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Report Highlights:

The continued decline in the value of the rand relative to the dollar is having a negative impact on U.S. agricultural exports to South Africa. U.S. exports of consumer-ready products also face strong competition from other suppliers, in particular the EU. However, opportunities exist for increased U.S. exports of niche products to the country.

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I. MARKET OVERVIEW

Although South African agricultural production has almost doubled over the past 30 years, erratic weather has caused significant production variations from year to year. The country is self-sufficient in primary foods with the exception of wheat, oilseeds and rice. The contribution of agriculture, fishery and forestry to value added at basic prices (total value of output less the value of intermediate consumption) increased from R20.1 billion in 1999 to about R25.4 billion in 2000, while the percentage contribution increased from 2.8 to 3.2 percent. The increase in production was mainly due to improved rainfall. However, producer prices increased by 5.1 percent compared to a 0.2 percent in 1999. Producer prices of field crops decreased by 6.8 percent while prices for horticultural products and animal products increased by 9.1 percent and 11.4 percent respectively.

South Africa has a market-oriented agricultural economy and is a net exporter of agricultural products. The positive agricultural balance of trade amounted to R5.8 billion in 1999 and R6.2 billion in 2000. The value of farm exports rose from R14.8 billion in 1999 to R15.8 billion in 2000, partly because of the devaluation of the Rand, while the value of agricultural imports increased from R9 billion in 1999 to R9.6 billion in 2000. Major products exported included sugar (R1,862 million), wine (R1,690 million), citrus fruit (R1,582 million), and grapes (R1,255 million). Rice (R939 million), wheat (R634 million), and vegetable protein meal (R485 million), were the most important imports.

South Africa is ideally positioned for easy access to the countries comprising the Southern African Development Community (SADC), the islands off Africa's east coast, and even the Gulf

States and India. SADC in particular, with a combined gross national product (GDP) of USD 161.5 billion and some 185 million people, represents a significant growing market for U.S. trade and investment. In 1998, U.S. exports to SADC countries totaled approximately USD 4.4 billion. Although the tangle of conflict that has engulfed South Africa's neighbors in and around the central African sub-region may have tarnished the region's image, the extent of capital investment expected over the next several years is a clear indication of the region's largely untapped economic potential.

The United States is a major supplier of agricultural products to South Africa, contributing 9.6 percent of its imports in 2000. In 2000, total value of U.S. agricultural exports to South Africa amounted to USD 133 million, down from USD 297 million in 1996. The decrease in the U.S. exports was principally due to the decline in the value of the Rand relative to the US Dollar. The United States is a growing market for South Africa's agricultural products. In 2000, 5.8 percent of the country's agricultural exports went to the U.S. For the first time the value of agricultural exports to the U.S. was equal to the imports from the U.S. When fishery and forestry products are added, South Africa enjoyed a USD 33 million positive trade balance with the U.S.

One of the major constraints to increased U.S. trade in South Africa is high import prices of U.S. products as a result of an unfavorable dollar/rand exchange rate. The value of the South African Rand has fallen from an average of 4.30 in 1996 to 9.01 Rand per dollar in September 2001.

A. U.S. Market Position:

The United States is a major supplier of agricultural products to South Africa, contributing 9.6 percent of its imports in 2000. In 2000, total value of U.S. agricultural exports to South Africa amounted to USD 133 million, down from USD 297 million in 1996. The decrease in the U.S. exports was principally due to the decline in the value of the Rand relative to the US Dollar. The United States is a growing market for South Africa's agricultural products. In 2000, 5.8 percent of the country's agricultural exports went to the U.S. For the first time the value of agricultural exports to the U.S. was equal to the imports from the U.S. When fishery and forestry products are added, South Africa enjoyed a USD 33 million positive trade balance with the U.S.

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

Advantages	Challenges
South Africans consumers view U.S. products as high quality.	Limited knowledge of retailers and consumers of the variety and quality of U.S. products.
South African importers seek suppliers who can offer reliable and quality products at competitive prices.	Choose correct food agent or distributor.

The growing retail industry, needs imported food products.	Already acquired tastes and preferences for traditional locally produced products.
Opportunities exist for niche products.	Competition from other countries and locally produced products.
More transparent import regulations	A large proportion of the population has very limited disposable income.
A steady decline in tariff levels for most products.	

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. and 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.

B. Trade and Marketing Services:

- **Franchising:** According to the Franchise Association of Southern Africa (FASA), the number of franchises grew by at least 33 percent since the beginning of 2001. The greatest growth was in the service-orientated sector. There are currently 300 reputable franchisors in South Africa, 150 of whom are members of the Association. The largest franchise sector in South Africa is the fast food sector, representing approximately 29 percent of the franchise industry. 82 per cent of franchisors are locally developed concepts. The remaining 18 percent of franchised systems, operate under master license agreements with international franchisors from countries such as the US, Australia, Canada and Europe.

- **Direct Marketing:** Although South Africa's foreign exchange controls and import documentation requirements have been relaxed, it is recommended 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 Ventures/Licensing:** Exchange control regulations stipulate that the South African Reserve Bank's (SARB), Exchange Control Section 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 wishing to establish a subsidiary in South Africa must register it 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. Companies may be either private or public.

-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.

C. Consumer Tastes and Preferences:

In the last few years a wide range of new imported products have become available in the market. South African tastes and preferences are becoming more sophisticated and the average consumer is increasingly expecting a wide range of products on supermarket shelves. Local supermarkets are carrying more and more imported and speciality products. A new Pick n' Pay Fresh store brings a whole new meaning of shopping speciality foods by bringing a diverse selection of local and imported goods around the globe to supermarket shelves. Key considerations by consumers in making purchasing decisions are price and quality, and a fair indication that consumers are willing to spend. The increasing buying power of the black sector of the population is having a positive effect on the market for imported food products. Customary buying patterns by consumers, supermarkets, wholesalers, distributors and chain stores remain largely intact. South African consumers, especially low-income wage earners, have a high degree of brand-loyalty, and are not very price conscious. Major food items are meat, dairy, fruit, vegetables, and grains. Meat and mealie meal (corn meal) are the dominant diets among the black population.

D. Food Standards and Regulations:

Refer to Fairs Report SF1019 dated 7/30/2001.

E. General Import and Inspection Procedures:

Refer to Fairs Report SF1019 dated 7/30/2001.

III. MARKET SECTOR STRUCTURE AND TRENDS

A. Competition:

U.S. exports of consumer ready products face stiff competition from European Union,

Zimbabwe, Australia, Malaysia and other Asian countries. The U.S. is one of the major suppliers of wheat and rice to South Africa. Imports from Zimbabwe include staple food such as meat, fish, vegetables, (coffee, cocoa and tea), and rice.

Australia is a significant exporter of food preparations, dairy products, oilseeds, edible oils and fats, and fish and crustaceans. Imports from Malaysia include dried fruits, cocoa, spices and spicy products, oilseeds, edible oils and fats.

B. Tariffs:

South Africa is a member of the World Trade Organization (WTO) and follows the Harmonized System (HS) of import classification. Most South African exports to the U.S. are now eligible for duty-free treatment as a result of the African Growth and Opportunity Act (AGOA). US shipments to South Africa qualify for MFN (Most Favored Nation) treatment.

There is free exchange of trade between South Africa and some of its neighboring 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 EU 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.

As a result of South Africa market access offer for the Uruguay Round, it has significantly reduced its number of tariff lines and bound most to WTO binding levels. It has replaced almost all remaining quantitative control and formula duties with ad valorem duties, with a few anomalies remaining in agriculture. Finally, it has cut back tariff lines from the 80 different levels of the past to eight levels ranging from zero to 30 percent with a few exceptions.

C. Distribution Systems for processed food products:

Retail trade outlets in South Africa offer the full spectrum available in the United States. These range from the neighborhood convenience drugstore (called a *café*), 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 store 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. For products of a technical nature, it maybe necessary to appoint an official After-Sales Agent 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.

Importers:

In South Africa, only a few importers specialize in one product. Most importers are generalists who import a wide range of food products. However, it is still very 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.

Wholesaler:

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 "housebrands". They also import large volumes of products that are sold to catering establishments. Consumer goods requiring maintenance of stocks and industrial raw materials often are exported to South Africa through established wholesalers.

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

Broker Agents: Broker Agents are mostly involved with state or other large food supply contracts. They tender for State 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, as well as from catering wholesalers.

IV. PROSPECTS FOR HIGH VALUE PRODUCTS

Current trends indicate that South Africa will continue to supplement local agricultural production with imports. Total agricultural imports amounted to \$1,932 billion in 2000. Principal imports included rice (\$135.5 million), wheat (\$99.2 million), protein meal (\$67.8 million), food preparations (\$49.8 million) and sunflower-seed (\$45.3 million).

The US is one of the major suppliers of rice and wheat to South Africa and has increased sales in several consumer oriented products. One of the growth areas is in intermediate agricultural products where, for instance, planting seeds sales are growing. Forest products sales are also increasing.

The best prospects for future US agricultural product sales to South Africa include the following products: consumer oriented products (\$35 million), forestry products (\$30 million) and intermediate products such as seeds (\$25 million).

Table: Best prospects for increased US agricultural exports to South Africa: US Dollar million

	1997	1998	1999	2000	2001 Forecast
Consumer oriented products	78.0	59.3	37.7	32.0	35.0
Forestry Products	34.0	21.3	20.6	27.2	30.0
Hardwood Lumber	24.6	14.4	13.8	18.2	20.0
Panel Products	6.9	4.7	4.3	7.0	8.0
Intermediate Products	18.7	33.4	26.0	23.8	25.0
Planting Seeds	10.7	6.5	6.9	11.8	12.5

Demand for snack food is small but rapidly growing. Innovation and new launches are driving the growth in the snack food market. Continued interaction between U.S. suppliers and, South African importers and consumers of processed food products through events such as trade shows, trade missions and instore promotions are the key means for increasing U.S. exports to the country.

V. KEY CONTACTS AND FURTHER INFORMATION

A. Following are contact details of companies mentioned in the report.

Franchise Association of Southern African (FASA)

Tel: 27-11-484-1285

Fax:27-11-484-1291

Contact: Mr. Nic Louw, Executive Director

[Http://www.fasa.co.za](http://www.fasa.co.za)

[E-mail:fasa@faso.co.za](mailto:fasa@faso.co.za)

South African Paper Industry

Tel: 27-11-360-0000

Fax:27-11-816-1405

[Http://www.sappi.com](http://www.sappi.com)

South African Direct Marketing Association

Tel:27-11-482-6440

Fax:27-11-482-1200

Contact:Mr. Davy Ivins, Executive Director

Department of Trade and Industry

Board on Tariffs and Trade

Tel:27-12-320-2085

Fax: 27-12-320-2085/310-9500

Department of Trade and Industry
Directorate:Technology Promotion
Tel:27-12-310-9839
[Http://www.dti.pwv.gov/dtiwww](http://www.dti.pwv.gov/dtiwww)

South African Companies Regulatory Office
Registrar of Companies
Tel:27-12-310-9791
Fax:27-12-328-3051
[Http://www3.dti.gov.za/sacro/](http://www3.dti.gov.za/sacro/)

Association of Marketers (ASOM)
Tel:27-11-706-1633
Fax:27-11-706-4151
Contact:Mr. Derrick Dickens, Executive Director
[E-mail:asom@pixie.co.za](mailto:asom@pixie.co.za)

Association of Advertising Agencies (AAA)
Tel:27-11-781-2772
Fax:27-11-781-2796
[E-mail:lizelle@aaaltd.co.za](mailto:lizelle@aaaltd.co.za)

Industrial Development Corporation of SA, Ltd (IDC)
Tel:27-11-269-3000
Fax:27-11-269-3116
Contacts: Mr. Khaya Ngqula, Managing Director
 Mr. Ted Droste, General Manager
Internet:www.idc.co.za

B. Post Contact

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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Tel:27-12-342-1048 ext. 2235
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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>