.44 in 2004. Source: Federal Reserve Bank, www.federalreserve.gov