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Global Agricultural Information Network

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Poultry and Products Annual

As Domestic Industry Recovers from Bird Flu, Poultry Imports Forecast to Increase Marginally

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Report Highlights:

Post forecasts that South Africa's chicken meat imports will increase marginally by 2 percent in 2019 to 525,000 tons. The recovery of the local chicken meat production after the avian influenza outbreak and lower feed costs will suppress the growth of imports. In 2017, the United States exported 82,300 tons of chicken meat to South Africa, a substantial increase of almost 250 percent from 2016 after a tariff-rate quota was negotiated. However, U.S. exports of chicken meat to South Africa are not expected to increase substantially in 2018 and 2019, as no major upward movements in the current quota of 65,417 tons are expected.

Executive Summary:

Post estimates that South African chicken meat production will increase marginally by 2 percent to 1.365 million tons in 2018 and by 3 percent in 2019, reaching 1.410 tons. This growth in chicken meat production will be driven by the recovery of the local industry from avian influenza and the continuation of low-priced animal feed.

Post forecasts that South African chicken meat imports will increase marginally by 1.5 percent in 2018 to 515,000 tons and by 2 percent to 525,000 tons in 2019. The recovery of the local chicken industry from avian influenza, a sluggish local economy and relatively low animal feed prices are some of the factors that are expected to suppress the growth of chicken meat imports below rates experienced in the past. Post estimates that South Africa's chicken meat exports will decrease by 10,000 tons to 55,000 tons in 2018, before increasing to 60,000 tons in 2019 as the local industry recovers from avian influenza.

Note Regarding Reporting Change:

This report provides chicken meat estimates and forecasts for 2017-2019. The prior broiler meat series has been discontinued and will not be revised or updated in the future.

Official USDA data will be available via the PSD database (<http://www.fas.usda.gov/psdonline>) on October 11, 2018. The October data release will include a historical chicken meat series back to 1999. The broiler meat series will terminate with 2016 data.

Chicken meat is defined as meat of domestic fowl (*Gallus gallus/Gallus domesticus*) including all chickens: broiler, layer, hybrid, domestic breeds, spent hens, ex-breeding stock, etc.

Production

The South African poultry meat industry is the country's largest individual agricultural industry boasting a gross value of R44 billion (US\$3.1 billion) and contributing 16 percent to the total gross value of agricultural products. Broiler meat production accounts for 90 percent of the chicken meat industry. Although South Africa produces only 1.5 percent of the world's chicken meat, the country's poultry industry is the major chicken meat producer in Southern Africa, accounting for close to 80 percent of total chicken meat production in the region.

Currently, poultry production is still recovering from the widespread highly pathogenic avian influenza (H5N8) outbreaks of 2017, resulting in the culling of 5.4 million birds. Approximately, 4.7 million birds were culled in the laying sector and 700,000 birds in the broiler sector, which were predominately breeder stock. In 2017, the South African broiler breeder stock decreased by 8.5 percent to 6.49 million birds due to the avian influenza outbreaks. Similarly, the South African layer flock decreased by 6.6 percent to 23.2 million birds in the same year. This has resulted in South Africa turning to imported hatching eggs in order to rebuild its breeder stock.

The South African poultry industry's current recovery from avian influenza outbreaks will be boosted by the relatively low-priced animal feed. In 2017, South Africa recovered from drought with a record high corn harvest of 17 million tons, which led to a decrease in the price of feed (see [South Africa Corn Exports Accelerate in the Midst of a Record Crop](#)). A relatively large carry-over stock from the 2016/17 MY and a commercial crop of above 13 million tons in the 2017/18 MY will keep animal feed prices low (see [Abundant corn stocks expected to disincentive corn plantings resulting in a drop in exports](#)). South Africa produced a historical high summer oilseed crop of 2.4 million tons in the 2017/18 MY with a further increase in oilseed production projected in the 2018/19 MY to 2.5 million tons. The low price of feed is expected to continue improving the profitability of chicken meat production for the next 2 years. Feed cost is one of the major cost factors in the chicken industry and can contribute as much as 75 percent to the total cost of a chicken producer.

Post estimates that chicken meat production will increase marginally by 2 percent to 1.365 million tons in 2018 and by 3 percent in 2019, reaching 1.410 tons (Figure 1). This growth in chicken meat production will be driven by the recovery of the local industry from avian influenza and the continuation of low-priced animal feed.

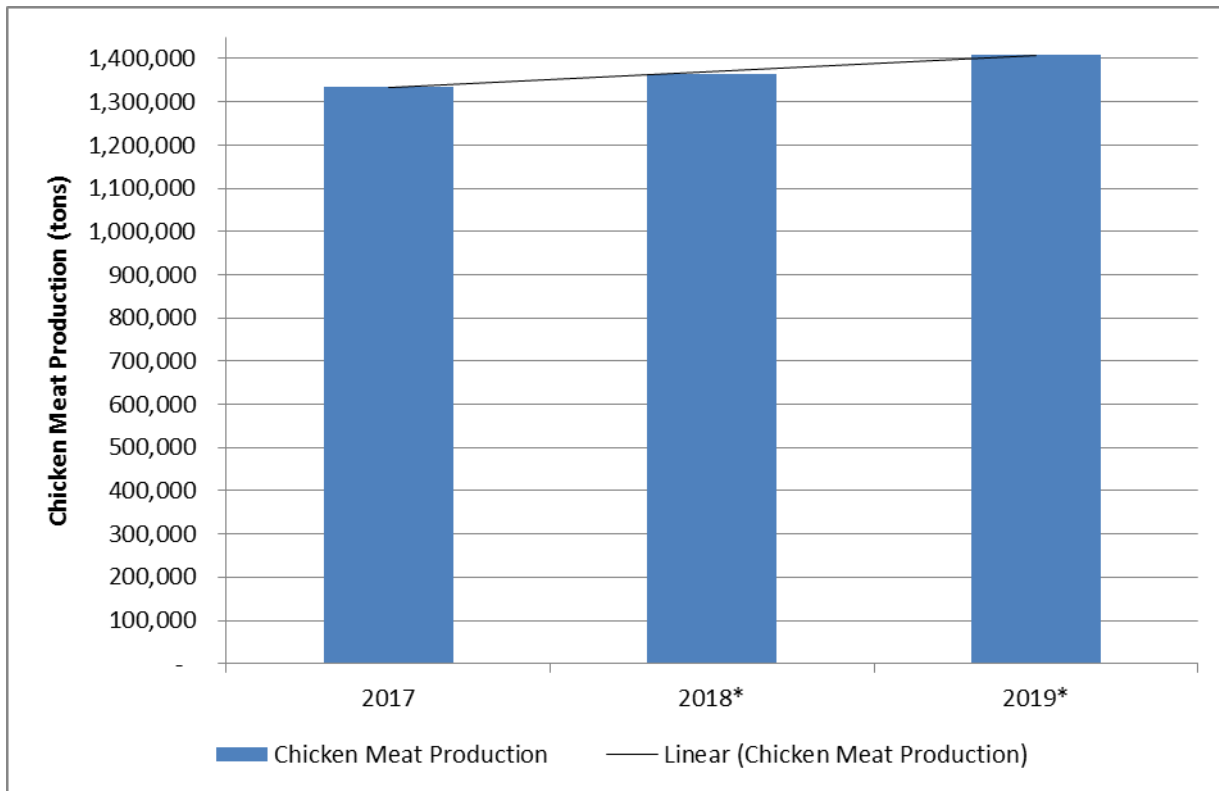


Figure 1: South Africa’s Chicken Meat Production

Source: *The South Africa Poultry Association (SAPA)*

*Estimate

Consumption

In South Africa, disposable incomes, population growth, dietary diversity and urbanization are some of the predominant factors affecting chicken meat consumption. Meat consumption in South Africa has expanded rapidly in the past decade and while continued growth in meat consumption is projected in the coming decade, moderate economic growth will result in slower consumption growth relative to the past. South Africa’s economy is expected to grow by less than 2 percent in the next two years, despite new leadership, as structural and policy constraints still need to be resolved. Thus, consumers are under pressure due to the sluggish South African economy.

Affordability is an important consideration in an environment marked by slower income growth. Due to the relative affordability of chicken meat, the growth in chicken meat consumption is expected to outpace that of the other meats over the next ten years. As poultry meat is relatively affordable and ubiquitous, it has grown to be the most important protein source in the diet of the majority of South Africans.

Given the above, Post estimates an annual increase of 3 percent in chicken meat consumption from 1.778 million tons in 2017 to 1.825 million tons in 2018 and 1.875 million tons in 2019 (Figure 2). The increase in chicken meat consumption will be supported by relatively high prices of alternative meat products (beef and lamb).

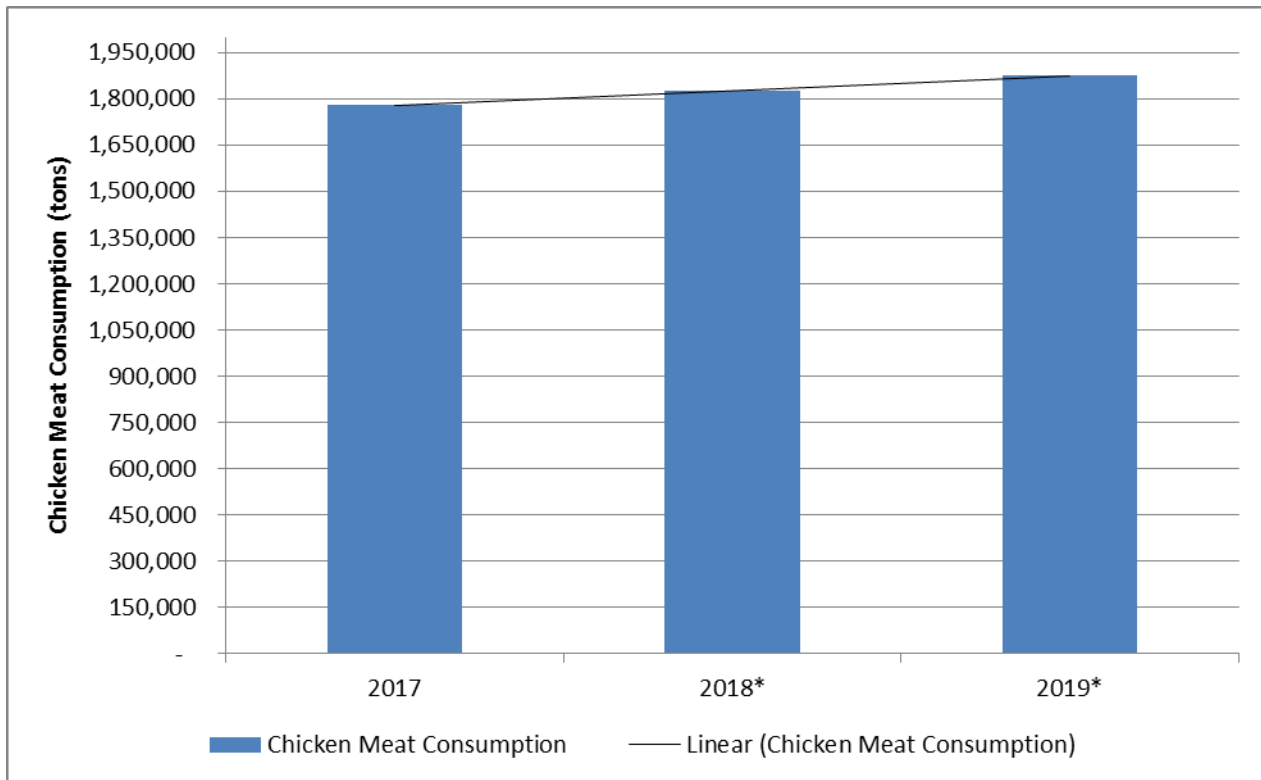


Figure 2: South African Chicken Meat Consumption

Source: SAPA

*Estimate

Trade

Imports: Though South Africa is a relative major producer of chicken meat, imports are regularly required to supplement the demand unmet by local production. Chicken meat accounts for almost 95 percent of all poultry meat imports by South Africa, with the balance largely being turkey products (also see Figure 3). Post estimates that chicken meat imports will increase by 1.5 percent in 2018 to 515,000 tons mainly due to soft demand of chicken meat and weakening exchange rate. Post forecasts that broiler meat imports will increase by 2 percent in 2019 to 525,000 tons, as the recovery of the South African chicken meat production after the avian influenza outbreak and lower feed costs are projected to suppress the growth rate of imports. In 2017, South Africa imported 507,664 tons of chicken meat, including 305,585 tons of broiler meat and 202,079 tons of mechanically deboned meat.

In 2017, Brazil was the leading exporter to South Africa in terms of chicken meat, with 61 percent market share of the import market (Figure 4). The United States was the second largest exporter of chicken meat into South Africa with 16 percent share of the import market in 2017. The European Union (EU) was the third largest exporter of chicken meat into South Africa with 16 percent market share. The EU lost 35 percent market share due to the avian influenza outbreaks in the EU, which led to South Africa suspending chicken meat imports from the EU. That market share was mainly taken up by Brazil and the United States.

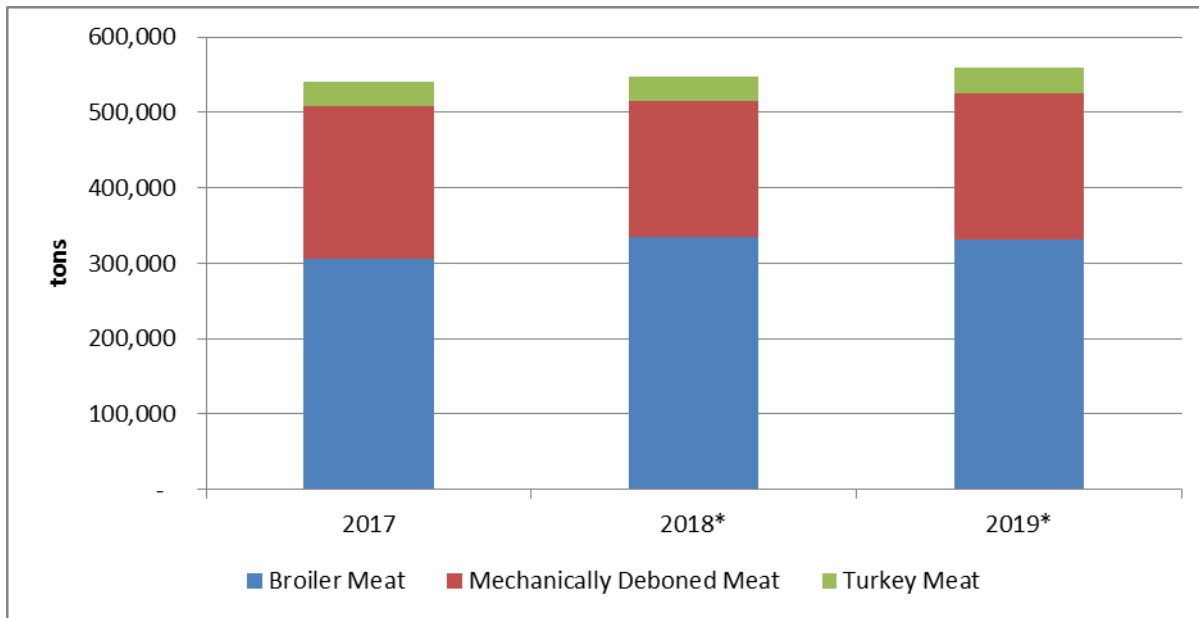


Figure 3: The Trend in Poultry Meat Imports by South Africa

Source: *Global Trade Atlas (GTA)*

*Estimate

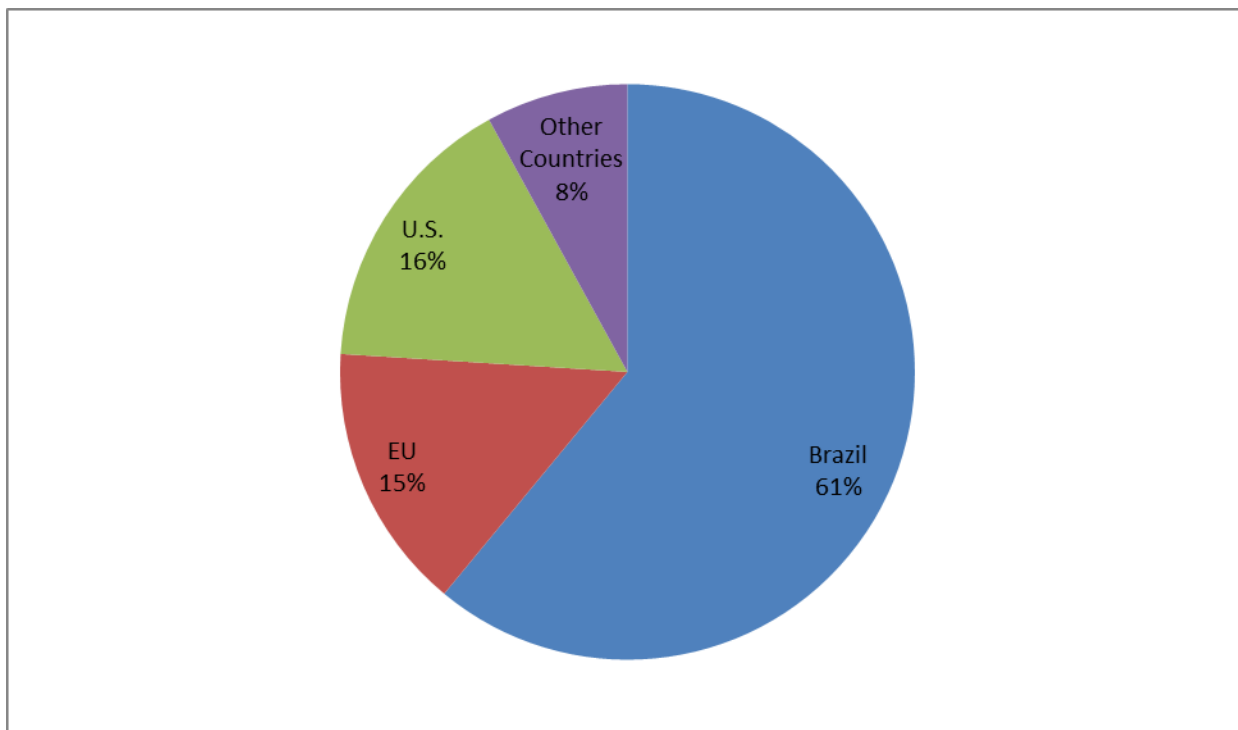


Figure 4: The Major Exporters of Chicken Meat to South Africa in 2017

Source: *GTA*

In 2018, Post estimates that broiler bone-in portions will represent the largest category of chicken meat imports at 50 percent or 257,500 tons. The share of chicken bone-in portions as percentage of total chicken meat imports has shown an upward trend since 2015. During the same period, South African

chicken production was under pressure due to the severe drought that hit the Southern Africa region in 2015 and 2016, resulting in historically high animal feed prices. The South African poultry industry's recovery from drought in 2017 was almost offset by the avian influenza outbreaks in the same year. These factors contributed to the growth of chicken meat imports as the local industry could not meet the growing demand for chicken meat. In 2017, the United States was the largest exporter of bone-in chicken meat to South Africa with a market share of almost 34 percent.

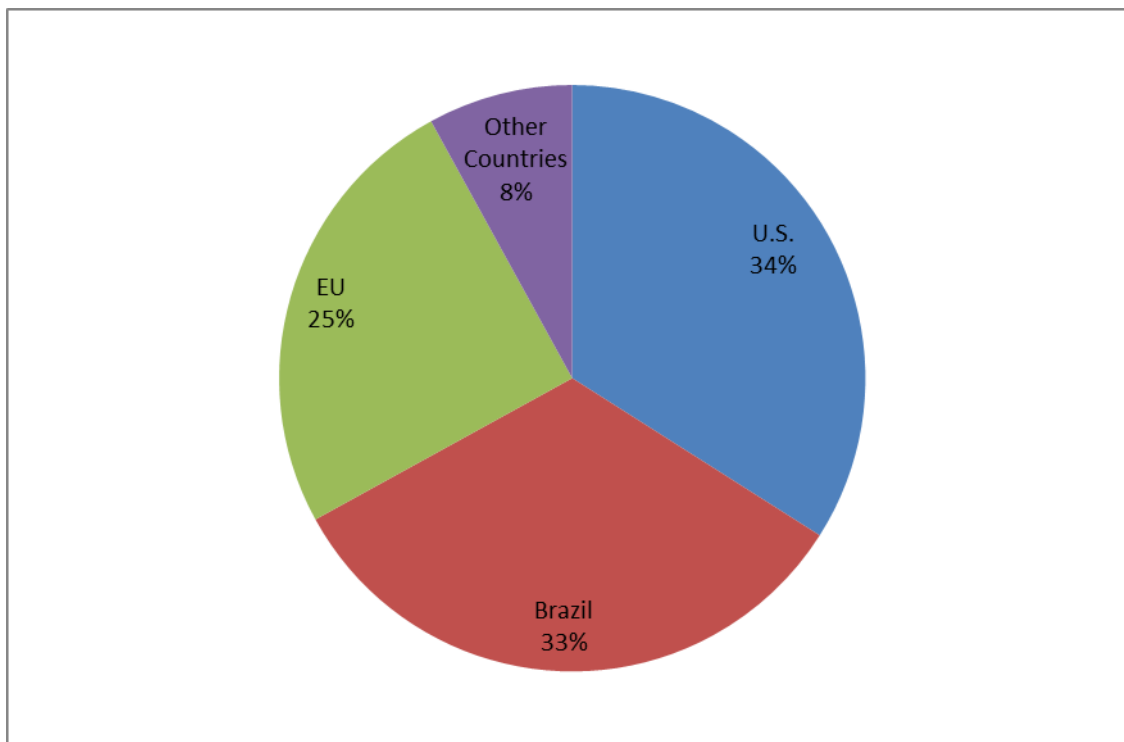


Figure 5: The Major Exporters of Bone-in Chicken Meat to South Africa in 2017
Source: GTA

The second largest category in volume is mechanically deboned meat with an estimated share of 35 percent or 180,250 tons in 2018. Together, bone-in chicken portions and mechanically deboned meat represent at least 80 percent of total chicken meat imports by South Africa, followed by offal (8 percent), boneless cuts (4 percent) and whole chicken (2 percent).

Import Tariffs: Table 1 represents South Africa's current import tariff structure for chicken meat products. For most products, the EU, due to the Economic Partnership Agreement (EPA) with South Africa, could import chicken meat tariff free into South Africa. However, imports from other countries face import tariffs that range from 12 to 82 percent. For this reason, in February 2016, SAPA applied for the imposition of safeguard measures on frozen broiler bone-in portions under Article 16 of the Trade, Development and Cooperation Agreement (TDCA) between the European Community (and its member states) and South Africa. In December 2016, the South African Department of Trade and Industry (DTI) imposed a provisional 13.9 percent safeguard duty on imports of EU chicken meat into South Africa. The safeguard duty expired on July 3, 2017. The DTI has yet to make an announcement about whether the import duty will be extended or not. Sources are suggesting that South Africa could apply another safeguard duty on EU chicken meat.

Table 1: South Africa’s Import Tariffs for Specific Chicken Meat

Tariff Heading	Product description	Rate of duty			
		General (including the United States)	EU	EFTA*	SADC**
02.07	Meat of Poultry				
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	Other	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 65,417 tons)	Free (Anti-dumping duties for Germany, the Netherlands and the United Kingdom ranging from 3.86% to 73.33%)	37%	Free

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

*EFTA - European Free Trade Association

** SADC – Southern Africa Development Community

Tariff-rate Quota: United States bone-in broiler meat exports to South Africa have been affected by anti-dumping duties since 2000, which were then set at R2.35 per kilogram. In 2012, the anti-dumping duty was extended for another 5 years and increased to R9.40 per kilogram. In 2017, South Africa extended the anti-dumping duty by another 5 years. This comes after the South African International Trade Administration Commission (ITAC) investigation concluded that the expiry of the anti-dumping duties on bone-in broiler meat imported from the United States would likely lead to the recurrence of dumping and continuation or recurrence of material injury to the Southern African Customs Union (SACU) industry (see [South Africa Extends Anti-dumping Duties on U.S. Bone-in Chicken](#)).

In June 2015, representatives from the United States and South African poultry industries agreed in principle on a tariff-rate quota (TRQ) exempting 65,000 tons of U.S. bone-in broiler meat from the anti-dumping duty. The TRQ is subject to a 37 percent MFN tariff. This agreement effectively led to South Africa maintaining its eligibility to have duty-free access to the United States market under African Growth and Opportunity Act (AGOA) for a wide range of South African exports for the next decade. In January 2016, negotiations of the final health certificates were concluded and the first shipment of U.S. bone-in broiler meat landed in South Africa in March in 2016.

The AGOA agreement provided for the possibility that the South African Department of Agriculture, Forestry and Fisheries (DAFF) could increase the quota in a given year based on an annual growth factor, which takes into account South Africa’s domestic poultry consumption and poultry production

statistics. DAFF determined that the growth factor for 2018/2019 is 0.64 percent, thereby increasing the annual quota by 417 tons to 65,417 tons. The United States bone-in broiler meat exports above the annual 65,417 ton anti-dumping duty free quota will continue to be subjected to an anti-dumping duty of R9.40 per kilogram. This is the first time the quota has been increased since the first quota year, 2016/2017. Should South Africa's poultry production and poultry meat consumption continue to rise, DAFF could decide to increase the annual quota for 2019/2020.

Exports: Post estimates that South Africa's chicken meat exports will decrease by 10,000 tons to 55,000 tons in 2018 as the local industry is still recovering from the avian influenza outbreaks. Post forecasts that South Africa's chicken meat exports will increase by 10 percent, reaching 60,000 tons in 2019 as the local chicken industry is expected to have recovered from avian influenza. In 2017, South Africa's neighbors accounted for 90 percent of its chicken meat exports (Table 2).

Table 2: South African Chicken Meat Exports

Country	Unit	2017	2018*
Lesotho	T	18,859	9,687
Mozambique	T	16,796	5,772
Namibia	T	12,860	3,923
Zimbabwe	T	4,844	1,038
Botswana	T	3,193	1,903
Zambia	T	2,797	1,186
Other countries	T	6,115	2,162
Total	T	65,464	25,671

Source: *GTA*

*January to June 2018

Table 3: PS&D Table for Chicken Meat

Meat, Chicken	2017	2018	2019
Market Begin Year	Jan 2017	Jan 2018	Jan 2019
South Africa	New Post	New Post	New Post
Beginning Stocks			
Production	1,335	1,365	1,410
Total Imports	524	530	540
Total Supply	1,859	1,895	1,950
Total Exports	65	55	60
Human Consumption	1,794	1,840	1,890
Other Use, Losses	0	0	0
Total Dom. Consumption	1,794	1,840	1,890
Total Use	1,859	1,895	1,950
Ending Stocks	0	0	0
Total Distribution	1,859	1,895	1,950
(1000 MT)			

Note: Not official USDA data

