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Food Processing Ingredients Sector

South Africa's Food Processing Report

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Report Highlights:

South Africa's food processing sector is an important component of the manufacturing economy and continues to offer good potential for US food ingredients. The South African food industry is diverse and evolving as consumer needs and aspirations align with global needs. South African consumers continue to expect value added elements in processed foods like added health benefits or perceived "beauty" benefits, including nutritionally enhanced products, such as innovative flavors. In 2007, South Africa imported \$79 million of food ingredients compared to \$52 million in 2006. Imports were mainly sweeteners, flavorings, and starches. Exporters should keep in mind that advanced food processing technology is far beyond the horizons of even the most richly resourced South African food company.

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SECTION 1: OVERVIEW OF SOUTH AFRICA

South Africa has a GDP of \$576.4 billion with a population estimated at 48 million and 11 official languages (Statistics South Africa Mid-year population estimates July 2007 issues), <http://www.statssa.gov.za/publications/P0302/P03022007.pdf> . Financially, South Africa has a sophisticated financial structure with the Johannesburg Securities Exchange (JSE), a large and active stock exchange that ranks 18th in the world in terms of total market capitalization.

South Africa occupies the southernmost part of the African continent, stretching latitudinal from 22° to 35° S and longitudinally from 17° to 33° E. Its surface area is 1,219,090 km². South Africa borders Namibia, Botswana, and Zimbabwe, while Mozambique and Swaziland lie to the north-east. Completely enclosed by South African territory in the south east is the mountain kingdom of Lesotho. To the west, south, and east, South Africa borders the Atlantic and Indian oceans. Isolated 1,920 km south east of Cape Town in the Atlantic, lie the Prince Edward and Marion islands, annexed by South Africa in 1947.

The South African government estimates the economy will achieve growth at an average of 4.5 percent until 2010 and 6 percent thereafter, by 2010, resulting in halving South Africa's high levels of unemployment, currently estimated at 25.5 percent (2007).

South Africa has two economies. The first prosperous and largely white, and the second poor and largely black. South Africa has 10 Living Standards Measures (LSMs) and each of them has specific buying potential and behaviors. South African consumers in the middle and upper income levels (LSM 6 – 10), account for 60 percent of food purchase, are demanding healthier, convenient, quality foods, while the majority (LSM 1 – 5), representing the poorer sections of the population, still demand staple foods at low prices. The Government's overriding challenge is to bring prosperity to the majority of citizens who remain poor. Despite the inequality of income levels, South Africa's economy is the largest and wealthiest on the African continent, boasting a GDP equal to one-third of Africa's total output, a diverse and sophisticated private sector, an impressive infrastructure, and a wide range of valuable mineral resources.

In the past three years South Africa has concluded highly attractive preferential trade agreements with the South African Customs Union (SACU), the European Union (EU), the Southern African Development Council (SADC) countries, and is negotiating other agreements with the United States and MERCOSUR. These agreements open up new market and business opportunities for businesses interested in investing directly in South Africa or partnering with it for other types of business collaboration.

South Africa is a member of the World Trade Organization (WTO), and as such U.S. products qualify for South Africa's most-favored-nation tariff rates. South Africa is also an eligible country for the benefits under the African Growth and Opportunity Act (AGOA) www.agoa.co.za , and most of its products can enter the U.S. market duty free.

The Global Competitiveness Report ranks South Africa 44th out of 131 countries and first amongst developing countries in terms of economic development. South Africa is rated 22nd for general infrastructure and 16th for financial market sophistication. Because of its isolation during the apartheid years, South Africa, unlike most developing countries, was forced to develop a strong technological base.

SECTION 2: MARKET SUMMARY

2.1: Overview of South Africa's food processing sector

South Africa's food processing sector is an important component of the manufacturing economy. The sector is highly concentrated and competitive, producing high quality commodity and niche products for local and international markets. It has a highly diversified agricultural sector which includes the production of all the major grains (except rice), oilseeds, deciduous and subtropical fruits, sugar, citrus, wine and most vegetables. Livestock production includes cattle, dairy, pigs, sheep, and a well developed broiler and egg industry. Value-added activities in the sector include slaughtering, processing and meat preservation, processing and preserving fruit and vegetables, processing and animal oils and fats, dairy products, grain mill products, prepared animal feeds, bakery products, sugar refining, cocoa, chocolate, and sugar confectionery amongst other food products. South Africa also produces certain niche market products, such as Rooibos natural tea, which is marketed internationally. South Africa's agricultural, fish and forestry exports to the United States totaled \$212 million in 2007, a \$34 million decrease due to lowered beet and cane sugar and fresh fruit exports.

The agricultural sector currently contributes eight percent to South Africa's total export earnings. South African produce, mostly harvested during the Northern Hemisphere winter, has achieved remarkable successes in foreign markets and is well-known for its uncompromising quality. Citrus and deciduous fruit, in high demand in foreign countries, accounted for the largest export. South Africa also exports peanuts, wine, cut flowers, bulbs, mohair, karakul pelts, sugar, meat, and wool, to name just a few.

The value of imports of agricultural products to South Africa exceeds \$3 billion annually. The major products imported are plant oils (\$400 million), rice (\$240 million), poultry meat (\$180 million), whiskey (\$180 million), soybean oilcake (\$150 million), wheat (\$145 million), corn (\$110 million), and tobacco (\$100 million). In 2007, the United States exported \$318 million of agricultural, fish, and forestry products to South Africa. Major U.S. exports products to South Africa reached a record high and include wheat, sweeteners, a variety of consumer-oriented products (breakfast cereals and mixes, dairy products, fresh vegetables, processed fruit and vegetables, fruit and vegetables juices), other consumer oriented products, logs and chips, fish and seafood products, canned salmon, and other edible fish and seafood products. However, with an economic growth rate of more than five percent per annum and a middle class that is getting larger and richer, the demand for high-value products is increasing.

This sector is dominated by a few very large, diversified, national and multinational food manufacturers, who control both production capacity and sales in most food categories. These conglomerates tend to be involved in a number of food groups, both primary production and retailing, including interests outside of food production, usually in the pharmaceutical sector, and investments in overseas food and non-food companies. Tiger Brands, for example, has a controlling interest in the Spar retail group as well as interest in the production of milled products (milling, baking and other grains), processed fruit and vegetables, confectionery items, beverage, dairy and meat products; Anglo Vaal Industries (AVI) Group and Tongaat-Hulett, both are involved in primary production of food (groceries, frozen and fresh to market) including semi durables (cosmetics and footwear); Premier Foods – milling, baking and grains (wheat and rice); Pioneer Foods (formed when Bokomo Foods merged with Sasko) is involved in processing bread and other baked products, groceries, cereals, condiments, fruit juice, dried fruit, grain, animal feed, eggs and broiler rearing; and Foodcorp is involved in the groceries, pet foods, edible oils, milling, bakeries, and fishery products.

Major players in the food sector have established market shares and strong brands in various categories. The liberalization of agricultural markets from the 1980's opened up new opportunities for small and medium processors, mainly in baking, dairy, milling, and meat production. The restructuring in the food sector has led to mergers and acquisitions, and played a role in increasing concentration and competition. Large companies face considerable competition from emerging small and medium-sized food processors. New processors have played an important role in changing the competitive environment of food processing in South Africa, despite their limited market share.

These companies are very important, not only because of their size and diversity, but also because they are all big end-users of raw materials, whether locally sourced or imported. They have different procurement systems to deal with imports, such as their import departments, purchase directly from specialized and general importers or even own import companies, which operate independently and supply their chain stores in addition to other customers.

Additionally, big multinational companies, such as Nestle (Switzerland), Unilever (Unifoods) UK, and Borden (US), operate their own manufacturing plants in South Africa, which produce and market their well-known brands. Other multinationals companies do not have processing facilities, but have arrangements with local manufacturers. For example, branded, packaged food of Knorr, are manufactured under license by Robertson's, a major South African spice packer and food processor.

Many South African companies have formed associations with international companies, giving South Africa access to the latest technology and expertise. Examples of this are Simba and Frito-Lay (US), Robertson's and Best Foods (US), and NCD Clover and Danone (France); and a recent joint venture by H.J. Heinz and Pioneer Foods South Africa to form a company, Heinz Foods South Africa (SA). This allows foreign companies penetration into the local market. Food companies are among the largest holders of intellectual property rights (Unilever, Proctor & Gamble, and Nestle being the top three in South Africa), which involve patented processes, products, equipment, packaging technology, and trademarks.

Although there are over 4,000 food production companies, the top ten are responsible for seventy percent of the industry's turnover. South Africa's key players include national and multinational companies such as Tiger Brands, AVI, Premier Foods, Pioneer Foods, FoodCorp, First SA Foods, Nestle, Clover SA, Parmalat SA, Rainbow, Kellogg's SA, and South African Breweries. Food processors depend on formal retail chains to sell their manufactured products.

2.2: Manufacturing Production and Sales

According to Statistics South Africa, manufacturing production for 2007 reflected an increase of 4.1 percent with food and beverage contributing 0.7 percent to the annual increase. The total value of manufactured product sales increased by 15.4 percent compared to 2006, and food and beverages increased 17 percent towards the total sales increase.

Table of annual percent change in the physical volume of manufactured production and value sales:

Food and Beverage Manufacturing	Weights	Indices (base 2000=100)	Value of Sales (\$ million)
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Manufacturing Divisions		Jan – Dec. 2006	Jan – Dec. 2007	Annual % Change between Jan Dec. 2006 & 2007	Contribution % change	Jan - Dec. 2006	Jan - Dec. 2007	Annual % Change Between Jan 2006 & 2007	Difference in sales between Jan 2006 & 2007 Nov. & Dec. 2007
Food and beverages	16.4	119.7	124.5	4.0	0.7	\$23.2	\$27.2	17.0	\$3.9
Meat, fish, fruit, etc	2.6	124.5	130.6	4.9	0.1	\$5.8	\$6.9	17.8	\$1.04
Dairy products	1.1	110.4	112.3	1.7	0.0	\$2.0	\$2.3	12.4	\$0.25
Grain mill products	1.5	124.3	129.2	3.9	0.1	\$3.8	\$5.0	29.7	\$1.14
Other food products	6.8	110.4	111.2	0.7	0.1	\$5.2	\$5.7	10.6	\$0.54
Beverages	4.3	132.3	143.3	8.3	0.4	\$6.2	\$7.1	15.1	\$0.92

Source: Statistics South Africa

2.3: Advantages and Challenges for U.S. Exporters.

Advantages	Challenges
To sell directly to processors and/or directly to distribution centers.	South Africa is strong food producers.
South Africans are developing a taste for western foods and are willing to try new products.	Consumers may need to be educated in preparing and eating products.
The growing retail food industry needs imported food and beverage products.	Already acquired tastes and preferences for traditional locally produced products.
Established agro-processing industry.	While sophisticated for a developing country, much of the latest U.S. technology is far beyond the horizons of even the most richly-resourced SA food companies.
South African processors and importers seek suppliers who can offer reliable and quality products at competitive prices.	Challenge for U.S. suppliers to respond to trade inquiries in a timely fashion. Also South Africa is a smaller market and may not be able to deal in the volumes that U.S. companies are used to.
South Africa is the gateway for regional markets.	Competition is stiff from other countries and locally produced products.
South African consumers view U.S. products as high quality.	Limited knowledge of processors and consumers of the variety and quality of U.S. products.
English is one of the 11 official South African languages and virtually everyone is proficient in English.	Processors already have long-standing relationships with European suppliers due to historical ties.

SECTION 3: ROAD MAP FOR MARKET ENTRY

3.1: Entry Strategy

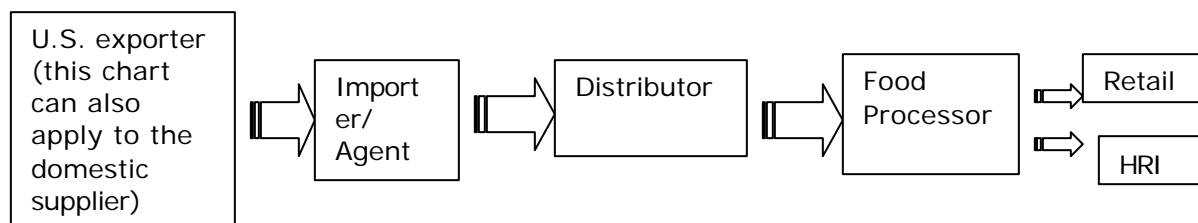
New-to-market U.S. exporters need to fully understand the food processors' needs and how best to meet their purchasing requirements and specifications. They should consider the following when planning to enter the market:

- South Africa imports food ingredients, additives, and chemicals from all over the world, including Australia, USA, New Zealand, the EU, Argentina, and Brazil, as well as having a strong domestic industry.
- Will the price for U.S. products be competitive with other suppliers?
- The food processor's purchasing policy, i.e. whether it buys directly from overseas suppliers or via local importers/agents.
- It is important to note that some companies prefer to buy through local agents because the local agents are better positioned to deal with any quality problems encountered by the buyer immediately.
- The financial strength of the targeted food processors, the geographical spread of their target markets, their level of demand for imported food ingredients, the level of their R&D activities and investments into new product introduction and their level of interest in using new ingredients from the United States.

3.2: Market Structure

Distribution channels

This chart gives an overview of the usual distribution channel for imported food ingredients from U.S. exporters to food processors.



Large food processing companies prefer to source their food ingredients directly from overseas suppliers instead of using local agents because they can:

- Benefit from cost savings when buying in bulk from the overseas suppliers.
- Control the quality of the ingredients they obtain

Most South African food processing companies are not “large” in the American sense of the word. They prefer to purchase from local agents because they can:

- Obtain better service from the local agent who buys large quantities from overseas
- They require small quantities of food ingredients.
- Local system are better able to deal with quality issues.

3.3: Company Profiles

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

Company and Product types	Sales (US\$ millions)	End-use-channels	Production Location	Procurement channels

<p>Tiger Brands, is a branded fast moving consumer packaging goods and healthcare company that operates mainly in South Africa and some other selected emerging markets. It is listed on the Johannesburg Securities Exchange (JSE) South Africa with a 50 percent market share. In term of food and beverages, categories include grains, groceries, snacks and treats, perishables, out of home, exports and beverages. In 2006 Tiger Brands acquired Bromor Foods, and Nestle Southern African Sugar Confectionery portfolio.</p> <p>Milling & Baking (Corn, wheat, baking , sorghum, rice, oats and pulses)</p> <p>Groceries (Vegetables, spreads, sauces and pasta)</p> <p>Snacks and sweets</p> <p>Perishables (dairy and value-added meats)</p> <p>Out of Home (Food services)</p> <p>Exports (Canned fruit and vegetables</p> <p>Beverages http://www.tigerbrands.co.za/</p>	N/A	Wholesaler/ Retail/HRI	South Africa, Botswana, and Zimbabwe	Direct/ Agents
<p>AVI Group, is listed on the JSE. It is comprised of trading subsidiaries that manufacture, process, market and distribute branded consumer products in the food, beverage and fashion categories. This report concentrates only on food and beverages.</p> <p>Food categories include groceries, frozen and fresh to market.</p> <p>Groceries (Tea, coffee, biscuits and snacks)</p> <p>Frozen (fish farming, fish and seafood products)</p> <p>Fresh to market (fresh and canned vegetables, especially mushrooms, and juices)</p> <p>AVI is responsible for many of South Africa's favorite brands such as I & J, Five Roses, Bakers, Ciro, Frisco, Willard's, and Real Juice. Well-known companies associated with AVI include National Brands Limited (NBL), Irvin &</p>	N/A	Wholesaler/ Retail/HRI	South Africa	Direct/ Agents

Johnson Limited (I&J), Denny, and the Real Beverage Company (RBC). http://avi.quickreport.co.za/avi_ar_2007/				
<p>Premier Foods is one of South Africa's largest manufacturer, distributors and marketer of milling and baking products. Categories include maize/corn, bread, wheat and rice. The company carries five of the top 20 of South Africa consumer brands. http://www.premierfoods.co.za/</p> <p>Premier Fishing is a subsidiary of Sekunjalo Foods. Sekunjalo's product categories include organic aquaculture (fertilizers and organic abalone farming), and fishing (processors of lobster, squid and hake.</p>	N/A	Retail/ Convenience Stores	South Africa	Direct/ Agents
<p>Pioneer Foods is the third largest food manufacturer in South Africa and the dominant player of the staple food sector. The company products categories include Baking aids or cake mixes; groceries, tea/coffee, cereals, biscuits, condiments, juices and acidic drinks, dried fruits, eggs and broiler rearing, and animal feeds. http://www.pioneerfoods.co.za/</p>	N/A	Distribution Center (DC)/ Wholesalers/ Retail/HRI	South Africa	Direct/ Agents
<p>FoodCorp is South Africa's largest black owned food manufacturer, marketer and distributor and subsidiary of Pamodzi Investment Holdings who own 65% of the company. Activities include the processing of fish, groceries, pet foods, edible oils, milling and bakeries. http://www.foodcorp.co.za/</p>	N/A	Wholesaler/ Retail/HRI	South Africa	Direct/ Agents
<p>Clover SA (Pty) Ltd largest dairy group in South Africa - dairy products categories includes fruit juices, milk/ flavored milk, yoghurts, cheese, health teas, butter/spreads, and desserts. http://www.clover.co.za</p>	N/A	DC/Retail/HRI	South Africa and Botswana	Direct/ Agents
<p>Unilever South Africa a subsidiary of Unilever Plc., Manufactures fast moving consumer goods (fmcg's) in foods, home and personal care products product lines includes (spices, sauces, dressings, , margarine, teas, syrups, and food solutions). Food solutions works with</p>	N/A	DC/Retail/HRI	South Africa	Direct/ Agents

caterers, restaurants, hotels and fast food chains. http://www.unilever.com				
<p>Rainbow, South Africa's largest processor and marketer of chicken. It is a fully-integrated broiler producer that breeds and rears its own livestock, processes and markets fresh, frozen, value-added and further processed chicken nationally and internationally. Rainbow incorporates Rainbow Farms (supplier of fresh and frozen), Epol (animal feed), Cobb SA (breeding stock operation), and vector Logistics (temperature-controlled distribution).</p> <p>Rainbow brands include own brand, farmer brown, bonny bird, and rainbow food solutions. It also produces dealer own brands for some retailers and wholesalers. http://www.rainbowchicken.co.za/</p>	N/A	Distribution Center/Wholesaler/Retail/HRI	South Africa	Direct/Agents
<p>Parmalat South Africa, is owned by Parmalat SpA – an Italian dairy company. It is a leader in the South African dairy industry. Their products include Milk, yoghurt, ice cream, cheese, and fruit juices. http://www.parmalat.co.za</p>	N/A	DC/Distributor/Wholesaler/Retail/HRI	South Africa, Botswana, Mozambique, Swaziland, and Zambia	Direct/Agent
<p>Kellogg Company of South Africa Pty Ltd, is the world's largest manufacturer of Ready-To-Eat cereals, and the market leaders in South Africa in the ready-to-eat cereals business. Their products category includes ready to eat, portable breakfast, cookies/crackers, natural/organic/frozen, and specialty cereals. http://www2.kellogg.com</p>	N/A	Distributor/Wholesaler/Retail	South Africa	Direct/Agent
<p>South African Breweries (SAB) Ltd, a subsidiary of SABMiller Plc, operates seven breweries in South Africa and dominates the local brewing industry. 70% of SAB's income is derived from beer, with the rest coming from soft drinks and sorghum beer. The wine industry is also relatively large, ranked seventh in world output. http://www.sabreweries.com</p>	N/A	Wholesaler/Retail/HRI	South Africa and Namibia	Direct/Agent

3.4: Sector Trends

South Africa mirrors global trends, health, convenience, value for money, and growth of food processors, including mega retailers.

- Global trends indicate that consumers are moving to **healthy and convenient** products that provide value.
- **Fastest growing imports** categories includes:
 - soy based drinks
 - drinkable yoghurts
 - whiskies
 - cereal/muesli/fruit bars
 - sports/energy drinks
 - Dairy (milk, cream concentrate, sweet)
 - sugar substitutes including lactose and syrups
 - refrigerated complete meals
 - Oils such as palm and soybean oil
 - frozen fruit, refrigerated salad dressings
 - fruit and vegetable juices
 - fresh ready to eat salads
 - soybeans and kidney beans
 - frozen meats, such as chicken cuts, and turkey cuts
 - fish and seafood products such as tuna, sardine, frozen shrimp/prawn, and other fish
 - Organic products including organic flavors and colors
 - fresh vegetables
 - refrigerated meats or cold meats
 - shelf-stable cakes
 - refrigerated fish/seafood
 - animal feeds
 - frozen pizza and pastries
 - bottled water including sweetened and flavored, and
 - shelf-stable fruit/nuts, including peanuts.
- Another trend that has been growing for several years and is still growing is the demand for **convenience foods**. This is led by an increasing number of households where both partners work and an increasing number of affluent households that can pay for convenience.
- Recent market research confirms that consumers expect food that is not only **ready-to eat**, but is safe, nutritious, tasty, natural, like-fresh, and feels like a good value for money.
- According to Wolstenholme, organizers of the Natural & Organics Products Exhibition, the South African **organics** industry has grown at more than 100 percent per year for the past three years. Some of the organic and free-range products growing trends are free range beef, lamb, pork, and chickens including vegetables, especially in the upper LSM. Major South African retail chains demand and stock organic products.
- Another trend is the demand for **goat-derived dairy products**.
- According to participants at the 2008 Food Ingredients Africa trade show, the use of **health ingredients** in many foods and drinks will become increasingly important in the food industry – and regulators will find it difficult to keep up. Marketers will get there first; regulators will arrive later. Such challenges will make this an even more complex industry than in the past.

- Leading **flavor** manufacturers concur that South Africans remain cautious in their taste choices. Old favorites reign supreme across all food categories, albeit interspaced with more exotic, up-market options that come and go. Average consumers prefer BBQ, tomato, cheese, strawberry chocolate and banana, and they like it strong and visible. The issue of illegal amounts of colorant used in the lower-end savory snacks industry is cause for concern, with no sign of any industry consensus on the issue, especially among the smaller operators, which this is creating anomalies in the market.
- **Flavor** developers feel food processors are overly risk averse and lack insight into changing demographics and consumer habits. Opportunity and growth, they concur, lie in developing 'cross-over' or fusion products and flavor profiles for the newly empowered black market that wants to keep in touch with traditional roots but aspires to previously unaffordable foods.
- **Kosher and Halaal** foods products is a niche that keeps growing.
- **Increase in food prices**, reported by statistics South Africa (Stats SA), from January 07 to January 2008 increased by 13.4 percent. According to the National Agricultural Marketing Council (NAMC) and Stats SA food categories that made the largest contribution to the increase include grain products, milk, cheese and eggs, fats and oils; fruit and nuts, and vegetables.

SECTION 4: COMPETITION

Meat and Meat Products: South Africa produces a very high quality beef with the domestic under-supply made up with imported meat and meat products. South Africa is a net importer of meat and meat products. In 2007, imports of meat and meat products, chilled, frozen, and prepared, totaled \$359 million and exports totaled \$94 million. The pattern of imports in this category is variable and depends largely on local conditions. Imports of meat products have been increasing over the past few years; 2006 saw a 16.7 percent increase in imports over 2005 figures, largely as a result of drought and declining local production. Imports increased 15.4 percent during 2007. Categories which have shown the most growth are poultry meat and offal.

Opportunity in this sector exists mainly for chicken, turkey, chuck meat cuts, and edible offal. Key suppliers are Brazil, Australia, Canada, and France.

South Africa's major exports are other frozen or fresh meat. Countries of export include Germany (33 percent), Netherlands (22 percent), and Belgium (21 percent).

South African demand for protein and livestock products, including for organic and game meat, is growing, especially in the upper LSM's. Most butcheries stock free range beef, chicken, lamb and pork. Butcheries or meat markets in South Africa have witnessed some transformation of food ingredients into enticing meat gourmet, meat based products, seasonings, sauces and marinades prepared in different styles to please prospective buyers.

Poultry: South Africa's poultry market, mainly chicken, is estimated to have grown by 11 percent to \$2.1 billion for the financial year to March 31, 2007, contributing approximately 16 percent of the total gross value of primary agriculture in South Africa. Driven by demand factors, poultry production is becoming big business in South Africa. Domestic demand for poultry meat is growing by about 7 percent per annum, which outpaces the performance of any other proteins on the market. The steady growth of South Africa's economy is the main overall driver for the increased demand for poultry meat. Rising living standards are pushing more consumers towards protein-filled diets, health awareness, and convenience. South Africans now eat more than double the amount of poultry as compared to the 1970's. Expectations are that this growth in poultry meat consumption will continue.

Imports increased substantially over the past few years and amounted to \$184 million or 293,000 tons in 2006. Expectations are that imports will increase to more than 300,000 tons in 2007. Imports represent approximately 10 percent of the total value of the poultry market in South Africa or more than 20 percent of production. Brazil is the most important trading partner for South Africa in terms of poultry meat, having more than 70 percent of the import market. Imports from Canada (11 percent), and Argentina (7 percent), are the second and third most important trading partners for South Africa in terms of poultry meat. In 2007 imports totaled \$214 million, exports totaled \$5.1 million, and \$5.9 million from the U.S.

The United States' poultry exports to South Africa have been constrained by anti-dumping duties since 2000. However, this may change later this year. Americans prefer white chicken meat, so the United States' producers export dark meat portions, which is a favorite cut or portion in South Africa.

South Africa's major chicken producers are Rainbow Chickens, Astral Foods, Pioneer Foods, Sovereign and Dagbreek.

Fish and Seafood Products: South Africa is a net exporter of fish and seafood products. In 2007, imports totaled \$201 million and exports of fish and seafood products including prepared fish totaled \$496 million (fish & seafood \$462 million; and prepared fish \$34 million). Despite the fact South Africa is a net exporter, imports have been increasing steadily over the past few years; 2006 saw a 13 percent increase in imports over 2005 figures and imports increased 17 percent during 2007.

Imports categories which have shown the most growth are fish fillets (61 percent in 2007) and frozen fish. Key suppliers of fish fillets are China (29 percent), United States (24 percent), Norway (11 percent), and Argentina (9 percent). Frozen fish are New Zealand (47 percent), Norway (7 percent), Taiwan (6 percent), and the United States (5 percent).

South Africa's major exports are frozen fish fillets, other seafood, and fish and caviar. Key countries of exports for fish and seafood are Spain (26 percent), Italy (14 percent), and Hong Kong (9 percent). For prepared fish main markets are, Italy (18 percent), Saudi Arabia (16 percent), and Mozambique (12 percent).

Major South African fish traders and processors are Sea Harvest (Tiger Brands), Irvin and Johnson (AVI), Oceana, Premier Foods, and Sekunjalo.

Edible Fruits, Nuts and Vegetables: South Africa has a well developed agricultural sector and is self-sufficient in basic fruit and vegetables requirements. Exports are the lifeblood of the fruit industry. In 2007, imports totaled \$99 million and exports totaled \$1.5 billion (Vegetables \$49 million and edible fruits and nuts \$1,479 billion).

Imports of fruit and vegetable products vary according to climatic conditions and are mostly seasonal. Potential for exports to South Africa exist for exotic vegetables such as mange tout peas (snow peas), bell peppers, string beans, and off-season fruit such as mangoes, exotic berries, kiwi fruits, and melons.

Consumer research in South Africa has shown that consumer buying decisions with regard to fruits and vegetables are based on quality and then on price. Importers and the major retail outlets and therefore demand high quality standards of all fresh produce and the large retail groups will insist on daily deliveries of fresh fruits and vegetables to their distribution centers.

South Africa exports vegetables to Angola (22 percent), Mozambique (16 percent), and United Kingdom (11 percent). Whereas fruits export countries include Netherlands (20.9 percent), UK (20.8 percent), and Belgium (6 percent). The majority of exports are of fresh/dried citrus (\$613 million); fresh or dried grapes (\$364); fresh apples, pears and quinces (\$329 million); and various fresh fruit (\$49 million).

South Africa is a net importer of nuts. During 2007 imports of edible fruit and nuts totaled \$69 million and exports totaled \$49 million. Opportunities exist for nut imports – specifically shelled nuts, and walled shelled pistachios. The United States has a 92 percent market share for the almonds. There is very little opportunity for imports of dried fruits as South Africa is a major producer of dried fruits.

Grains (Barley, corn, oats, sorghum and wheat) and rice:

The grain industry (barley, maize, oats, sorghum and wheat) is one of the largest industries of South African agriculture production. This represent between 25 - 33 percent of the total gross value of agricultural production. The industry comprises a number of key stakeholders including input suppliers, farmers, silo owners, traders, millers, bakers, research organizations, financiers, etc. The animal feed industry is an important client and role player in the grain supply chain. About 4 million tons of grain and 1.5 million tons of oil cake (from imported and locally produced sunflower and soya beans) are used by the animal feed manufacturing industry in South Africa.

Corn: The largest locally produced field crop, and the most important source of carbohydrates in the SADC region for animal and human consumption. South Africa is the main corn producer in the SADC region, with an average production of around 9.6 million tons per annum. Local commercial consumption of corn is about 8.7 million tons and surplus corn is usually exported

Wheat: South Africa is the only country in the region with significant wheat production. . Wheat is produced mainly in the winter-rainfall areas of Western Cape and eastern parts of the Free State with considerable annual fluctuations in production. Average wheat production has been about 2.1 million tons a year. There has been however, a distinct downward trend in the area planted with wheat over the past few years. Production has been sporadic over the past 10 years because of changing weather conditions but there is also a definite decreasing trend in the area planted with wheat. The official December 2007 wheat crop estimate was 1.8 million tons, a decrease of 290,000 metric tons from the previous year.

Annual wheat consumption in South Africa is about 2.8 million tons, or about 60 kg per capita, the highest in the sub-Saharan region. Its population is growing by 1.7 percent annually, and there is rapid urbanization of South Africa's major cities.

South Africa, with a population of 48 million people, is a growing market and has one of the largest economies in Africa. With wheat consumption exceeding production, wheat imports of at least 1 million tons per year are needed to meet the local demand. South Africa is a net importer of wheat, during 2007, wheat imports totaled \$189.9 million, and exports totaled \$12.8 million, and a \$72.1 million imports from the United States.

The broker sector of this market is dominated by two multinational companies, Cargill and Louis Dreyfuss. Cargill is involved in trading for the domestic market, whereas Dreyfuss is primarily focused on the import-export markets. The baking industry consists of approximately 7,905 units of which 85 percent are classified as wholesalers, 600 corporate

retail (in-store bakeries), 3,700 independent bakeries and 3,520 franchise bakeries. The primary output for the baking industry is bread, with about 80 percent of all flour produced within South Africa being devoted to bread production. Bread is made available in 97 percent of food shops, cafes, including schools with the government's feeding programs. Corn meal and bread are considered staple foods South Africa. Gluten-free products such as pasta and baking inputs are also growing fast.

Rice: South Africa does not produce any rice making this is a great opportunity for exporters. Rice is mainly imported in bulk and then processed and packaged locally. Key suppliers are Thailand (65 percent), India (31 percent), China, (0.9 percent), and the United States (0.1 percent).

South Africa is one of the few countries in the world that produces sorghum fit for human consumption. Local production is adequate to cover demand in this market. However, there is a small market for grain sorghum used in animal feeds. The key criteria for success is to be a consistent source of supply.

Oilseeds, edible oils and fats: South Africa is a net importer of both oilseeds and edible oils and fats. Local producers are unable to meet demand due to crop size. During 2007, imports of oilseeds were valued at \$751 million with \$13 million from the US and exports totaled \$78 million. During the same period, imports of edible oils and fats totaled \$665 million and exports totaled \$40 million.

In 2007 South Africa produced 300,000 tons of sunflower oil, 205,000 tons of soybeans, and 58, 000 tons of peanuts. Shortages of oils are supplemented with unrefined oil imports which are refined and packaged by local oil expressers. Crude sunflower oil accounts for the bulk of imports. There is also a market for palm oil.

An opportunity also exists for the supply of shelled peanuts. A greater demand for peanuts has developed in the peanut butter market and there is also increasing demand for cheaper small kernel groundnuts which local producers have been unable to meet.

The market for edible soy products continues to increase and local producers are unable to meet total requirements due to small crop size.

The majority of imports are soybean oil, palm oil, and various seed oils such as sunflower, cottonseed, and sunflower crude vegetable. The import market is dominated by four supplying countries, Argentina (26 percent), Zambia (24 percent), Malawi and Netherlands (6 percent each). These imports meet 62 percent of market demand.

In February 2008, the South African Oil Processor Association called on the government to reduce the 10 percent import duty on oil and oilseed, because the higher cost of cooking oil affects poor consumers disproportionately. Farmers enjoyed huge margins for local produce, especially sunflower seeds.

Spices, Coffee, and Tea: South Africa is a net importer of spices, coffee, and tea. Local production of spices, coffee and tea is insufficient to meet the local demand.

In 2007, imports of spices, coffee, and tea totaled \$106 million, and exports totaled \$36. A breakdown of imports consists of \$48 million for coffee, \$27 million for pepper; and \$26 million for other spices, seed of various spices, and tea.

Imports are principally of vanilla beans, cinnamon, and chocolate food. Key countries of supply who have remained consistent over the past few years are Vietnam (18%), Malawi (14%), India (11%), and the United States (0.5%).

Processed Fruits and Vegetables, and Dried Legumes: Domestic production is sufficient to cover local demand for most items in this category. South Africa is a net exporter of processed fruits and vegetables. During 2007, imports of processed fruits and vegetables totaled \$99 million and exports totaled \$379 million preserved food, vegetables, and other vegetables. The majority of exports are other fruit, nut and fruit and vegetable juice. Majority of imports are fruit and vegetable juice and dried legume vegetables (70 percent each).

Canned beans in tomato sauce, canned green peas, canned peaches and canned pineapples have the highest consumption in South Africa. Opportunities exist for the import of canned peas, olives, cucumber and gherkins. Opportunities also exist for the imports of grape and apple juice which are used as a base for other fruit juices, prepared and preserved tomatoes, and fruit pulp.

Key suppliers are China, Argentina, Canada, Italy and the United States.

Dried Legumes: South Africa is a net importer of dried legumes. In 2007, imports totaled \$69 million and exports totaled \$1.7 million. Imports of dried legumes have increased over the past few years, largely due to declining local production. In 2006, there was a 54 percent increase in imports over 2005 figures and imports increased 63 percent during 2007, largely due to declining local production. Opportunities exist for the import of kidney beans, red beans and other dried beans. Key suppliers are China, Brazil, and the United States.

Sugar: The South African sugar industry is one of the world's leading cost competitive producers of high quality sugar. It is a diverse industry combining the agricultural activities of sugar-cane cultivation with the industrial factory production of raw and refined sugar, syrups and specialized sugars, and a range of by-products. South Africa is a net exporter of sugar and in most years domestic production is sufficient to meet demand. The close proximity of Swaziland means that South African importers do not need to look far when production is low. During 2007, imports of sugar totaled \$131 million and exports totaled \$298 million. Imports of sugar have increased over the past few years, 2006 saw a 0.08 percent decline in imports over 2005 figures and imports increased 0.15% during 2007. Other sugars (29 percent) and cane and beet sugar (28 percent) have shown the most growth.

Key countries of origin are Brazil, U.S. and Colombia, and to a lesser extent Malawi and India for cane/beet, and Mauritius, Mozambique and Zambia for molasses.

Major South African millers include Illovo Sugar, Tongaat Hulett, TSB Sugar, UCL company, Umvoti Transport, and Ushukela Milling.

Dairy Products: Milk supply in South Africa is on the rise, but not sufficient to meet the demand. Good rains in the milk producing areas and higher farm gate prices could mean that milk supplies will increase. South Africa is currently experiencing electricity supply cuts introduced by the Electricity Supply Commission (Eskom) since January 2008, which is affecting the cold chain system. South Africa's food and beverage processing sector needs to reassess their cold chain refrigeration system due to continued power cuts and electricity price increases especially the dairy and meat sectors with highly perishable products. Dairy industries, especially milk producers, are vulnerable to power outages while milking cows.

Over the past three years South Africa has been net importer of dairy products. In 2007, imports of dairy products totaled \$121 million and exports totaled \$36 million. South African exports were mainly to the Sub-Saharan region, Mozambique (\$12 million), Zambia (\$5 million), and Angola (\$3 million). Concentrated cream milk (42 percent in 2007), cheese and curd (27 percent) and whey/other milk products (12 percent) have shown the most growth.

Major South African cheese products include cheddar, mozzarella and feta. South African consumers are willing to try new cheeses, driven in turn by the willingness of retailer to stock a wider range. To inform consumers about new products, tastings and demonstrations work well in cheese departments. There is a growing market for specialty and exotic cheeses, concentrated milk, milk powder, and butter. Key suppliers are Australia, Ireland, and New Zealand.

In 2008, eight of the major dairy companies were investigated by the South African Competition Commission and the Competition Tribunal for allegedly fixing the price of milk.

Alcoholic Beverages: South Africa is a net exporter of alcoholic beverages valued at \$851 million in 2007. The major export category is wine of fresh grapes (\$673 million). Countries of export are the United Kingdom (\$178 million), Germany (\$79 million), and the Netherlands (\$76 million). However, imports of alcoholic beverages have been increasing over the past few years. In 2007 alcoholic beverage imports increased 50 percent from the previous year. Whiskies are the category of alcoholic beverages that has grown most significantly.

Over the past few years, a wide range of new imported products has become available in South Africa. South Africans' tastes and preferences are becoming more sophisticated and the average consumer is increasingly expecting a wide range of products on retail shelves. Traditionally, the South African distilled spirits consumer has preferred Scotch whisky and brandy. Recent trends indicate that consumers are turning to new and innovative distilled spirits. Openness to new products and increasing disposable income help create a positive climate for the sale and promotion of U.S. distilled spirits. However, price sensitivity, rather than brand loyalty, rules the consumer's purchasing behavior.

Assisted by the strong Rand/Dollar exchange rate, South Africans' appetite for American spirits has grown over the last three years. In 2007 imports totaled \$157 million and exports totaled \$38 million, and imports from the United States totaled \$29 million.

In 2007, the U.K. held 75 percent of the whiskey market share, the United States held 13 percent, while Ireland held only 6 percent. However, the United States increased whisky exports to South Africa in 2007 and has seen an annual growth over the past five years. This growth may be due, in part, to a South African preference for successfully promoted American branded bourbon. This preference should help other American products be more competitive in South Africa and may lead to the growth of other American-branded, high value distilled spirits. Distilled spirit marketers might wish to target the expanding black middle and upper classes since this group likely has fewer loyalties to the competition, scotch and brandy.

On the beer side, South Africa is experiencing considerable growth in brewing. South African Breweries (SAB) Ltd, a subsidiary of SABMiller Plc, operates seven breweries in South Africa and dominates the local brewing industry. At least 70 percent of SAB's income is derived from beer, with the rest coming from soft drinks and sorghum beer. The wine industry is also relatively large, ranked seventh in world output. A total of 250 cellars operate, producing three times the Australian harvest. The soft drink business is dominated by Cadbury Schweppes, which sells and distributes its products through Amalgamated Beverages (ABI)

Industries, the leading Coca-Cola system bottlers. South Africa is currently one of the fastest-growing soft drinks markets in the world, with around 4 billion liters sold annually. Despite the growing trends towards healthier beverages, carbonated soft drinks continued to dominate both the off-trade and on-trade soft drinks market in South Africa. South Africa exports a large percentage of its alcoholic beverage production as domestic consumption of wine and spirits is ranked fairly low by international standards. SABMiller acquired a 94.7 percent stake in Dutch brewer (Grolsch), SABMiller would become the world's largest brewer.

Despite the fact that beer manufacturing is a leader in the sector, the number of imported beers has increased although these tend to be expensive and fill a small niche in the market. An opportunity exists for imports of specialty brand name beers. In 2007, Netherlands held 57 percent of the beer market share, France 17 percent while Italy held 14 percent.

There are a number of imported wines available in South Africa. This has been brought about by shortages of local wines due to the rapid increase in exports of South Africa wines. In 2007, France held a market share of 73 percent of fresh grape imports while Italy held only 9 percent. On the other hand, Italy held 94 percent of the vermouth market share whereas Monaco held only 2 percent.

The key suppliers of alcoholic beverages to the South African market are the United Kingdom (41 percent), the Netherlands (12 percent), France (8 percent), and the United States (7 percent).

In general, the South African market for alcoholic beverages is large and extensive, with everything from imported spirits and champagne to home-brewed sorghum beer.

Food Preparations: South Africa has a well developed food processing sector and produces a wide range of processed food products. South Africa is a net importer of food preparations. In 2007, imports of food preparations (comprising of other sugars and confection; cocoa, chocolate food, butter fat and oil, paste and powder not sweetened; baking related; and miscellaneous food) totaled \$479 million and exports totaled \$204 million. The majority of exports are in the other food preparations.

The majority of imports are in the categories of food preparations "not elsewhere specified or included", chocolate food (50 percent), sugar confectionery not containing cocoa (38 percent), breads, pastries and cakes (38 percent), and pasta (18 percent). Cocoa is not grown in South Africa and thus offers good opportunities for potential exporters.

While this is a very broad category, specific opportunities exist for the import of chocolate food, sugar confectionery, pasta, sweet biscuits, sauces, chocolates, and soy protein concentrates.

SECTION 5: BEST PRODUCT PROSPECTS

A. Products in the market which have good sales potential

- Wheat
- Sweeteners (lactose, glucose and syrup)
- Shelled nuts (almonds and walnuts)
- Flavorings (malt)
- Starches
- Protein concentrates
- Sausage casing
- Baking inputs

- Food ingredients

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

- Organics
- Out of season stone fruits, grapes, etc
- Baking inputs
- Breakfast cereal (corn/grits meal)
- Sauces
- Products not currently available or known about in South Africa
- Fruit and vegetables preparations

C. Products not present because they face significant barriers

- Prohibition of U.S. apples imports since 1990s, as well as cherries and pears;
- Anti-dumping duties imposed on U.S. frozen chicken leg quarters since 2000;
- Prohibition of U.S. beef to South Africa since 2003;
- Anti-dumping duties imposed on U.S. lysine feed supplements since 2007; and
- Biotech related products that needs approval before shipment are U.S corn and soybeans.

SECTION 6: 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: Industry websites such as World Trade Atlas, Statistics South Africa, The Department of Trade and Industry – , local foodservice industry publications, and individual company websites; Manufacturing production and sales - <http://www.statssa.gov.za/publications/P30412/P30412December2007.pdf> ; Food Science and Technology – <http://www.saafof.org.za> ; The National Agricultural Marketing Council – [http://www.namc.co.za/ASSETS/PDF/Quarterly%20Food%20Price%20Monitor%20\(Feb%2008%20release\).pdf](http://www.namc.co.za/ASSETS/PDF/Quarterly%20Food%20Price%20Monitor%20(Feb%2008%20release).pdf)