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South Africa Continues Positive Trend in Chicken Meat Imports as Government Considers Increasing Tariff

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Report Highlights:

South Africa imported 520,000 tons of chicken meat in 2018 to augment local production. This represent an increase of 2 percent from the previous year. Post estimates that chicken meat imports will increase by 5 percent in 2019 to 545,000 tons, due to a decrease in local production on relative higher feed cost. Post forecasts a marginal increase in chicken meat imports in 2020 to 555,000 tons, as local production is expected to bounce back. At the same time, the government continues to evaluate the South African Poultry Association's request for an increase in the import tariff from 12-37 percent to 82 percent.

Executive Summary

In 2018, the South African broiler industry recovered by increasing production 6 percent to a record of 983 million broilers slaughtered. However, South Africa still imported almost 520,000 tons of chicken meat to augment local production. In 2019, Post estimates a 1 percent decrease in chicken meat production to 1.40 million tons. Feed costs increased considerably on higher corn prices, due to unfavorable weather conditions, which have put downward pressure on the profitability of broiler producers. As a result, Post expects chicken meat imports to increase by 5 percent to 545,000 tons.

Under the assumption of normal weather conditions, chicken meat production should increase slightly in 2020 to reach 1.42 million tons. Posts projects an increase in corn area planted, which is expected to put downward pressure on feed prices and thus increase profitability of broiler production. Hence, Post forecasts only a marginal increase in chicken meat imports in 2020 to 555,000 tons.

Chicken meat imports could be impacted by the South African Poultry Association's application for an exponential increase in the import duties applied on boneless chicken meat and bone-in chicken meat. The South African government is still reviewing the application, and could announce a final determination soon. Increasing the duties by such large increments will have a severe impact on United States and Brazilian chicken meat exports to South Africa, and could ultimately divert trade to other trading partners.

US\$1 = Rand 15.20 (9/03/2019)

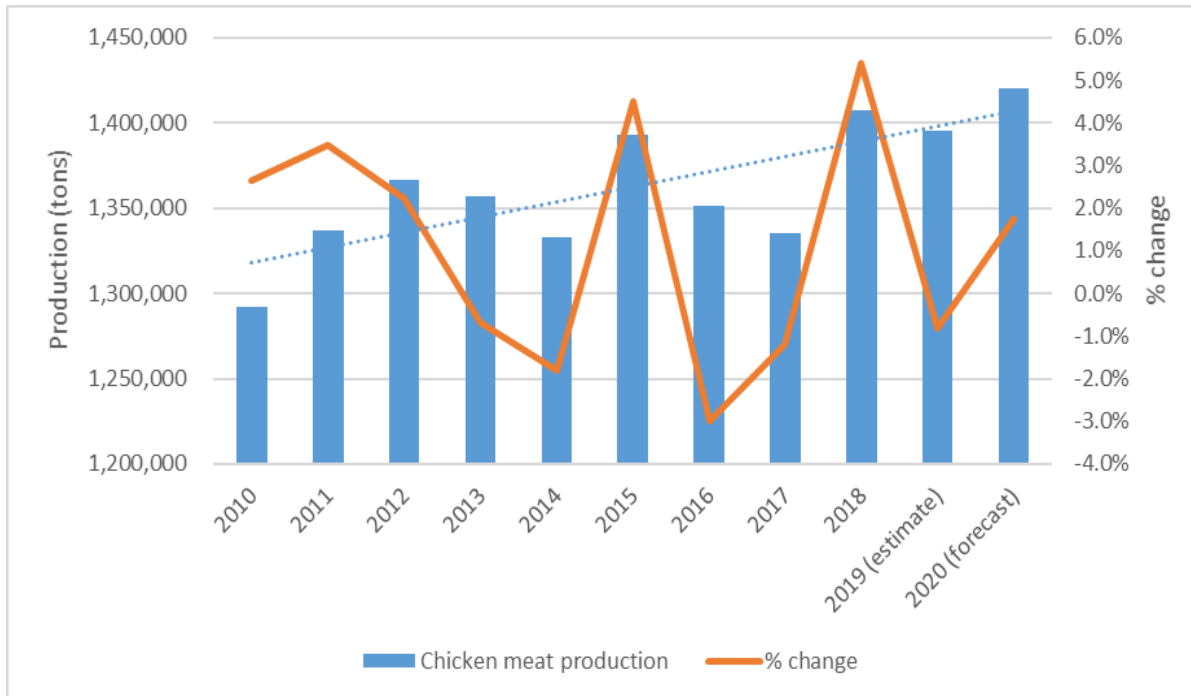
Production

Recently, the South African broiler industry had been under considerable pressure due the devastating drought, the outbreak of highly pathogenic avian influenza (H5N8) (see also [Southern Africa countries suspend poultry imports from South Africa](#)) and a Listeriosis food scare (see also [SADC countries suspend processed meat imports from South Africa](#)). However, in 2018, the broiler industry recovered, increasing production by 6 percent to a record of 983 million broilers slaughtered. The broiler industry is the country's largest individual agricultural industry boasting a gross value of about R47 billion (US\$3 billion) and contributing about 17 percent to the total gross value of agricultural products. Commercial broiler meat production accounts for approximately 90 percent of the chicken meat industry in South Africa, with the remaining 10 percent comprising of subsistence farming production and depleted flock.

The 983 million broilers slaughtered in 2018 equaled 1.27 million tons of chicken meat (excluding offal). If depleted flock and subsistence farming production is added, South Africa's total chicken meat production for 2018 is calculated at 1.41 million tons, a 5 percent increase from the previous year (see also Figure 1). Post, however, expects a 1 percent decrease in chicken meat production in 2019 to 1.40 million tons. As reflected in Figure 2, feed input costs increased considerably in 2019 on higher corn prices due to unfavorable weather conditions (see also [Tight supply of corn in Southern Africa after the impact of drought](#)). In addition, constrained consumer demand and an expected decrease in exports are putting downward pressure on producer prices leading to an under recovery of higher input costs. As a result, broiler producers are expected to reduce production to 970 million broilers slaughtered in 2019.

In 2020, chicken meat production is projected to increase by 2 percent to reach 1.42 million tons, under the assumption of normal weather conditions. Post anticipates an increase in corn area planted, which will put downward pressure on feed prices and increase profitability for broiler producers (see also [Grain and Feed annual](#)). Feed cost is the major cost factor in the broiler industry and contributes more than 70 percent to the total cost of a broiler producer. Corn is the primary ingredient (more than 50 percent inclusion rate) in broiler feed, and any change in the price of corn impacts directly on the profit margin of broiler producers.

Figure 1: Chicken Meat Production and Percentage Change per annum in South Africa



Source: The South Africa Poultry Association (SAPA) and Post estimates

Figure 2: South African Yellow Corn Prices (Jan 2018 – Aug 2019)

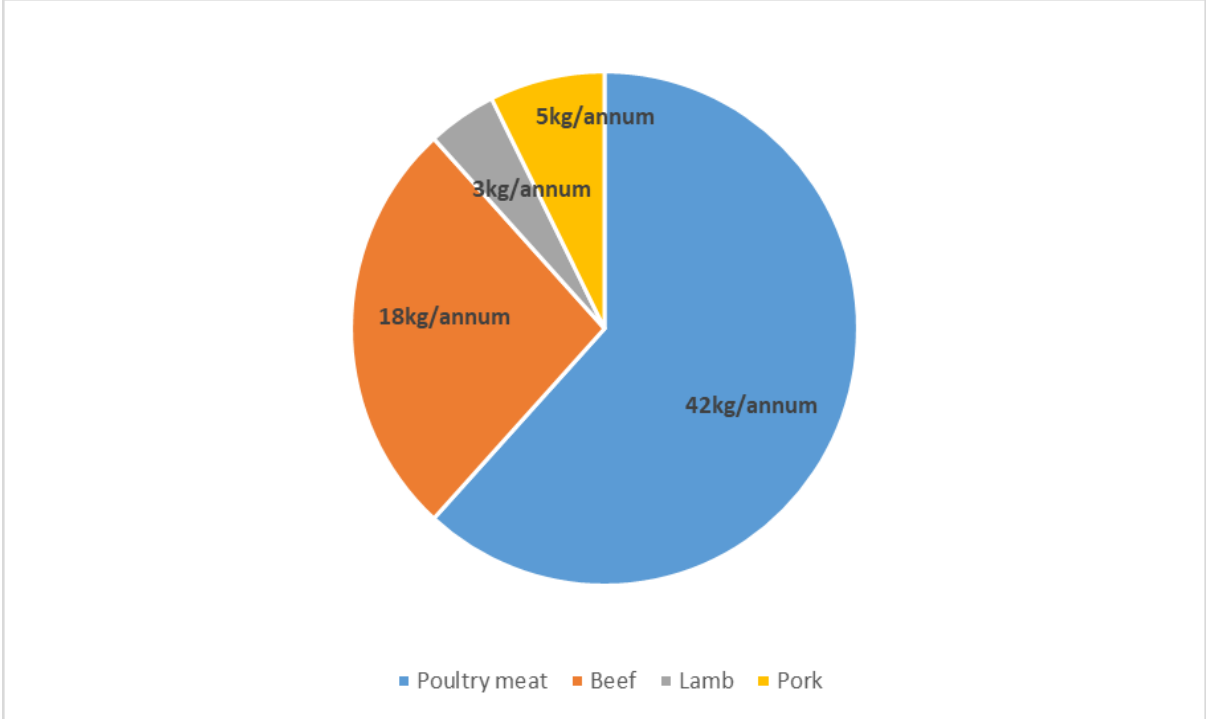


Source: GrainSA

Consumption

For 2018, Post estimates chicken meat consumption (excluding offal's) at 1.88 million tons. South Africa consumes about 3.9 million tons of poultry, beef, lamb and pork meat per annum. In 2018, the South African consumer spent approximately R225 billion (US15 billion) on meat products, which represented 35 percent of total expenditure on food. Poultry meat represents more than 60 percent of total meat consumption in South Africa (see also Figure 3). As poultry meat is relatively inexpensive and ubiquitous, it has grown to be the most important protein source in the diet of the majority of South Africans. This is especially true in low-income households, who constitute the majority of consumers.

Figure 3: The per capita Consumption of Meat in South Africa



Source: South Africa Department of Agriculture, Forestry and Fisheries (DAFF)

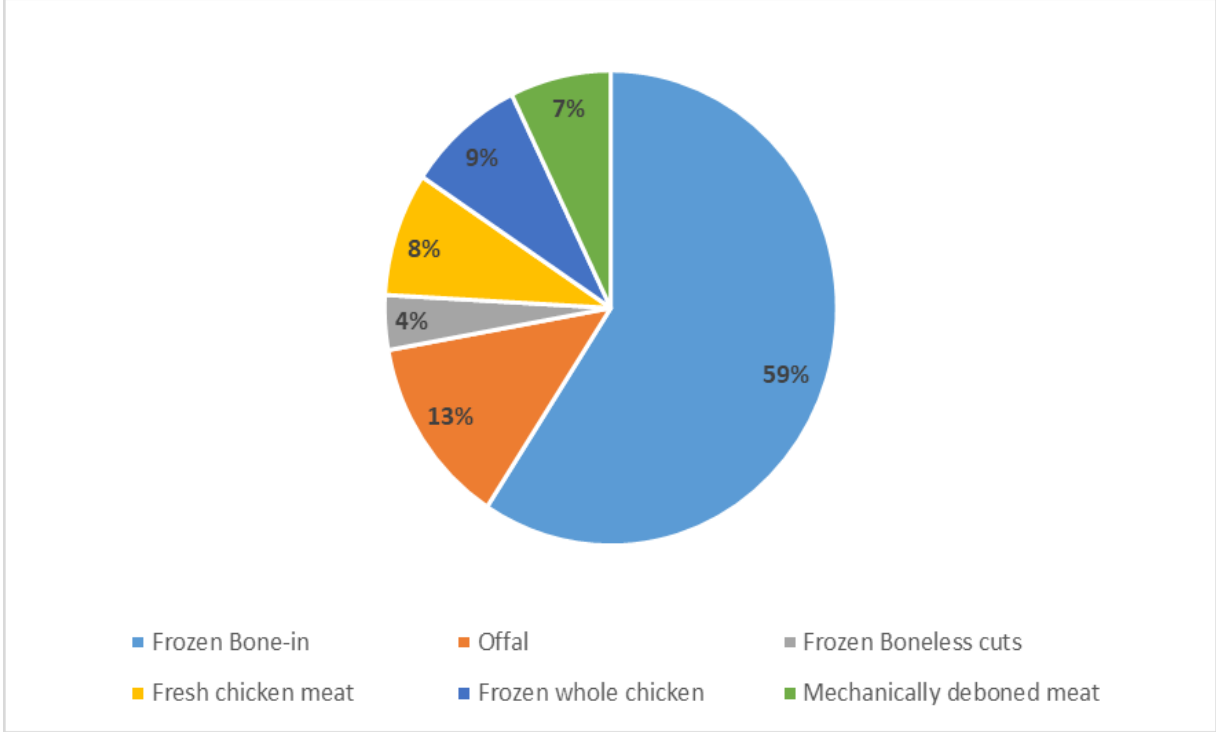
In the first ten years of the new millennium, steady economic growth and increased average income in South Africa pushed large numbers of consumers towards protein-filled diets and convenience; as a result, meat consumption levels skyrocketed. The per capita meat consumption in that period increased on average by more than 4 percent per annum. Chicken meat consumption per capita grew by more than 7 percent per annum in the same period. As South Africans' disposable income grew, their buying behavior reflected their strong fondness for meat. Since 2010, however, a slowdown in South Africa's economic growth also impacted the growth in meat consumption. The per capita consumption growth rate of meat slowed down to about 1 percent per year.

South Africa's economic growth is expected to remain sluggish in 2019 due to structural and policy constraints. Economists estimate economic growth of less than 1 percent in 2019, which will limit an excessive increase in the demand for chicken meat. As already mentioned, economic growth is the main overall driver for the increased demand in meat. As a result, Post estimates only a 1 percent increase in

the demand for chicken meat (excluding offal's) in 2019 to 1.90 million tons. According to the South African government economic growth should recover in 2020 on increased local and foreign direct investments. Hence, Post forecast a 2 percent increase in chicken meat consumption in 2020, to 1.93 million tons.

Three fundamental characteristics distinguish South Africa's chicken meat market from many other countries. The first characteristic is the predominant demand for bone-in (brown meat) chicken cuts compare to breast meat (see also Figure 4). Bone-in chicken cuts represent almost 60 percent of total chicken meat demand mostly sold as "individually quick frozen" pieces in the form of low-priced 2kg and 5kg mixed packs. Brining is the second characteristic. Almost all locally produced frozen chicken contains brine in order to preserve and enhance the quality of the meat. In 2016, DAFF introduced a regulation to restrict the brined content to a maximum of 15 percent of the mass sold. Prior to 2016, brining levels of up to 43 percent were recorded, which resulted in higher water content per package of frozen chicken meat. The third characteristic is the relative small demand for fresh (not frozen) chicken meat. Fresh chicken meat represent less than 10 percent of total consumption of chicken meat in South Africa. These characteristics reflect the predominance of a lower-income consumer base, as fresh chicken meat is usually sold at a premium over frozen and brined bone-in chicken pieces.

Figure 4: The Percentage Contribution of Specific Chicken Meat Products to Consumption

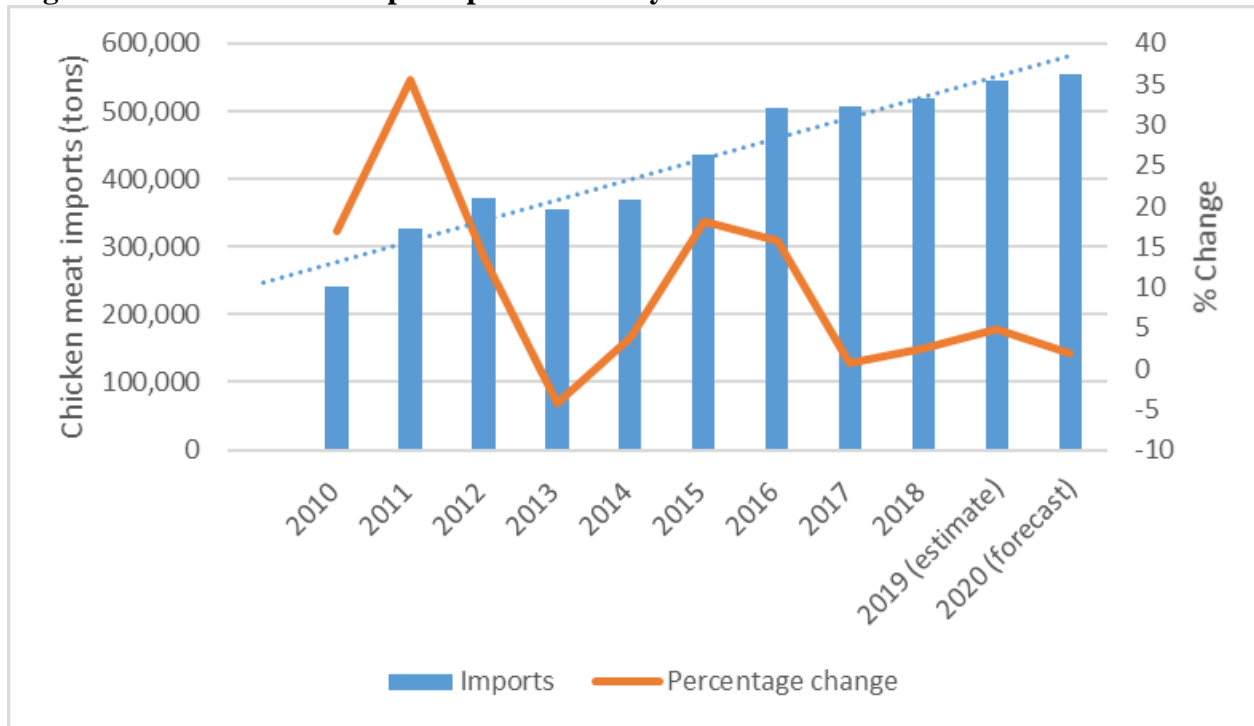


Trade

Imports: In 2018, South Africa imported almost 520,000 tons of chicken meat to augment local production (also see Figure 5). This represents an increase of 2 percent from the previous year. Post estimates that chicken meat imports will increase by 5 percent in 2019 to 545,000 tons, due to a

decrease in local production on relative higher feed cost. Post forecasts only a marginal increase in chicken meat imports in 2020 to 555,000 tons as local production is expected to bounce back. Due to the high demand and limited domestic supplies, South Africa has continued to import chicken meat annually, with frozen bone-in chicken and mechanically deboned meat as the leading products. Chicken meat imports (mechanically deboned meat included) represent about 28 percent of South Africa’s local consumption of chicken meat.

Figure 5: Chicken Meat Imports per Annum by South Africa



Source: *Global Trade Atlas (GTA)*

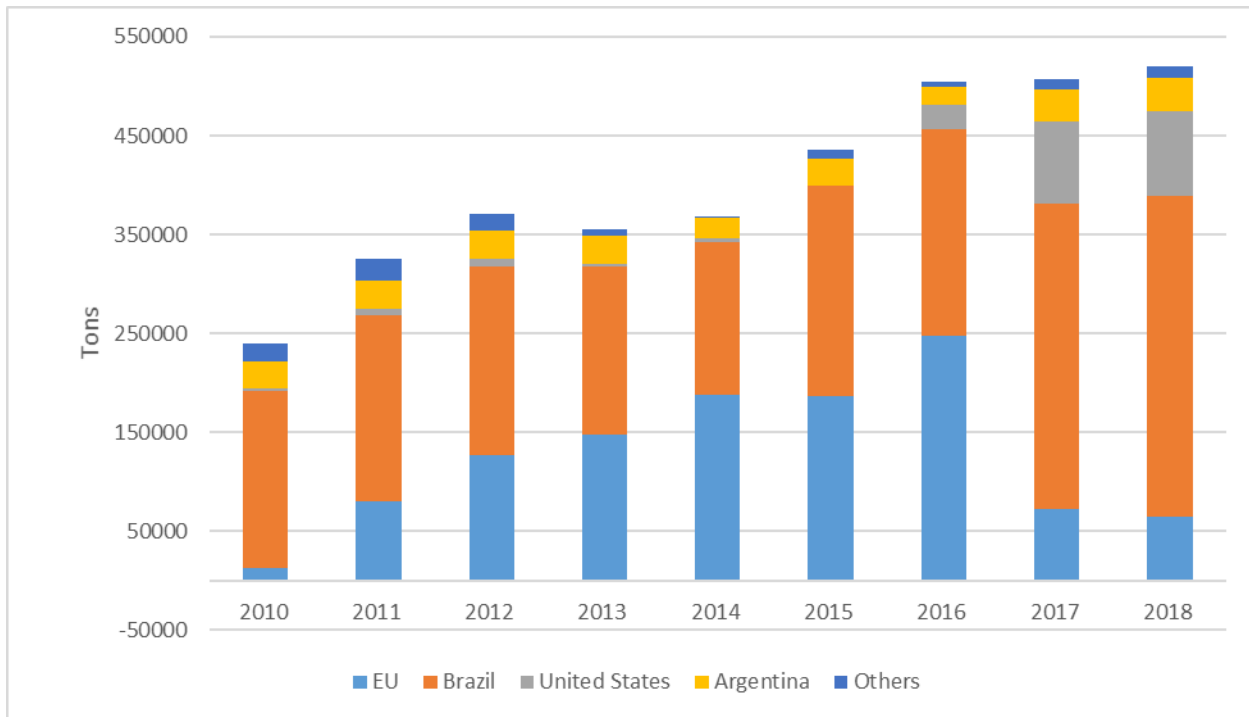
Brazil is the major supplier of chicken meat to South Africa with more than 60 percent share in the import market (see also Figure 6). Brazil is followed by the United States with 16 percent share and the European Union (EU) with 12 percent share. United States bone-in broiler meat exports to South Africa continue to be limited by an anti-dumping duty that was put in place for the first time in 2000. In 2012, the anti-dumping duty was extended for 5 years, and in 2017 it was set at R9.40 per kilogram for another 5 years (see also [Anti-dumping duties on U.S. Bone-in Chicken](#)). However, in June 2015, representatives from the United States and South African poultry industries agreed on a tariff rate quota of 65,000 tons of United States bone-in chicken meat to enter South Africa without the anti-dumping duty. Notably, these bone-in chicken meat imports are still subject to the most-favoured [sic] nation import tariff, which is currently set at 37 percent. In January 2016, the U.S. and South African governments concluded negotiations of the final health certificates, and the first shipment of United States bone-in broiler meat landed in South Africa in March. Exports continued throughout the year, resulting in a total of about 25,000 tons of U.S. poultry meat to South Africa, at a value of almost US\$17 million in 2016. In 2017, total poultry meat exports increased to 82,000 tons at a value of US\$68 million. This positive trend continued in 2018 with the United States exporting 86,000 tons of

poultry products to South Africa at a record value of \$70 million. In 2019, pursuant to the administrative guidelines, DAFF raised the tariff rate quota to 68,590 tons for the 2019/20 quota year (April to March).

Notwithstanding the positive trends for U.S. poultry exports, recent policy developments in South Africa could upend this progress in the near term. In 2018, the International Trade Administration Commission of South Africa (ITAC) announced receipt of an application by the domestic poultry industry to increase the customs duty on frozen chicken meat imports (see also [ITAC considers sharp increase in the customs duty on chicken meat](#)). The application requests an exponential increase in the most-favoured [sic] nation import duties applied on boneless chicken meat and bone-in chicken meat from the current levels of 12 percent and 37 percent, respectively, to 82 percent, which is South Africa's bound rate under its membership commitments to World Trade Organization.

The Commission invited interested parties to comment by the end of December 2018, and received submissions from importers, trade associations, special interest organizations and governments, including the United States. Due to the public advocacy efforts of the domestic poultry industry and the potential impact on trade, this issue has gained considerable attention in the media and at high-levels of government. The application is in advanced stages of the review process, and the Commission is expected to deliver its recommendation to the Minister of Trade and Industry soon. Increasing the duties by such large increments is expected to negatively impact on United States and Brazilian chicken meat exports to South Africa.

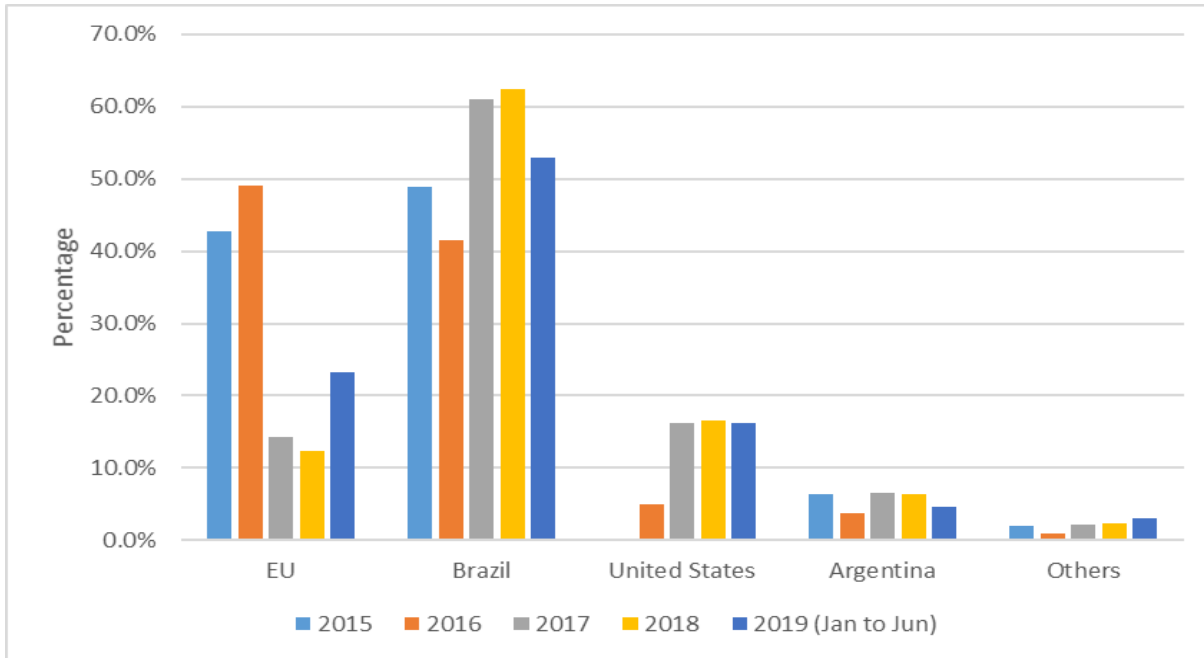
Figure 6: The Origin of Chicken Meat Imports into South Africa



Source: *GTA*

In 2016, the EU was the leading exporter of chicken meat to South Africa with about 50 percent market share of the import market (see also Figure 7). In 2016, the major EU countries that exported chicken meat to South Africa were the Netherlands, the United Kingdom (UK) and Spain. However, by the end of 2016, South Africa put restriction on poultry meat imports from certain EU countries due to the ongoing outbreaks of H5N8 (avian influenza) in the EU. This has led to a 70 percent decline in the quantity of EU chicken meat exports to South Africa. That market share has been mainly taken up by Brazil and the United States. The impact of the avian influenza based import ban continued to be felt into 2018. However, most of the restrictions has been lifted and the EU is increasing the export of chicken meat to South Africa through 2019.

Figure 7: Origin of chicken meat imports into South Africa for the past five years



Source: *GTA*

In addition to the restrictions due to avian influenza outbreaks, South Africa imposed a safeguard duty of 35.3 percent on EU bone-in chicken on September 28, 2018 (see also [South Africa extends safeguard duty on EU Bone-in Broiler Meat](#)). The duty will depreciate over four years to 15 percent. Currently, a 30 percent safeguard duty applies on the import of bone-in chicken from the EU. The EU enjoys duty free treatment under the Economic Partnership Agreement between the EU-Southern African Development Community. The EU is not subject to the most-favoured [sic] nation duty on chicken meat, and therefore, exports to South Africa will not be negatively affected by an increase in the import tariff. Table 1 below represents South Africa's current import tariff structure for broiler meat products.

Table 1: South Africa's import tariffs for specific chicken meat products

Tariff Heading	Product description	Rate of duty			
		General	EU	EFTA*	SADC**
02.07					
0207.12.10	Mechanically deboned meat	Free	Free	Free	Free
0207.12.20	Carcasses (excluding necks and offal) with all cuts removed, frozen	31%	Free	31%	Free
0207.12.90	Frozen whole birds	82%	Free	82%	Free
0207.14.10	Boneless cuts	12%	Free	12%	Free
0207.14.20	Offal	30%	Free	30%	Free
0207.14.90	Bone-in portions	37% (Anti-dumping duty for the United States of R9.40/kg outside of the quota of 68,590 tons)	Free (Safeguard duty of 30% applies)	37%	Free

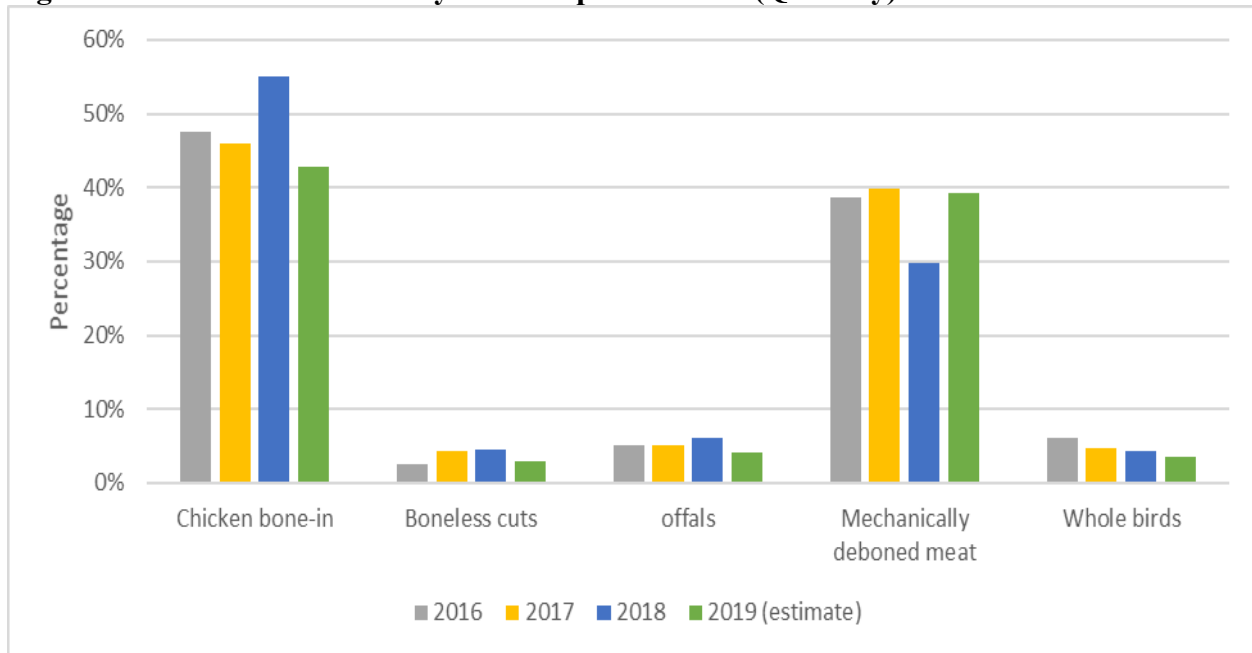
Source: *The South African Revenue Services (SARS)*

*EFTA - European Free Trade Association

** SADC – Southern Africa Development Community

As already mentioned, the South African consumer has a predominant preference for bone-in (brown meat) chicken cuts over breast meat. This characteristic is also reflected in chicken meat imports. Figure 8 illustrates the percentage contribution of specific chicken meat products imported by South Africa since 2016. In all the years, bone-in chicken meat represents the largest share of imports. In 2019, Post estimates that bone-in portions will again represent the largest category of broiler meat imports at about 43 percent or 235,000 tons. The second largest category in volume is mechanically deboned meat (MDM) with an estimated share of 40 percent or about 215,000 tons in 2019. In 2018, after the Listeriosis food scare, MDM imports declined significantly by 24 percent, and represented only 30 percent of chicken meat imports (see also [SADC Countries Suspend Processed Meat Imports from South Africa](#)). On the other hand, bone-in chicken imports increased by 23 percent, and represented 55 percent of chicken meat imports. However, Post estimates that MDM imports will recover in 2019 to its normal levels, representing around 40 percent of chicken meat imports. South Africa does not produce any MDM locally. Bone-in chicken meat portions and mechanically deboned meat represent more than 80 percent of total chicken meat imports by South Africa and are followed by offal, whole chicken and boneless cuts.

Figure 8: South Africa’s Poultry Meat Import Market (Quantity)



Source: *GTA*

Exports: South Africa’s major markets for chicken meat exports are its neighboring countries. After the 2017 outbreak of highly pathogenic avian influenza in South Africa, many countries, including Botswana, Malawi, Mozambique, Namibia, Zambia, and Zimbabwe suspended poultry and poultry product imports from South Africa (see [Southern African countries suspend poultry imports from South Africa](#)). As a result, South Africa’s chicken meat exports dropped by more than 20 percent in 2018 to 51,000 tons (see also Table 2). As South Africa is still struggling to reopen some closed markets and win back market share, chicken meat exports are expected to drop further in 2019 to 45,000 tons. Post forecasts that South Africa’s chicken meat exports will remain flat (45,000 tons) in 2020, as it could take South Africa some time to win back market share.

Table 2: South African chicken meat exports

Partner Country	Quantity			
	2016	2017	2018	2019 (Jan –Jun)
World	74,264	64,918	51,043	22,875
Lesotho	14,883	18,819	20,925	10,681
Mozambique	17,557	16,374	11,574	5,724
Namibia	16,362	12,860	6,939	2,727
Botswana	3,698	3,193	3,100	938
Swaziland	1,534	1,509	1,506	813
Zimbabwe	7,580	4,844	1,228	0
Total	61,614	57,599	45,272	20,883
Others	12,650	7,319	5,771	1,992

Source: *GTA*

Table 3: PS&D table for broiler meat

Meat, Chicken Market Begin Year	2018		2019		2020	
	Jan 2018		Jan 2019		Jan 2020	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
South Africa						
Beginning Stocks	0	0	0	0	0	0
Production	1365	1407	1410	1395	0	1420
Total Imports	521	520	545	545	0	555
Total Supply	1886	1927	1955	1940	0	1975
Total Exports	51	51	55	45	0	45
Human Consumption	1835	1876	1900	1895	0	1930
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	1835	1876	1900	1895	0	1930
Total Use	1886	1927	1955	1940	0	1975
Ending Stocks	0	0	0	0	0	0
Total Distribution	1886	1927	1955	1940	0	1975

(1000 MT)