



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 11/20/2008

GAIN Report Number: SF8042

South Africa, Republic of

Retail Food Sector

Annual Report

2008

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Report Highlights:

South African retailer market leaders Shoprite, Pick n Pay, Spar, Massmart and Woolworths continue adapting to changing conditions and perfecting their store formats while expanding across the borders into the Southern African countries and beyond. 2007 value sales of supermarkets grew by 22 percent to reach US\$ 10 billion, mixed retail outlets grew by 7 percent to reach US\$ 6 billion, forecourt retailers recorded value sales growth of 9 percent to reach US\$ 0.9 billion, and convenience stores grew by 10 percent to reach US\$ 0.8 billion.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Pretoria [SF1]
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SECTION 1. MARKET SUMMARY

South Africa, a growing retail market with a population of around 49 million people, possesses a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout Southern Africa. The South African retail market consists of a few major supermarkets chains, convenience chains, and some independent stores. The current value sales of the South African retail supermarkets grew by 22 percent in 2007 to reach US\$ 10 billion. According to ACNielsen Research, currently 54 percent of retail sales occur in the major supermarkets chains, Shoprite, Pick n Pay, Spar and Woolworths. It is predicted that this figure will reach 60 percent in 2008, which will bring South Africa in line with the global trends. The retail food sector continues to expand, while supermarkets, convenience stores and forecourts are rapidly becoming the dominant food retail outlets. Current value sales of convenience stores grew by 10 percent to reach US\$ 0.8 billion in 2007, whereas forecourt retailers recorded value sales growth of 9 percent to reach US\$ 0.9 billion in 2007. A boom in the franchise sector, convenience stores, and forecourts, which are good venues for imported products, provide better access and convenience for consumers.

The economic impact of South Africa hosting 2010 Soccer World Cup is expected to result in \$350 million in improvements and investment projects, and will impact the overall growth in the food and beverage sector. Best prospects for U.S. products include several high value products including almonds, cultivated ginseng root, canned salmon, American bourbon whisky, new oak staves for wine barrels, sauces, and frozen food preparations. These items have shown consistent growth over the last five years and represent important opportunities for U.S. exporters.

South Africa has a two-tiered economy, one rivaling other developed countries and the other with only the most basic infrastructure. It can be characterized as a productive and industrialized economy that exhibits many characteristics associated with developing countries, including a division of labor between formal and informal sectors and uneven distribution of wealth and income. The formal sector, based on mining, manufacturing, services, and agriculture, is well developed.

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 on a self-serve basis. 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.

Many 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 African market.

The South African food and beverage market is becoming increasingly sophisticated and is supplied by both local and imported products.

According to Statistics South Africa, retail trade sales at current prices, for the third quarter of 2008, increased by 11.2 percent, compared with the third quarter of 2007. Contributors of the types of retailers are highlighted in a table below.

1.1. Retail Trade Sales

Contribution of the types of retailers to the percentage change in retail trade sales at current prices:

Type of Retailer	July – September 2007 (\$ million)	Weight 1/	July – September 2008 (\$ million)	Difference between July – September 2007 and July – September 2008 (\$ million)	Percentage change between July – September 2007 and July – September 2008	Contribution (percentage points) to the percentage change in total sales 2/
General Dealers.	5,946	40.2	6,701	755	12.7	5.1
Retail trade in specialized food, beverages and tobacco stores	1,604	10.8	1,753	149	9.3	1.0
Retailers in pharmaceutical and medical goods, cosmetics and toiletries.	617	4.2	746	129	20.9	0.9
Retailers in textiles, clothing, footwear and leather goods.	2,604	17.6	2,925	321	12.3	2.2
Retailers in household furniture, appliances and equipment.	1,041	7.0	999	-43	-4.1	-0.3
Retailers in hardware, paint and glass.	1,112	7.5	1,208	95	8.5	0.6
All other retailers	1,873	12.7	2,123	129	13.3	1.7
Total 3/	14,799	100.0	16,456	1,657	11.2	11.2

Source: Statistics South Africa

1/ Weight is the percent contribution of each type of retailer to the total retail trade sales for the three months up to the current month of the previous year.

2/ The contribution to the percentage change is calculated by multiplying the percentage change of each type of retailer with its corresponding weight.

3/ Figures have been rounded off. Therefore, discrepancies may occur between sums of the component items and the totals.

1.2 Retail trends, consumer tastes and preferences

Despite the variety of options available to South African consumers, a source survey revealed that:

- Wellness foods, whereby health and convenience will continue to be key drivers.
- Environmental awareness and ethical eating such as recycling, waste reduction and organic farming and produce, are important to South African consumers.

- The increase in supermarkets and convenience supply of fresh food departments, deli, home meal replacement, bakery, or ready to eat or easy to prepare foods are expected to become even more popular.
- Booming of frozen foods due to no waste in stock by consumers but only use what they want to consume.
- Increase in dairy products such drinking yoghurt, smoothies and ice cream
- Fresh fruit and vegetables, nuts, grains and legumes are increasingly part of the daily diet for some consumers.
- Food labeling is growing in importance as consumers want to be informed about what they are eating.
- Trends shows that water, either premium, imported, flavored, enhanced and oxygenated have achieved success and account for a large portion of the beverage market.
- 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. On the other hand, product attributes that may help a product succeed in township markets are less expensive and/or single service package sizes and ambient-stable products that do not require refrigeration.
- A steady increase in the number of households in South Africa, which is predicted to increase from the current number of 9.8 million to 11.2 million in 2008, signals a necessary increase in spending. Further good news for retailers is that South Africans are not great savers of their income. With a saving ratio of only 0.6 percent, as much 54 percent of income goes to repaying debt, with the rest being spent. Increased growth in all corporate stores is predicted, as well as increased growth in franchise and voluntary groups.

1.3 Import and Export Trade Data

Imports: In 2007, the United States exported \$318 million (\$149 million in 2006) of agricultural, fish and forestry products to South Africa. The increase is attributable to increase in bulk agricultural commodities such as wheat due to poor wheat crops in competing countries, a newfound preference for U.S. hard red winter wheat, and a favorable exchange rate. Intermediate agricultural products such as sugars, sweeteners and beverage bases scooped the highest export levels in 2007, since at least 1970. Planting seeds continue to be an important export to South Africa, and animal fats have also shown consistent and substantial growth over the past five years. Other high-value products such as almonds, cultivated ginseng root, canned salmon, Kentucky bourbon, frozen food preparations, and sauces have shown consistent growth over the last five years and represent important opportunities for U.S. exporters.

Argentina is South Africa's largest supplier of agro food products with 20.4 percent of total agro food imports in 2007. The leading suppliers were Argentina (\$875 million), Brazil (\$402 million), the United States (\$290 million), the United Kingdom (\$255 million), and Thailand (\$213 million). South Africa's major imported agricultural commodities from Argentina were plant seed oils (28.3 percent), soybean meal (23.9 percent) and corn (22.8 percent); from Brazil were poultry meat (43.6 percent), plant seed oils (20.0 percent), and sugar (7.5 percent). From the United States major imports were wheat (40.0 percent), whisky (9.9 percent), and prepared foods (9.6 percent). The United Kingdom exported whisky (63.0 percent), prepared foods (6.6 percent). Thailand major export was rice (92.7 percent).

Exports: South Africa's agricultural, fish, and forestry exports to the United States totaled \$212 million in 2007; \$34 million lower than 2006. 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. Cooperation between Animal and Plant Health Inspection Service (APHIS), South Africa's Department of Agriculture, and the Deciduous Fruit Producer's Trust in setting up pre-clearance programs for fresh apples, citrus, grapes, and pears has led to an increase of \$69 million in 2007 from \$57 million in 2006 to the world and \$7 million in South Africa's fresh fruit exports to the United States.

1.4 Trends in Online Sales

According to the local publication of September 2007 article, the World Wide Worx report called "Online Retail in South Africa 2007", South Africa online retail is now starting to see good signs of growth. By the end of 2007, online spending on retail goods in South Africa was expected to have growth of more than 35 percent, after 33 percent growth in 2006. The total spent was expected to be US\$ 124 million, up from US\$ 92 million in 2006. The figure excludes the sale of online air tickets, which dominates the market and tend to skew the figures if they are included. The full report is available on World Wide Worx website at: www.theworx.biz.

The most popular goods to purchase online are groceries, apparel and books. The fastest growing retail categories (in descending order) are flowers and gifts, apparel, food, beverages, and groceries.

1.5 Food Standards and Regulations

Useful references are post prepared GAIN Report SF8026, and SF8034, Export Certificate and Food and Agricultural Import Regulations and Standards for South Africa respectively, and can be found at the following links:
<http://www.fas.usda.gov/gainfiles/200808/146295453.pdf>

1.6 Advantages and Challenges Facing U.S. Products in South Africa

Advantages	Challenges
South Africans are developing a taste for western foods and are willing to try anything once.	Consumers may need to be educated in preparing and eating products.
The growing retail food industry needs imported food and beverage products.	Acquired tastes and preferences for traditional, locally produced products.
Favorable exchange rate, strong rand with the weak dollar make American imports more affordable.	Competition from other countries and locally produced products. 90 percent of products in the retail outlets are locally produced. South Africa's major retailers have joined forces with the Proudly South African (PSA) campaign, launched by the Government, to give PSA suppliers preferential tendering for shelf space, and to promote South African products.
South Africa is a gateway for regional markets.	Consumers are price-conscious and some do not exhibit brand loyalty. Products must constantly be promoted.
South African consumers view U.S.	Retailers and consumers have limited

products as high quality.	knowledge about the variety of U.S. products.
South African importers seek suppliers who can offer reliable and quality products, consolidators of mixed containers at competitive prices.	Challenging for U.S. suppliers to respond to trade lead inquiries in a timely fashion.
Importers and distributors can help develop brand loyalty.	

SECTION 2: ROAD MAP FOR MARKET ENTRY

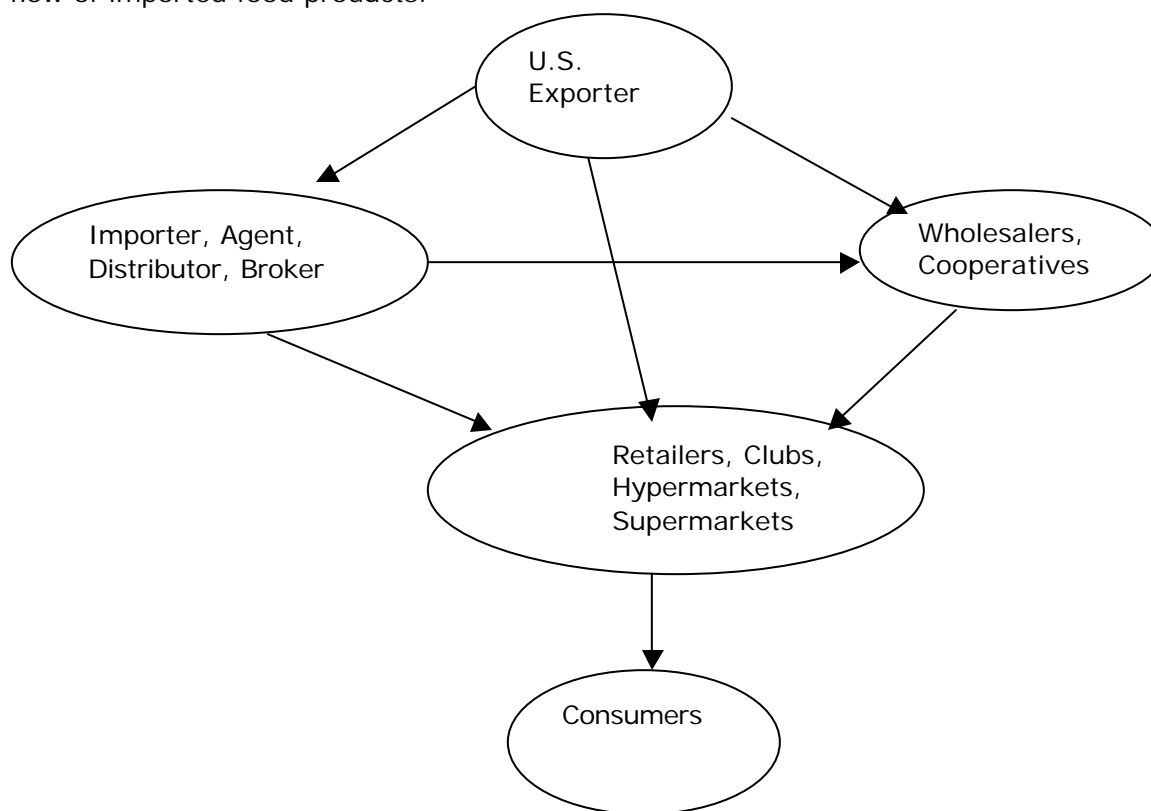
2.1 Supermarket:

2.1.1 **Entry Strategy:** Introducing a product successfully depends on promotion and support from the consumer. In South Africa's very competitive marketplace it is essential that U.S. exporters choose the correct agent or distributor. Evidence shows that the most successful U.S. company ventures are those that have researched their market thoroughly before engaging in a search for agents and distributors. Once contacts are established, it is advisable to visit South Africa since firsthand knowledge of the market is highly useful. Research has shown that a new opportunity in South Africa is aggressive marketing by sampling and advertising on board local airlines.

In South Africa the terms "Agent" and "Distributor" have a very specific meaning. Agents work on a commission basis after obtaining orders from customers. Distributors buy and sell products directly to their customers. It is common to appoint a single agent capable of providing national coverage either through one office or a network of branch offices. In addition to their role as the local representatives of U.S. exporters, agents should be able to handle the necessary customs clearance, port and rail charges, documentation, warehousing, and financing arrangements. Local agents representing foreign exporters outside South Africa who export goods to South Africa, are fully liable under the South African Import Control Law for all regulations and control imposed on imported products. Local agents are required to register with the Director of Import and Export Control of the Department of Trade and Industry. It is important for a U.S. exporter to maintain close contact with the local agent to track changes in importing procedures and to ensure that the agent is effectively representing his or her interests.

2.1.2 Market Structure

Basic flow of imported food products:



- Retail supermarket chains maintain their own distribution systems, using warehouses to allocate goods to supermarket branches.
- Depending on the arrangements, in some instances imports are handled by the supermarket chain's head office or by branches themselves.
- Trends in the distribution channels show that some of the supermarkets are moving toward outsourcing the services of warehousing and transportation.

2.1.3 Major Supermarkets Sales, Shares, and Brand Outlets:

Below is a chart of South Africa's major supermarket chains. For the most part, they offer much the same range of products and brands. Gaining a competitive edge through image and service is their major preoccupation. The retailers work hard at establishing their own particular appeal. Some, like Woolworths and Spar, do this by targeting a particular shopper segment, such as upper income groups. Others, like Pick n Pay and Shoprite-Checkers group, go head-to-head more on price and "shopping experience".

One common characteristics among these retail groups is enormous bargaining power. They are all able to dictate their buying terms to suppliers who are expected to deliver products to central depots or warehouses, where the products are then distributed to supermarkets and retail outlet stores. Shoprite-Checkers and Spar, for example, are very strong in the black areas (townships) whereas Woolworths is stronger in the smaller "up-market" segment.

Woolworths and Pick 'n Pay retail chains have entered the township market and opened a few stores. Most supermarkets sell their own-label products as well as manufacturer's brands.

The retail industry prefers to buy directly from local manufacturers. For imported products, some supermarkets prefer to deal directly with U.S. companies, because an import agent or a distributor acting as a middleman can add up to 30 percent to the cost of the product, resulting in less margin for the supermarket.

Supermarkets have recognized the growing demand for prepared food, and compete with convenience stores or quick service stores and have increased the offering of fresh, prepared foods, ready-to-eat meals. Tables below highlight the South African major retail chains.

Supermarkets: Value Sales, Outlets and Selling Space: 2005 – 2007

	2005	2006	2007
Value sales \$ million	7,059	8,069	9,845
Outlets	3,525	3,572	3,684
Selling Space '000 sq m	2,182	2,254	2,420

Source: Euromonitor International

Supermarkets Company Shares by Value 2005-2007

% retail value rsp excl sales tax	2005	2006	2007
Pick n Pay Retail Group Pty Ltd	39.3	39.8	48.1
Woolworths Holdings Ltd	31.3	29.6	34.3
Spar Group Ltd	29.4	28.2	25.3
Shoprite Holdings Ltd	22.3	23.0	19.3
Others	9.1	8.9	7.3
Total	100.0	100.0	100.0

Source: Euromonitor International

Supermarkets Brand Shares by Value 2005-2007

% retail value rsp excl sales tax	Company	2005	2006	2007
Woolworths	Woolworths Holdings Ltd	31.3	29.6	34.3
Pick n Pay Supermarkets	Pick n Pay Retail Group Pty Ltd	17.6	17.7	23.3
Spar	Spar Group Ltd	18.5	17.7	15.2
Pick n Pay Family stores	Pick n Pay Retail Group Pty Ltd	9.2	10.1	12.5
Shoprite Supermarkets	Shoprite Holdings Ltd	12.5	13.1	11.2
Super Spar	Spar Group Ltd	10.1	9.9	9.6
Checkers Supermarkets	Shoprite Holdings Ltd	7.3	7.5	6.0
Score	Pick n Pay Retail Group Pty Ltd	7.5	6.9	5.7
Boxer	Pick n Pay Retail Group Pty Ltd	3.7	4.0	5.0
Pick n Pay	Pick n Pay Retail Group Pty Ltd	1.1	1.1	1.5
Kwik Spar	Spar Group Ltd	0.7	0.7	0.5
Others		11.7	11.4	9.4
Total		100.0	100.0	100.0

Source: Euromonitor International

Supermarkets Outlets by Brand 2005 – 2007

Sites/outlets	Company	2005	2006	2007
Spar	Spar Group Ltd	473	468	492
Shoprite Supermarkets	Shoprite Holdings Ltd	273	286	292
Woolworths	Woolworths Holdings Ltd	160	170	205
Pick n Pay Family Stores	Pick n Pay Retail Group Pty Ltd	164	168	200
Super Spar	Spar Group Ltd	127	139	164
Kwik Spar	Spar Group Ltd	185	183	163
Pick n Pay Supermarkets	Pick n Pay Retail Group Pty Ltd	150	152	161
Score	Pick n Pay Retail Group Pty Ltd	134	133	127

Checkers Supermarkets	Shoprite Holdings Ltd	101	110	108
Boxer	Pick n Pay Retail Group Pty Ltd	61	62	77
Pick n Pay	Pick n Pay Retail Group Pty Ltd	35	35	46
Others		1,822	1,836	1,854
Total		3,525	3,572	3,684

Source: Euromonitor International

Pick n Pay: The Pick n Pay Group has been one of Africa's largest retailers of food, clothing, and general merchandise for the past three decades. Pick n Pay has about 40 percent of the South African retail food sector. The group operates through three divisions, the Retail Division; the Group Enterprises Division; and Franklins Australia, each with their own Managing Director and Management Boards. The Retail Division manages Pick n Pay branded businesses such as food, clothing and general merchandise in Hypermarkets, Supermarkets, Family Franchise Stores, Mini Market Franchise, Clothing, Butcheries Meat Centers, and Gas Centers. The Group Enterprises Division operates the Group's other non-Pick n Pay branded group activities including Score Supermarkets, TM Supermarkets, property franchises, Go Banking, as well as finding new investment opportunities for the group worldwide. Pick n Pay has over 809 stores made up of 18 Hypermarkets, 162 Supermarkets, 206 Franchise stores*, 31 Clothing Stores, 54 Liquor stores, 14 Pharmacies, 118 Score, 64 Boxer supermarkets, 6 Boxer hardware stores, 56 TM Zimbabwe, 74 Franklins, Australia – corporate, and 6 Franklins, Australia – franchise. *Includes a total of 36 Score stores to be converted to Pick n Pay Family franchise stores in 2009.

The emphasis of the supermarket division is on total convenience and freshness, with stores trying to add value through the fresh food supply chain. Traditionally, Pick n Pay Score supermarkets have had a presence in townships when other retailers have stayed away. Pick n Pay is the most modest of the high-end super market chains. It may be compared to Publix, Kroger, Victory or Safeway in the United States. Price points are similar to those in the United States.

In September 2007, Pick 'n Pay opened a new generation hypermarket in the first shopping mall of the township of Soweto outside Johannesburg. Additionally, to take advantage of the South African fastest growing convenience market, their first convenience store was opened in Fairland, Johannesburg.

To reward the employees who go the extra mile in executing their duties, the retail chain send their staff delegation to the Disney Institute in the United States to attend a training in Disney Approach to Quality Service. The store head offices are based in Cape Town and Johannesburg.

Shoprite Checkers: Shoprite Holdings Ltd has about 40 percent of the food retailing market, focusing on the broad middle to lower-end of the market, and is comprised of the following entities: the Shoprite Checkers supermarket group, which consists of over 1,800 Shoprite stores throughout South Africa comprising of 348 Shoprite supermarkets, 110 Checkers Supermarkets, 24 Checkers Hypers, 92 Usave stores, 20 distribution centers supplying group stores with groceries, non-foods and perishable lines, 158 Ok Furniture outlets, 13 OK Power Express stores, 27 House & Home stores, and 74 Hungry Lion fast food. Through its OK Franchise Division, the Group procures and distributes, stock to 31 OK Minimark convenience stores, 24 OK Foods supermarkets, 52 OK Grocer stores, 59 Megasave wholesale stores, and 91 Sentra, Value Stores and buying partners. Shoprite Holdings with its Checkers brand remain the sole player in the hypermarkets in South Africa. The number of hypermarkets outlets remained constant and hampered growth due the consumer shifts in buying patterns to convenience shopping.

Checkers Hypers have a special section devoted entirely to imported foods as well as kosher and halal sections. Checkers Hypers chain target middle to higher income groups. Shoprite Checkers are similar to a Super WalMart or a Shoppers Food Warehouse type of shopping experience.

As an incentive to their employees, the retail chains normally send their staff delegation to the FMI show in Chicago, United States. For most of these employees, their trip is linked to a sales or performance award, but several key buyers also attend the FMI show. If you are a U.S. company with a presence at FMI, then it is certainly possible to meet with a Shoprite Checkers buyer at the FMI show in Chicago.

Among South African retailers, Shoprite has the highest number of stores in neighboring Southern and Eastern African countries. Shoprite Head Offices are based in Cape Town.

Woolworths: Woolworths Holdings Limited (WHL) is a South African-based retail group chain that operates locally and internationally through two subsidiaries. Woolworths (Proprietary) Limited, and Country Road Limited. Woolworths Proprietary operates and franchises stores in South Africa, Africa and the Middle East; and Country Road Limited, listed on the Australian Stock Exchange, operates in Australia, New Zealand and Singapore. Woolworths offers select ranges of apparel, cosmetics, toiletries, footwear, jewelry and food under its own brand name. Woolworths opened 40 new stores in the 2007/2008 financial year bringing a total of 400 stores to date. Woolworths stores presence are mainly in shopping malls or shopping centers, and currently venturing on opening food stand-alone stores in convenient suburban locations, including Owned Woolworths, Franchised Woolworths, and Owned and Franchised Country Road outlets.

Woolworths caters to the wealthiest South African consumers. The shopping experience isn't as up market as a Dean and DeLuca but it's comparable to the Whole Foods/Fresh Fields or Trader Joe's shopping experience in the U.S. They carry a relatively small number of branded products, instead promoting their own Woolworths branded private label products. For many products, Woolworths only offers two choices, the leading brand-name product and Woolworths own private label. Price points are slightly higher than Checkers and Pick n Pay but relatively comparable to similar retail markets in the U.S.

Spar: The Spar organization consists of two types of members: Spar Retailers, who are independent store owners, and Spar Distribution Centers, which provide leadership and services to the Spar Retail members. Both members belong to the Spar Guild of Southern Africa, a non-profit company set up to coordinate and develop Spar in Southern Africa. The members pay subscriptions to the Guild, which uses these monies to advertise and promote Spar. The Spar grocery chain emerged in the 1963 when a group of 8 wholesalers was granted exclusive rights to the Spar name in South Africa to service 500 small retailers. A number of mergers and take-overs followed, and today all but one of the wholesalers are owned by the Spar Group Limited which operates 6 distribution centers that supply goods and services about 817 Spar Stores in South Africa comprising of 197 Supersparks, 463 Spars, and 157 Kwikspar, 254 Build It, and 326 TOPS. TOPs are the Spar Group's liquor chain outlets and the biggest liquor chain in South Africa, and Build It stores caters for building materials.

All stores are independently owned, and many of the purchasing decisions are made at the individual store level. Spar targets high-income consumers and locates its stores in more up-market neighborhoods. Shopping at a Spar can be similar to shopping at a really good Giant or Shaw's in an up-market neighborhood in the United States.

New Clicks Holdings Ltd: New Clicks is an investment holding company. Its trading subsidiaries are engaged in discount retailing of health, beauty and lifestyle products and services on a predominantly cash basis in Southern Africa through its network of more than 660 stores nationwide. The group operates six multiple brand formats such as Clicks, Discom, United Pharmaceutical Distributors (UPD), The Body Shop, Entertainment Division, and Style Studio. Clicks brand is a specialist retailer of health and has 325 stores with 152 pharmacies. Clicks focus on beauty and lifestyle products servicing the middle to upper income market; Discom provides urban lifestyle brand specializing in African beauty and decorative homewares; UPD is the largest full-line pharmaceutical wholesaler in the country and supplies retail pharmacies, private hospitals, dispensing doctors and retail health stores; the Body Shop is a high-profile global brand which markets naturally-inspired beauty products; Entertainment Division which comprises Musica, is the largest retailer of music and related merchandise in the country; and Style Studio combines a retail store selling professional hair care products with a hair salon. For more information visit the store website at: www.newclicks.co.za

Massmart Holdings: Massmart is a managed portfolio of ten wholesalers and retail chains, each focused on high volume, low margin, low cost distribution of mainly branded consumer goods for cash, through 228 outlets, and one buying association serving 478 independent retailers and wholesalers, in 11 countries in sub-Saharan Africa. The group is the third largest distributor of consumer goods in Africa, the leading retailer of general merchandise, liquor and home improvement equipment and supplies, and the leading wholesaler of basic foods. Wholesale stores includes Makro, Game, Dion, Builders Warehouse, Shield, Delarex, Feds DIY, Servistar, CBW, and Jumbo. Visit the group website at: www.massmart.co.za for more information. The Group anticipate to open 58 new stores in a three year plan by 2009.

Metcash: Metcash Africa is the largest distributor of fast moving goods (FMCG) on the African continent. It has extensive franchise retail interests in South Africa and operates in other African countries (Angola, Botswana, Malawi, Namibia, Lesotho, Swaziland, Uganda, and Zimbabwe). It also has a trading office situated in Hong Kong, and its office in Thailand handles distribution, wholesale and retail. The brand stores include Metro Cash and Carry, Trade Centers, Liquor World, Stax, Friendly Warehouses, Independent Grocers Alliance (IGA), with private labels (Family Favorite, Astor, and Golden Circle) sold in more than 9 countries and around the world. Unitrade Management Services, and Capital Tobacco Company. For more information visit the group website at www.metcash.co.za.

2.2 Convenience Stores

2.2.1 Entry Strategy

Convenience is a relatively new trend in the South Africa's fast moving consumer goods (FMCG) market. Major retailers and wholesalers own most of the convenience stores. According to the Euromonitor International, the current value sales of convenience stores grew by 10 percent and reached US\$ 0.8 billion in 2007, making it the fastest growth segment in the market. Woolworths Holdings remained the leader in convenience stores in 2007 with a value share of 33 percent.

South Africans love shopping at forecourt stores (gas stations), perceiving them to be time saving, easy access, well lit, safe and convenient. Convenience stores operate on extended hours or in some instances they are open 24 hours. There are around 2,239 branded forecourt stores in South Africa, of which 1,500 opened in the past 10 years. Recent research by ACNielsen shows that forecourt stores are fast developing into trendy outlets offering good, readily available food and beverages 24 hours a day. According to the study, 30 per cent of the 2,500 respondents used forecourt stores at least once a week in the past

year. As South Africa's cities grow and consumers and more women enter the workplace and earn more money, the convenience of the forecourt becomes more important and shows growth. Some of the major retail chain such as Woolworths and Shoprite have acquired gas stations and turned them into Food stops to highlight products in-store. The 2007 saw the Woolworths Holdings as the outright leader in convenience store with a value share of 31 percent with its convenience outlets located with the Engen gas station forecourt Quickshops, whereas Sentra Value Stores owned by Shoprite Holdings held a value share of 8 percent. Depending on the size of the store, other gas stations stores layout are even bigger than some supermarkets.

Despite requirements for convenience, South African manufacturers are not yet fulfilling these needs adequately. Product ranges are still limited and distributed through limited retail outlets targeted at the higher income consumers. Baby food is another of the four fastest growing categories with an annual value growth of about 24.5 per cent, clearly influenced by this economic transition.

2.2.2 Market Structure:

The market structure is covered in detail under the supermarket section of this report.

2.2.3 Convenience Stores Sales, Shares and Brand Outlets:

Convenience Stores: Value Sales, Outlets and Selling Space 2005 – 2007

	2005	2006	2007
Value sales \$ million	627	760	836
Outlets	490	550	629
Selling Space '000 sq m	114	125	140

Source: Euromonitor International

Convenience Stores Company Shares by Value 2005 – 2007

% retail value rsp excl sales tax	2005	2006	2007
Woolworths Holdings Ltd	35.2	30.6	32.6
Shoprite Holdings Ltd	9.5	8.0	7.6
Others	55.4	61.4	59.8
Total	100.0	100.0	100.0

Source: Euromonitor International

Convenience Stores Brand Shares by Value 2005 - 2007

% retail value rsp excl sales tax	Company	2005	2006	2007
Woolworths Foods	Woolworths Holding Ltd	34.5	29.9	31.3
Sentra Value Stores	Shoprite Holdings Ltd	9.5	8.0	7.6
Woolworths (Gas station outlets)	Woolworths Holding Ltd	0.7	0.8	1.3
Others		55.4	61.4	59.3
Total		100.0	100.0	100.0

Source: Euromonitor International

Convenience Stores Outlets by Brands 2005 – 2007

Sites/Outlets	Company	2005	2006	2006
Woolworths Foods	Woolworths Holdings Ltd	68	90	102
Sentra Value Stores	Shoprite Holdings Ltd	68	68	76
Woolworths (Gas station outlets)	Woolworths Holdings Ltd	10	20	35

Others		344	372	416
Total		490	550	629

Source: Euromonitor International

2.3 Traditional Markets

2.3.1 Entry Strategy:

Food retailers in South Africa range from highly sophisticated supermarkets at one end to primitive little street corner stalls at the other. In years past, predominantly black townships were virtually unserved in terms of retail infrastructure. The informal retail sector in South Africa is increasingly recognized by manufacturers and wholesalers as an important delivery channel of goods to consumers. Informal market retailers cater to the needs of the residents via independent grocery stores such as cafes, general dealer stores and several informal South African retail concepts (tuck shops, shebeens, taverns and spazas) including hawkers (street vendors), kiosks, take-aways and fast foods. In 2006, the total number of street stalls/kiosks grew by 5 percent to reach 51,078 stalls accounting to a sales value of US\$ 373 million. With the end of apartheid, major retailers have also extended their services to these townships. Marketers saw the spaza as the beginning of a new form of township convenience retailing, conveniently close to consumers, and open at extended hours. Informal traders are generally defined as retailers that are not registered for VAT.

Spaza shops are defined as small retail enterprises operating from a residential stand or home, engaged in trading consumer goods. Spaza shops operating mainly in the townships are making their presence felt in the local retail market. Products traded include food and nonfood products.

The informal retail market in South Africa is an important player, with an estimated turnover of \$5 billion. The informal sector is acknowledged as an important delivery channel of goods to customers. However, the view is held that this sector may have peaked, as more formal shopping centers are being developed in disadvantaged areas. Currently, more stores are trading seven days a week, creating a greater opportunity to reach shoppers. Sunday trading is becoming increasingly important as the trend towards convenience continues. End of the month shopping remains extremely significant.

On average, start-up investment for spaza shops amounts to less than \$1000. Spazas are mainly financed by private savings or loans from relatives or friends. Average employment amounts to about 3 employees per business. Considering that the number of spazas may be 100,000, this sector of the economy may provide 230,000 to 290,000 jobs, and support more than one million people. The most important products sold by spaza shops are (in descending order): soft drinks, cigarettes, paraffin, candles, maize meal, alcoholic beverages, bread, and sugar.

There is now growing awareness among manufacturers and producers of the importance of the spaza retailers as a marketing channel. More than 20 percent of spaza owners report that products such as soft drinks, dairy, and bakery products are now delivered to their shops. The most serious problems encountered by spaza owners are shortage of trading stock/finance (38.8 percent), high levels of crime (robbery 25 percent), severe competition (20.6 percent), expensive transport (19.7 percent), and bad debt or the granting of too much credit (17.1 percent). Although spaza retailers are often seen as survivalist enterprises, it is clear spazas are becoming not only a permanent phenomenon on the South African economic scene, but more sophisticated and closely linked to the rest of the economy than commonly perceived.

2.3.2 Market Structure:

The market structure is covered in details under the supermarket section of this report.

2.3.3 Traditional Stores Sales, Outlets and Brand:

Street Stalls/Kiosks by Subsector: Units/Outlets 2005 – 2006:

Outlets	2005	2006
Street Stalls/Kiosks	48,645	51,078
- Chained Street Stalls/Kiosks	128	136
- Independent Street Stalls/Kiosks	48,517	50,942

Source: Euromonitor International

Street Stalls/Kiosks by Subsector: Foodservice value 2005 – 2006

\$ million	2005	2006
Street Stalls/Kiosks	342	373
- Chained Street Stalls/Kiosks	5	6
- Independent Street Stalls/Kiosks	337	367

Source: Euromonitor International

Global Brand Owner Shares of Chained Street Stalls/Kiosks 2005 - 2006

% Value	Global Brand Owner	2005	2006
Hot Dog Cafe'	Hot Dog Cafe' Franchise (Pty) Ltd	89.5	87.5
Others		10.5	12.5
Total		100.0	100.0

Source: Euromonitor International

2.4 Forecourt Stores

Forecourt retailers are becoming increasingly popular in South Africa due to a growing demand for healthier convenience food on the road. Outlet growth of 8 percent in 2007 saw the total number of outlets reach 3,181. Consumers attracted to convenience outlets contribute to forecourts stores. Forecourts retailers are expected to record continued growth as a number of petrol stations open throughout the country. The number of outlets containing convenience stores such as Woolworth as well as chained coffee shops or restaurants are expected to rise. The inclusion of these popular retail brands within chained forecourt retailers will greatly contribute to the number of consumers visiting these stores.

Recent trends in the sector confirm increasing demand for ready-made and packaged items such as sandwiches, beverages, instant-heat and eat meals, salads, fresh produce, meat, pies, biltong (jerky), home meal replacement, cheese, yoghurts, milks, baked goods, sweets, and chocolates.

Forecourt Retailers: Value Sales, Outlets and Selling Space 2005 – 2007:

	2005	2006	2007
Value sale \$ million	735	828	905
Outlets	2,541	2,939	3,181
Selling Space '000 sq m	334.2	385.1	410.7

Source: Euromonitor International

Forecourt Retailers Company and Brand Shares by Value 2005 – 2007:

% retail value rsp excl sales tax	Brand	2005	2006	2007
Engen Petroleum Ltd	Quickshop	22.6	21.9	20.6
Total South Africa (Pty) Ltd	La Boutique	9.6	10.9	10.5
Shell South Africa Marketing (Pty) Ltd	Shell Select	10.3	9.5	9.2
BP South Africa (Pty) Ltd	BP Express	10.3	8.7	8.5
Chevron South Africa Ltd	Star Mart	7.5	6.6	6.3
Sasol Ltd	Sasol	5.5	5.5	5.2
Others		34.3	37.0	39.8
Total		100.0	100.0	100.0

Source: Euromonitor International**Forecourt Retailers Outlets by Brand 2005 – 2007:**

Sites/Outlets	Company	2005	2006	2007
Quickshop	Engen Petroleum Ltd	475	501	515
Sasol	Sasol Ltd	315	353	365
Shell Select	Shell South Africa Marketing (Pty) Ltd	243	285	300
La Boutique	Total South Africa (Pty) Ltd	220	245	256
BP Express	BP South Africa (Pty) Ltd	195	220	230
Star Mart	Chevron South Africa Ltd	167	185	195
Others		926	1,150	1,320
Total		2,541	2,939	3,181

Source: Euromonitor International**SECTION 3: COMPETITION**

The following table highlights South Africa's key products and trading partners between 2005 – 2007:

Product Category and HS Code	Major Supply countries and strength of supply	SA EXPORTS to USA Millions of US\$			SA IMPORTS from USA Millions of US\$			Advantages and disadvantages of local suppliers
		2005	2006	2007	2005	2006	2007	
Meat and Edible meat offal (02) South Africa net imports from the World of US\$ 359 million in 2007 versus US\$ 311 million in 2006. South Africa net exports to the world of US\$ 84 million in 2007 versus US\$ 62 million in 2006.	Brazil – 49% Australia – 13% Canada – 8% USA minor supplier of 2%.	0.04	0.28	0.07	2.4	5.9	7.2	South Africa is a net importer of meat and meat products. The pattern of imports in this category is variable and depends largely on local conditions. Brazil, Australia and Canada are members of Most Favored Nations (MFN) status countries. South Africa major export category is (0207) poultry meat offal.
Fish and Seafood (03) Net imports from the world of US\$ 115	India- 22% New Zealand - 14% China - 9%	32	29	33	2.8	4.7	5.4	South Africa is a net exporter of fish and seafood products. Major

<p>million in 2007 versus US\$ 98 million in 2006.</p> <p>Net exports to the world of US\$ 462 million in 2007 versus US\$ 363 million in 2006.</p>	<p>USA- Minor supplier of 4%.</p>							<p>export categories are 0304 – Fillet, 0307 – Other Seafood, 0303 – Frozen fish, and 0306 – Crustaceans. Imports have been increasing steadily over the past years, and thus, despite the fact that South Africa is a net exporter, opportunities do exist for imports of crustaceans, other seafood (squid) and fish meat.</p>
<p>Prepared Meat, Fish (16)</p> <p>Net imports from the world of US\$86 million in 2007 versus US\$ 55 million in 2006.</p> <p>Net exports to the world of US\$ 34 million in 2007 versus US\$ 32 million in 2006.</p>	<p>Thailand – 51% China- 11% Peru – 6%</p> <p>The U.S. experienced a decrease in supply from 3.5 percent in 2006 to 1.2 percent in 2007.</p> <p>US imports of (0303) frozen fish increased from US\$ 39 million in 2006 to US\$ 43 million in 2007.</p> <p>The United States enjoys a dominant position in the canned salmon (160411) market holding a market share of 73 percent, and Norway 15 percent. For shrimp and prawns, horse mackerel and snoek, demand is for frozen products. Peru enjoys a dominant position holding a market share of 97 percent in the horse mackerel market. Thailand enjoys 84 percent of the sardines market and 81 percent of the tuna market.</p>	0.42	0.06	0.11	1.4	1.9	1.1	<p>Mozambique and Zimbabwe are amongst 14 members of the Southern African Development Community (SADC). SADC committed itself to the creation of a free trade area (FTA) when a Protocol on Trade was signed at the SADC Summit in 1996. South Africa joined SADC in August 1994. Japan and Philippines are classified as Most Favored Nations (MFN) status. MFN members pay duty on goods imported into South Africa for certain categories of goods. South Africa and India 1996 bilateral trade agreement.</p>
<p>Dairy Products (04)</p> <p>Net imports from the</p>	<p>Australia – 12% Ireland – 12% New Zealand –</p>	0.006	0.15	0.009	0.7	1.7	1.8	<p>The South Africa dairy industry is currently</p>

<p>world of US\$ 121 million in 2007 versus US\$ 68 million in 2006.</p> <p>Net exports to the world of US\$ 36 million in 2007 versus US\$ 32 million in 2006.</p>	<p>11%</p> <p>USA a minor supplier of 1.5%</p>							<p>undergoing nationwide milk shortage, and it is expected that the low dairy stock levels will likely continue for some time to come.</p> <p>New Zealand is a member of MFN status countries. France and Ireland are members of the European Union (EU). The EU and South Africa signed a Free Trade Agreement (FTA) in 1999. The agreement will be phased in over a ten to twelve year period and will essentially liberalize 86% of South Africa's imports from EU and about 95% of EU imports from South Africa. The overall agreement meets WTO requirements of 90% coverage.</p>
<p>Edible Fruit and Nuts (08)</p> <p>Net imports from the world of US\$ 69 million in 2007 versus US\$ 62 million in 2006.</p> <p>Net exports to the world of US\$ 1,479 million in 2007 versus US\$ 1,190 million in 2006.</p>	<p>United States – 13%</p> <p>Spain - 10%</p> <p>Mozambique - 9%</p> <p>The United States is a major supplier of almonds (0802) with a market share of about 55% and Turkey 13%.</p>	54	61	47	7.5	10.7	9.6	<p>South Africa is a net exporter of dried fruits and a net importer of nuts. Major export categories are 0805 – fresh and dried citrus, and 0806 – fresh & dried grapes. A small market exists for imports of dried exotic fruits, and opportunities exist for shelled hazelnuts, desiccated coconut, cashew nuts and shelled almonds.</p>
<p>Coffee, Tea, Mate and Spices (09)</p> <p>Net imports from the world of US\$ 106 million in 2007 versus US\$ 101 million in 2006.</p> <p>Net exports to the world of US\$ 36 million in 2007 versus US\$ 32 million in 2006.</p>	<p>Vietnam – 18%</p> <p>Malawi – 14%</p> <p>India – 11%</p> <p>US minor supplier of 0.5%</p>	2.8	3.5	5.2	0.15	0.18	0.59	<p>South Africa is a net importer of spices. Local production of tea, coffee is insufficient to meet local demand. Malawi is a member of MFN status countries.</p>

<p>Sugars and Sugar Confectionery (17)</p> <p>Net imports from the world of US\$ 131 million in 2007 versus US\$ 93 million in 2006.</p> <p>Net exports to the world of US\$ 297 million in 2007 versus US\$ 401 in 2006.</p>	<p>Brazil – 37% USA – 11% Colombia – 6%</p> <p>USA imports increased from US\$ 7 million in 2006 to US\$ 14 million US\$ in 2007. Category (1702) has shown most growth.</p>	21.3	12.4	8.2	6.6	7.8	14.9	<p>South Africa is a net exporter of sugar. The majority of imports are in the category of other sugar products in solid form, such as cane and beet sugar.</p> <p>January 2006 saw customs duty on sugar confectionery not containing cocoa classifiable under the tariff subheading 1704.90 increased from 25% ad valorem to 37% ad valorem. Brazil and Columbia are members of MFN status countries.</p>
<p>Preserved Food (20)</p> <p>Net imports from the world of US\$ 151 million in 2007 versus US\$ 96 million in 2006.</p> <p>Net exports to the world of US\$ 329.3 million in 2007 versus US\$ 329.6 million in 2006.</p>	<p>Argentina – 27% China – 25% Italy – 7%</p> <p>USA – Minor supplier of 1.5%.</p>	12	17	15	2.2	3.0	2.3	<p>South Africa major export category is 2008 – other fruit nut.</p> <p>Argentina supplies price competitive products.</p> <p>Argentina is a member of MFN status countries; whereas Italy is a member of EU states.</p>
<p>Miscellaneous Edible Preparations/Processed Fruit & Veg (21)</p> <p>Net imports from the world of US\$ 96.52 million in 2005 versus US\$ 75.22 million in 2004.</p> <p>Net exports to the world of US\$ 143 million in 2007 versus US\$ 114 million in 2006.</p>	<p>USA – 15% Netherlands – 11.6% United Kingdom – 11%</p> <p>USA imports jumped from US\$ 27 million to US\$ 31 million in 2007. Categories (2106) food preparations shown most growth from US\$ 24 million to US\$ 27 million in 2007.</p>	4	9	14	21.0	27.0	31.0	<p>South Africa is a net exporter of processed fruits and vegetables. Opportunities exist for canned peas, and import of grape and apple juice which are used as a base for other fruit juices, prepared and preserved tomatoes, and fruit pulps.</p> <p>Netherlands and United Kingdom are members of EU states.</p>
<p>Beverages (22)</p> <p>Net imports from the world of US\$ 430 million in 2007 versus US\$ 287 million in 2006.</p>	<p>United Kingdom – 41% Netherlands - 12% France – 8%</p>	63	72	68	28.0	29.0	31.0	<p>South Africa is a net exporter of alcoholic beverages. Major export category is of category 2204 – the wine of fresh</p>

Net exports to the world of US\$ 908 million in 2007 versus US\$ 736 million in 2006.								grapes. The import market is dominated by well known brands from the UK, though the South African appetite for American spirits has grown over the last three years. U.K., Netherlands and France are members of EU states.
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Source: World Trade Atlas

SECTION 4: BEST PRODUCTS PROSPECTS

A. Products Present in the Market Which Have Good Sales Potential:

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 2007. Within this sub-category, other food preparations (HS210690) have shown consistent and substantial increases, including sauces and condiments (HS210390). Other high value exports that have shown sustained growth are almonds (HS080212), canned pink salmon (HS160411), whiskies (HS220830), and vegetable seeds (HS120991).

According to 2007 data, the United States enjoys a dominant position in the almond, canned salmon, and other food preparations markets, holding 92 percent, 73 percent and 18 percent market shares, respectively. The whiskey market is significantly different, with United Kingdom largest market share of 76 percent. However, the United States continued increase in whiskies exports to South Africa in 2006 and 2007 and now holds 14 percent of the market. The United States has seen annual growth increases over the past 5 years by an average of 7.39 percent 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, Woodford Reserve, Buffalo Trace, and Knob Creek, 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	2007 South Africa Imports from the World (\$1,000)	2007 U.S. Exports to S.A. (\$1,000)	Percent age of Annual Import Growth U.S.	Import Tariff Rate	Key Constraints Over Market Development	Market Attractiveness for U.S.
Whiskies HS220830	212	29	7.39	1.54	United Kingdom (76%) has large market share and a first mover advantage,	American brands are considered high quality and attract new, younger consumers.

					and US 14%.	
Almonds HS080212	9	8.3	-8.60	Free		U.S. has largest market share of 92%.
Salmon HS160411	1.5	1.1	-27.07	25%		U.S. has the largest market share of 73%.
Other Food Preparations HS210690	136	25	11.48	Varied		US has the largest market share of 18%. American brands are becoming increasingly popular given their high quality attributes.
Vegetable Seeds HS120991	16	2.9	-1.55	Free	Netherlands leads sector with 30% Market Share, while US has 18%.	

Source: World Trade Atlas

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential:

According to survey and research done by the organizers of the Natural and Organic Expo, the South African natural and organic market sector has grown 300% over the past years since 2006, and is expected to grow at over 30% per year in the next five years. There are only 200 certified "Organic" producers in South Africa, compared to Mexico with approximately 35,000. Currently South Africa has only 4 organic wine producers compared to countries like Germany with more than 700 organic wine producers.

Retailers are looking for:

- Natural and Organic food products of all descriptions;
- Natural and organic beverages;
- Organic detergents and chemicals for home and industry;
- Natural & organic cosmetics, make-up and body and skin care;
- Natural and complimentary medicine;
- Lifestyle products;
- Organic and eco-friendly textiles;
- Sustainable and renewable energy solutions;
- Organic agricultural products and equipment;
- Services and consultants; and
- Packaging and processing.

According to the Organic Emporium (www.organicemporium.co.za), South Africa has a shortage of suppliers of organic produce such as rice, grains and flour. According to a survey conducted by the Nielsen Company, the South African higher Living Standards Margins online shoppers shopping patterns go for organic. Among the variety of organic foods available,

egg – 32 percent, vegetables – 29 percent, and fruits – 28 percent, are the most popular food types.

C. Products Not Present Because They Face Significant Barriers:

It is over eight years, since July 2000, when South Africa imposed prohibitive anti-dumping duties on U.S. chicken leg quarters, an action that has virtually cut off U.S. chicken exports to South Africa.

On September 16, 2005, the International Trade Administration Commission (ITAC) of South Africa initiated in Notice No. 1737 of Government Gazette No. 28011 of 2005 a sunset review of anti-dumping duties on frozen meat of fowls of the species *Gallus Domesticus* cut in pieces with bone-in originating in or imported from the United States. The review is based on prima facie information submitted by South African Customs Union (SACU) industry indicating that expiry of duty on December 27, 2005 would likely lead to continuation or recurrence of dumping and material injury.

Earlier in 2004, the South African Poultry Association (SAPA) petitioned the government to increase the general MFN duties on all poultry meat products, but the government only approved an increase in the duty on imports of poultry offal. Given the competitive pressures and protectionist nature of SAPA, we can expect more such appeals to the government. But it is Brazil that has taken over from the USA as the leading foreign supplier of frozen chicken and turkey meat to South Africa during 2005 - 2007, and it will be interesting to see how effectively the South African poultry industry can lobby its government to restrict future trade from one of its closest "South-South" allies in the field of international trade. The prohibitive anti-dumping duty remains enforced.

At this time the USDA is working with the South African Department of Agriculture (NDA) to increase the types of fresh fruit such as apples that can be shipped from the United States to South Africa. Some veterinary officials from the NDA traveled to the United States in October 2006 for bilateral meetings, including discussions of market access issues related to apples.

SECTION 5: POST CONTACT AND FURTHER INFORMATION

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

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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>

Post acknowledges the following Sources: The Retail industry publications and their websites; the ACNielsen Company research, Statistics South Africa, Global Trade Atlas, trade press, trade service meeting, the Euromonitor International.

