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Report Name: Food Processing Ingredients

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Report Category: Food Processing Ingredients

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Report Highlights:

South Africa's well-developed food processing sector has been under pressure since the March 2020 national lockdown due to COVID-19, which imposed many restrictions on the food industry. The sector, which serves as a gateway to Sub-Saharan African markets, has been impacted on multiple fronts including; labor shortages due to work stoppages, limited staff to observe social distancing, sporadic bans on alcohol sales, strict curfews, closures of land border posts, and a reduction in spending on restaurants and hotels. Despite the pandemic challenges, Stats SA reported that overall manufacturing production increased by 1.8 percent in December 2020 compared to December 2019, in which food and beverage processing contributed 6.4 percent.

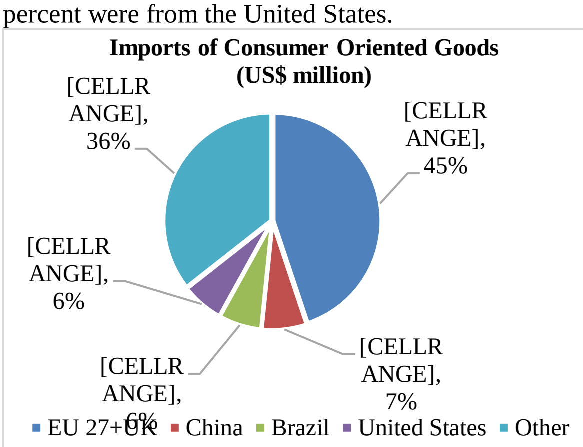
Fact Sheet: South Africa

Executive Summary

South Africa is a middle-income emerging market, with a population of 59 million people (64 percent are in urban areas). South Africa's GDP was valued at US $358 billion in 2020. South Africa has a well-developed agribusiness sector which plays a significant role in job creation and economic development. South Africa is the largest exporter of agricultural products in Africa, primarily citrus, wine, fruits, and corn. Although largely self-sufficient in agriculture, the country has opportunities for imports. In 2020, imports of agricultural products were US$6.0 billion compared to US$6.4 in 2019.

Imports of Consumer-Oriented Products

In 2020, South Africa's imports of consumer-oriented products were US$2.2 billion compared to US$2.6 billion in 2019. The EU 27 plus UK accounted for 45 percent of total consumer-oriented imports, while 6 percent were from the United States.



Food Processing Industry

There are over 1,000 food production companies in South Africa. the top ten companies are responsible for more than 80 percent of the industry's production revenue. The industry employs approximately 400,000 people, a decrease from the previous year due to the pandemic, in the subsectors of meat, fish, fruit, dairy products, grain mill products, and beverages. As a major producer and exporter of finished processed food products in Africa, South Africa's appetite for ingredients drives demand for a wide range of products.

Food Retail Industry

South African food retail sales totaled U S. $39.8 billion in 2020 a decrease from 2019 due to the pandemic. Imports of all agricultural products in 2020 decreased by 6 percent to U.S. $6.0 billion. The sector is well developed and aggressively expanding into other African countries.

Quick Facts CY2020

Imports of Consumer-Oriented Products from USA

US$154 million

List of Top 10 Consumer-Oriented Products from USA Exported to South Africa

1.Poultry Meat & Products (ex. eggs)	6. Processed vegetables
2. Food preparations & misc. beverages	7. Coffee roasted and extracts
3. Dairy products	8. Meat products nesoi
4. Chocolate & Cocoa products	9. Snack foods nesoi
5. Wine & beer	10. Fresh fruit

Food Industry by Channels (US $ Billion) 2020

Food Industry Output: $40
Food Exports: $9.6
Food Imports: $6.0
Retail: $39.8
Food Service: $3.1

Strengths/Weaknesses/Opportunities/Threats

Strengths	Weaknesses
Advanced economy with a well-developed infrastructure.	Limited technical capacity and weak political will by regulators contribute to trade barriers and delays in resolving access issues.
Opportunities	**Threats**
Diversification of trade partners through the African Continental Free Trade Area, can deepen linkages for regional and intra-African trade.	Decreased consumer spending associated with COVID-19 measures. FTA with EU and political preference towards BRICS countries.

Data and Information Sources:

Trade Data Monitor (TDM), Statistics South Africa (Stats SA); local industry publications, and trade press.

Contact: FAS Pretoria, South Africa, AgPretoria@usda.gov
https://www.usdasouthernafrica.com/

SECTION 1: Market Summary

South Africa, with its well-developed infrastructure, is a major producer and exporter of agricultural produce in Sub-Saharan Africa. The country was no exception to the global COVID-19 pandemic trade and economies disruption. South Africa's agro-processing was impacted by a national lockdown in response to the pandemic which decreased all manufacturing's total value, as jobs were lost and gains in poverty eradication decreased. According to Statistics South Africa (StatsSA), unemployment increased to 32.5 percent in fourth quarter of 2020 from 30.8 percent in third quarter due to reduction in workforces and the closure of some business as a result of COVID-19. The link "Business Impact Survey of the COVID-19 pandemic in South Africa" is feedback of a survey conducted by StatSA to get an understanding of how the pandemic impacted companies. This link provides more information about South Africa labor force.

In 2020, South Africa's GDP was US$358 billion. The South African commercial agricultural sector is highly diversified it produces nearly all primary food goods to be self-sufficient with the exception of wheat, rice, oilseeds, pork, and poultry products. Commercial farmers, small holder farmers, and subsistence farmers are all part of South Africa's well-developed agribusiness sector, which plays a significant role in job creation and economic development. South Africa's "Economic Relief Measures" provides information on relief measures to assist businesses from the impact of the pandemic.

South Africa continues to offer opportunities for imports, particularly in urban area where 64 percent of South Africans live. In 2020, imports of agricultural products were valued at US$6.0 billion compared to US$6.4 in 2019, a slight decrease due to COVID-19 trade disruptions. South Africa is a net importer of food preparations and ingredients. In 2020, U.S. exports of food preparations and ingredients to South Africa totaled US$26 million. Leading exports products to South Africa were other processed food, ingredients and beverage bases, protein concentrate, flavoring (vegetable saps & extracts), baking inputs, thickener, food preparations nesoi, vegetables saps and extracts of hops.

Table 1: Opportunities and Challenges facing U.S. Food Processing Ingredients in South Africa

Opportunities	Challenges
South Africa is an attractive developed business market, and a gateway to Sub-Saharan Africa markets.	The South African market may not be able to import the volumes that U.S. companies are used to due to a smaller economically active population than other large countries.
South Africa has a well-developed and advanced food sector, which is a key driver in the use and demand for food ingredients.	Food safety and phytosanitary regulation restrictions may impact imports of food products and certain food ingredients.
South Africa a gate-way to Sub-Saharan markets potential to increase U.S. exports through Africa Continental Free Trade Area (AfCFTA).	Competition from other countries (especially those with preferential agreements) and local producers.

SECTION 2: Road Map for Market Entry

2.1 Entry Strategy

New U.S. exporters in this market need to fully understand the food processors' needs and how best to meet their purchasing requirements and specifications. They should consider the following when planning to enter the market.

- U.S. exporters are encouraged to contact FAS Pretoria to request a list of South Africa food and beverage importers.
- South Africa has a strong domestic food processing industry, and despite small volumes of orders and COVID-19 crisis, imports of food ingredients and additives comes from all over the world.
- Finding a local agent that knows the market well is a safe approach for entry into the market.
- Understand the food processor's purchasing policy – i.e., whether it buys directly from overseas suppliers or via local importers/agents. Some companies prefer to buy through local agents that can better respond to issues quickly.
- 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 the sales interest of the exporter. Teleconferencing platform can facilitate this relationship.
- U.S. companies can contact Post, the State Regional Trade Groups (SRTGs) and the National Association of State Departments of Agriculture (NASDA) to obtain additional market entry support. The SRTGs are non-profit trade development organizations funded by USDA/FAS and the private industry. They regularly organize trade missions which are often organized around trade shows or other events, to help U.S. food producers and processors to enter overseas markets. For more information, contact the state regional trade group responsible for your State at: https://www.fas.usda.gov/state-regional-trade-groups
- Consider attending Virtual Trade Events (VTEs) in the region to meet importers and buyers of general food and beverages products. More info can be found at: https://www.fas.usda,gov/topics/virtual-trade-events

2.2 Import Procedure

Covid-19 travel restrictions created some delays of food consignments subject to random inspection and sampling at point of entry into South Africa. See the FAIRS Country Report for more information on South Africa regulations, standards, and import requirements, which include a list of responsible ministries. This link of FAIRS report on import certificates**,** provides information on import certificates.

2.3 Distribution Channels

- In South Africa's very competitive marketplace, it is essential that U.S. exporters choose the correct agents or distributors.
- Supermarkets, independent retailers and convenience stores (attached to gas stations), and independently owned health stores remain leading food distribution channels in South Africa. These companies generally prefer to deal with local agents or distributors, rather than sourcing direct from a U.S. supplier.
- Major retailers prefer to source directly from U.S. suppliers for products to be delivered to central distribution centers, where products can be distributed to local chain stores.

- South Africa's "independent" or smaller retailers prefer to buy from large wholesalers for the distribution of food and beverages.

2.4 Market Structure

South Africa's larger food processing companies prefer to source food ingredients directly from overseas suppliers (instead of using local agent) to reduce costs. There is a cost savings when buying in bulk from the overseas supplier and better control over quality. However, smaller food processors tend to prefer to purchase from local agents to better control storage and supply.

Table 2: Share of Major Segments in the South African Food Processing Industry

	2020 ($ million USD)
Meat, fish, fruit, etc	10.9
Dairy products	3.4
Grain mill products	5.9
Other food products	8.3
Beverages	8.9
Food and Beverages	**37.5**

Source: Statistics South Africa
http://www.statssa.gov.za/publications/P30412/P30412December2020.pdf

2.5 Company Profiles & Company Products

The table below provides information on South Africa's major national and multination food processing groups.

Table 3: National food processing groups

Company Name & Products	**Webpage**	**Company Name & Products**	**Webpage**
Tiger Consumer, grocery products.	https://www.tigerbrands.com	Pioneer Foods, grocery products.	https://www.pioneerfoods.co.za
Clover, dairy products	https://www.clover.co.za	Distell, alcoholic and soft drinks.	https://www.distell.co.za/home/
The SAB, beer and soft drinks.	https://www.sab.co.za	RCL Foods, grocery, feed, and pet food products.	https://rclfoods.com
Famous Brands, meats, cheese, sauces, bakery, and	https://famousbrands.co.za	Illovo Sugar Africa, cane sugar, and sugars.	https://www.illovosugarafrica.com/home

beverages.			
Montagu, snack foods.	https://www.montagusnacks.co.za/	Oceana Group, fish and seafood products.	https://oceana.co.za

Source: Industry websites and trade press

Table 4: International food processing groups

Company Name & Products	Webpage	Company Name & Products	Webpage
Nestle, grocery products	https://www.nestle-esar.com	Unilever, groceries	https://www.unilever.co.za
Mondelez International, confectionery	https://www.mondelezinternational.com	Parmalat SA new name Lactalis South Africa effective February 1, 2020, dairy products.	https://lactalis.co.za
McCain Foods, fresh and frozen vegetables.	https://www.mccain.co.za	Kellogg's, cereals	https://www.kelloggs.co.za

Source: Industry website and trade press

2.6 Sector Trends

The South African market mirrors similar global trends related to health and wellness, convenience, and value for money for food products.

- Increased and dramatic shift to online buying with most factories and businesses with fully integrated delivery systems, spurred on by the pandemic.
- Development of stronger localized food processing systems for food security.
- South Africa serves as the entry point to do business in the Sub-Saharan Africa region.
- Increased consumer demand for ready to eat foods, plant based foods, and unique beverages.
- Manufacturers calibrate towards private labels to capitalize on the growing demand of private label offerings.
- Fruit juice manufacturers import grape and apple juice for blending with their own fruit juices.
- South Africa food processors, canners and packers continue to offer windows of opportunities for imports of raw material not available locally.
- Market research confirms that consumer expect food that is not only ready-to-eat, but is also safe, nutritious, tasty, and natural.
- Consumers are becoming more interested in the source of their food.
- A demand for "healthy" foods creates a market for organic products which targets the specific dietaries needs of the upper middle class. Products include baby food, free range chickens, sugar-free/sugar alternatives, honey, vegetables, and wine,

- Niche markets that continue to grow are: Kosher, halal, dairy-free, no-added sugar, gluten free, meat alternatives, vegan, vegetarian, flexitarian, and plant-based meals.

SECTION 3: Competitive Situation

The U.S. food ingredients exports of agricultural products seems to be very competitive, though they face competition from South African producers in the Southern African Development Community (SADC), the European Union (EU) and MERCOSUR. South Africa signed Free Trade Agreements (FTA) with both SADC and the European Union, and has a preferential trade agreement with MERCOSUR. South Africa is one of the 54 member countries of Africa Continental Free Trade Area launched July 2019 which aims to expand intra-Africa trade for goods and services.

For more information on trade agreements visit https://www.trade.gov/export-solutions
Free Trade Agreements (FTA) and Preferential Trade Agreements (PTA) applicable to Southern Africa can be found on the following link:
http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-africa/Agreements/Pages/default.aspx;
https://www.bilaterals.org

SECTION 4: Best Products Prospects Categories

4.1 Products in the market which have good sales potential

Chicken Cuts and Edible Offal
Though South Africa is the region's leading producer of chicken meat, imports are regularly required to supplement local production and meet domestic demand. In 2020, South Africa imported 485,542 tons to augment local production. This represents a 11 percent decrease from the previous year. For the prior three years, U.S. exports filled the tariff-rate quota (RTQ) for U.S. bone-in chicken meat imports, again reflecting the consistent demand in the South African market. For 2020/2021, South Africa increased the annual TRQ allocation by 2 percent to 69,972 tons. See this GAIN Report for more information.

Almonds
South Africans are looking to various tree nuts for more diverse protein and snacks. In 2020, South Africa imported $17 million of almonds. The United States dominates the market for almonds, with 81 percent of the total market share, valued at $14 million, with Australia in a distant second at 12 percent. South Africa's growing demand for almonds far exceeds local production, and the pace of imports in 2020, and minimal impact of Covid-19 on demand in South Africa. South Africa is the largest importer of U.S. almonds in Sub-Saharan Africa. The following USDA South Africa Tree Nut Report has all the information.

Food Preparations and miscellaneous beverages
South Africa has a well-developed food processing sector and is a net exporter of food preparations. In 2020, imports of food preparations were valued at $307 million. The EU plus the UK has the largest market share at 65 percent amounting to $118 million. The United States had 3 percent of the market

share of South Africa's food preparations imports, valued at $29 million. Products with good sales potential in this category include food preparations, bread, pastry, cake mixes, pasta, malt extracts, cereals, and soup mixes.

Craft Beers and Spirits

South Africa is a net importer of beers, referred to as "beer made from malt." In 2020, imports amounted to $118 million, and exports amounted to $61 million. Mexico has the largest market share at 50 percent. There are potential opportunities for U.S. exports in this category due a steady increase in imports from the United States. The report link highlights how South Africa alcohol restrictions impact on U.S. distilled spirits export to the country.

Enzymes and Prepared Enzymes

South Africa is a net importer of enzyme and prepared enzymes. In 2020, imports amounted to $56 million, and exports amounted to $40 million. The United States had the second largest market share with 29 percent, valued at $16.3. million, after Denmark with 34 percent. Potential opportunities for U.S. exports are modified starch products such as whey.

Essential Oils for use in food/drink

South Africa is a net importer of essential oils used in food/drinks, mainly used in food processing. These products are also referred to as "mixtures of odoriferous substances." In 2020, imports were $387 million, and exports amounted to $57 million. Eswatini (formerly Swaziland) was the market leader with 75 percent. There is a potential for growth for U.S. exports in this category due to the demand.

4.2 Products not present in significant quantities but which have good sales potential

Despite the pandemic challenges, the competitive local market and alternatives from other producers, potential market opportunities for U.S. agricultural products in the South African food and beverage market include, beef & beef products, pork & pork products, meat products, fish and seafood products, tree nuts, liquor products to include bourbon whiskey, wine & craft beers, food ingredients, hops, oils and fats, pet food, snack foods, wheat and meslin, and prepared foods.

SECTION 5: Key Contacts and Further Information

5.1 Post

If you have questions or comments regarding this report, please contact the FAS Office of Agricultural Affairs in Pretoria at:

Office of Agricultural Affairs
United States Embassy, South Africa
877 Pretorius Street, Arcadia, Pretoria, 0083
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Tel: +27-(0)12-431-4057, Fax: +27-(0)12-342-2264, Email: agpretoria@usda.gov
Website: https://www.usda.southernafrica.org/

Other FAS market and commodity reports are available through the FAS website http://www.fas.usda.gov or https://www.fas.usda.gov/regions/south-africa

5.2 Other Additional Contacts

American Chamber of Commerce in South Africa, www.amcham.co.za
U.S. Foreign Commercial Service, publication of South Africa Commercial Guide, https://export.gov/southafrica

Attachments:

No Attachments