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This Report Focuses on Broiler Production and Consumption

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Poultry and Products

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Report Highlights:

Although annual growth in broiler production in South Africa slowed down in 2009, Post foresees an increase in production of 3 percent to 957 million broilers or 1.290 million tons of meat in 2010. Broiler meat imports into South Africa are primarily exchange rate driven and if the strong Rand continues further into 2010, broiler meat imports are expected to reach almost 225,000 tons in 2010, or 17 percent of local production. Although Brazil is the most important supplier of poultry meat, the South African Poultry Industry requested that anti-dumping duties against Brazil be introduced. Meanwhile, the anti-dumping duties on broiler meat imports from the United States can be declared unlawful in a court case that will start on the August 31, 2010. Meat importers will ask for an interdict for relief from having to pay the anti-dumping duties, while the court case continues. The current 5-year anti-dumping duty on chicken meat portions imported from the United States expires on November 26, 2011.

Executive Summary:

The South African poultry industry, with a gross value of more than R23 billion (\$3 billion), is the country's largest individual agricultural industry and contributes more than 17 percent to Agriculture's Gross Domestic Product. The last two years were characterized by high feed prices, the worldwide economic recession, high inflation, high interest rates, a slow down in consumer demand, and job losses negatively impacted on the broiler industry in South Africa. The annual growth in average broilers produced per week slowed down in 2009 to only 1.1 percent. However, in 2010 post estimates an increase of 3 percent over 2009 in average weekly broiler production as South Africa's economy recovers. Post forecast an increase of 3 percent over 2009 in average weekly broiler production in 2010. This translates to 957 million broilers or 1.290 million tons of meat that will be produced in 2010.

The Rand exchange rate primarily drives broiler meat imports into South Africa. Broiler meat imports increased in 2009 by 7.8 percent to reach 205,827 tons due to a stronger Rand. If the strong Rand continues further broiler meat imports are expected to reach almost 225,000 tons in 2010, or 17 percent of local production. Brazil is the most important trading partner for South Africa in terms of poultry meat imports, having 74.6 percent of the market.

In 2007, the South African Supreme Court of Appeal found that International Trade Administration Commission (ITAC) had improperly calculated the timetable for doing an anti-dumping sunset reviews. This means that anti-dumping duties on broiler meat imports from the United States can be declared unlawful. ITAC are now launching an application to address the consequences of the ruling. The court case will start on August 31, 2010. Meat importers have asked for an interdict for relief from having to pay the anti-dumping duties, while the above mentioned court case continues as it is expected that the court case will be drawn out indefinitely.

The current 5-year anti-dumping duty on chicken meat portions imported from the United States expires on November 26, 2011. ITAC notified relevant stakeholders that the last day for the submission of information is April 21, 2011. The South African Poultry Industry is also making progress with their investigation into Brazilian trade practices regarding poultry imports to South Africa. The South African Poultry Industry remains comfortable that anti-dumping action against Brazil for trade irregularities is likely to be introduced.

US\$1 = Rand 7.50 (7/22/2010)

General Information:

Production:

The South African poultry industry, with a gross value of more than R23 billion (\$3 billion), is the country's largest individual agricultural industry and is contributing more than 17 percent to Agriculture's Gross Domestic Product. Broiler production makes up most of the poultry industry. Although South Africa produces less than 1.5 percent of the world's broiler meat it is the major broiler producer, with almost 80 percent of total broiler production, in the Southern African Development Community (SADC). Since 2000, broiler production in South Africa grew by an average 4 percent per annum. However, the last two years were of the most challenging the past decade. High commodity prices, which resulted in high feed prices, followed by the worldwide economic recession, characterized by high inflation, high interest rates, a slow down in consumer demand, and job losses impacted negatively on the broiler industry in South Africa. In addition, have the production capacity expansion programs of a few years back and increased imports due to a stronger Rand exchange rate created a over supply. However, as the South African economy is recovering from the recession, domestic demand for poultry products is expected to increase.

The broiler industry in South Africa produced on average 17.8 million broilers per week in 2009 (see Figure 1). The annual growth in average broilers produced per week slowed down in 2009 to only 1.1 percent or 190,000 broilers. In the period 2000 to 2008 the annual growth in average broilers produced per week was 4.2 percent. Total broiler production for 2009 amounted to 931 million broilers or 1.250 million tons of meat. Total broiler production in 2009 was only 0.8 percent more than the 924 million broilers or 1.240 million tons of meat produced in 2008.

In 2010 an increase in broiler production is foreseen as South Africa's economy recovers and companies produce more due to low profit margins. The average weekly broiler production in the first seven months of 2010 was 476,000 or 2.7 percent more than the 2009 average. Comparing July 2010 with July 2009 the average broiler production per week is 868,600 or 4.8 percent more. Post forecast an increase of 3 percent over 2009 in average weekly broiler production in 2010. This translates to 957 million broilers or 1.290 million tons of meat that will be produced in 2010.

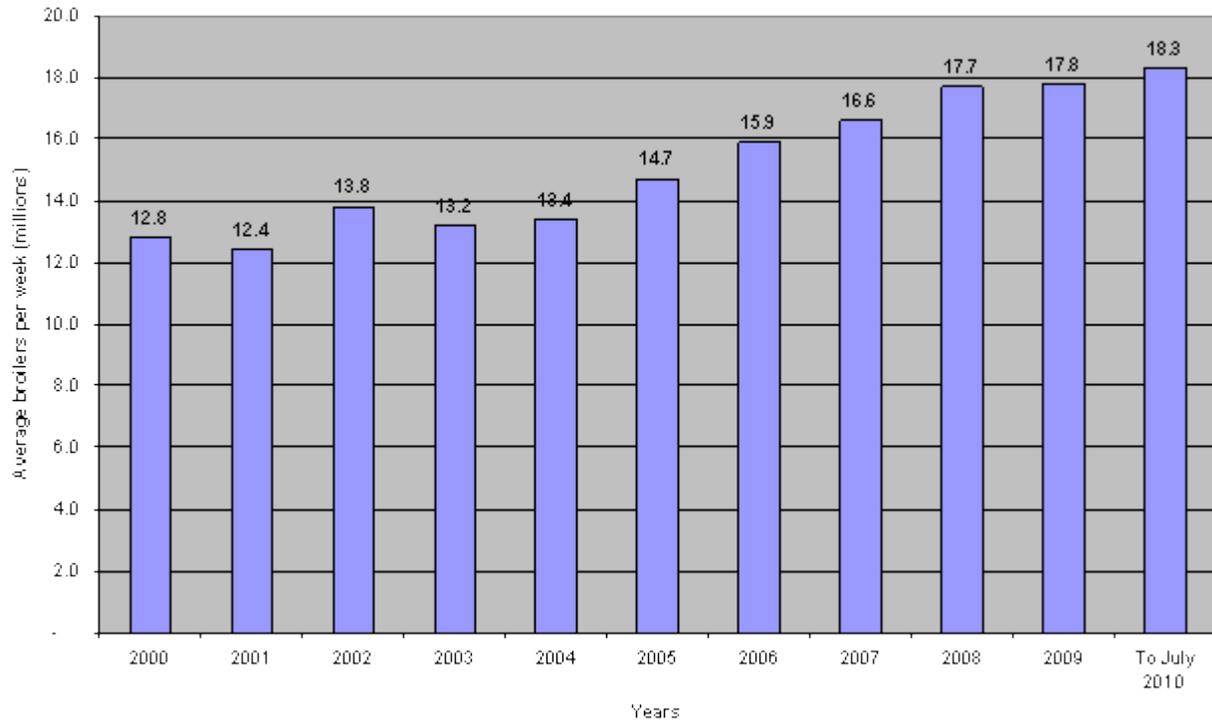


Figure 1: Average broiler production volumes per week in South Africa

Structure: The broiler industry in South Africa is dominated by two large producers, namely Rainbow and Astral (see also Figure 2). Together, these two companies produce 50 percent of total broiler production in South Africa. Rainbow, on average, produces 4.4 million broilers per week and Astral, on average, 3.8 million broilers per week. The third largest producer, Country Bird, produces 1.3 million broilers per week or 8 percent of total broiler production in South Africa. Four medium-sized producers (producing more than 600,000 broilers per week) supply 20 percent of the market followed by approximately 44 smaller producers (producing less than 200,000 broilers per week). A degree of consolidation has taken place in recent years, with bigger players buying up some of the smaller producers. In addition to producing economies of scale, these actions have reduced the potential for price wars in the consumer market. As a result, poultry producer prices increased on average by 8.2 percent per annum between 2000 and 2009.

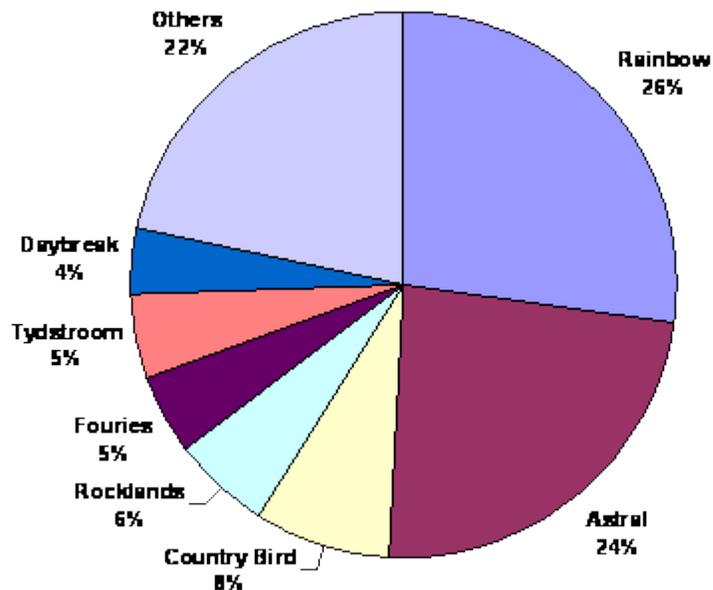


Figure 2: The major producers in the boiler industry of South Africa

Feed cost: The poultry industry suffered dramatic feed price increases in 2008 (from R2,648 per ton to R3,502/ton or 32 percent), due to the significant increase in the prices of corn and soya beans (see also Figure 3). In 2009, feed prices decreased to an average price of R3,326/ton, but were still significantly higher than historical levels. The increases in feed cost prices were not recovered by sales realization, putting the profit margin of companies in the broiler industry under severe pressure. However, with the second largest corn crop ever recorded in South Africa and a record soya bean crop, feed prices due to decrease in 2010.

Corn is the major ingredient (more than 50 percent) in broiler feed and any change in the price of corn impact directly on the profit margin of broiler producers. The poultry industry consumes approximately 2.4 million tons of corn (mainly yellow corn) or 25 percent of total corn consumption in South Africa on an annual basis. Another important product in the 3.59 million tons of feed (68 percent of all feed manufactured in South Africa annually) consumed by the poultry industry is soya beans.

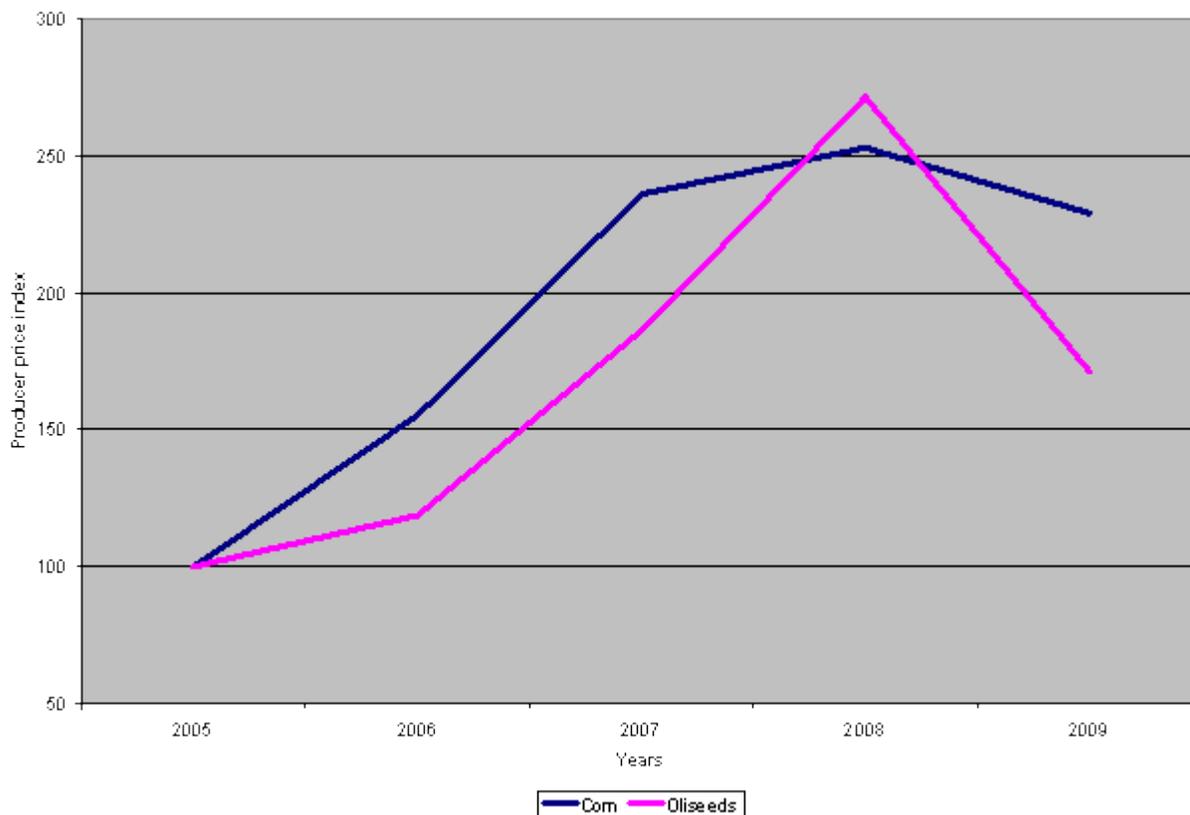


Figure 3: The sharp increase in the producer prices for corn and oilseeds in South Africa between 2007 and 2009

Animal health and diseases: The broiler industry in South Africa has become largely resilient in disease situations. The past few years have seen a large emphasis on precautionary measures, disease surveillance, and control in the South African broiler industry. The aim is to reduce the incidence of animal disease and minimize the impact of outbreaks when they do occur. The South African poultry industry also funded a long-term disease-reduction program which is in the final planning and approval stages and should be rolled out during the next three years.

The spread of avian influenza elsewhere in the world remains of great concern for South African poultry producers and they remain on high alert, as the threat of avian influenza also has the potential to reduce consumer demand. To date, the Avian Influenza epidemic has not negatively impacted the South African poultry industry. A routine surveillance program has been in place for more than two years and chickens have, at all times, remained negative for avian influenza.

Newcastle Disease, however, remains virulent for the fourth year of constant occurrences. The spread of Newcastle disease can be largely attributed to a lack of bio-security and is linked to the commercial

egg-layer industry, where the disease has been far more catastrophic.

Production efficiency: Improved animal husbandry, stricter disease control, and production efficiencies (see Table 1) have contributed to lower chicken mortality rates in the industry over the past three to four years. Foreign as well as local authorities ensure high sanitary standards in the South African poultry production industry. Local broiler producers also rely exclusively on the best internationally developed strains from the United Kingdom, the United States and the Netherlands.

Table 1: Increased production efficiencies in the South Africa poultry industry

	1968	1998	2004	2009
Slaughter age (days)	62	42	38	35
Live mass (kg)	1.18	1.79	1.82	1.85

Source: SAPA

Consumption:

The exceptional growing demand (in the region of six percent per annum) for broiler meat that categorized 2000 to 2008, did not continue through to 2009. As already mentioned, the high interest and inflation rates impacted negatively on consumers' spending ability. The local chicken market is estimated to have declined in Rand value by one percent in 2009 to R17.5 billion (\$2.3 billion). However, broiler meat remains an affordable protein source relative to other meat protein sources in South Africa. The South African per capita consumption of broiler meat in 2009 was 30.8 kg. In comparison, each South African consumed only 3.7 kg of mutton, 4.1 kg of pork, and 16.7 kg of beef in 2009. Except price, can the rise in broiler meat consumption the past few years also be attributed to the broiler industry's response to the needs of consumers and food services operators for value-added, brand name and convenience products, and not only producing commoditized volume products.

Post expects that broiler meat demand will start growing again in 2010 as the South African economy recovers from the recession. Economic growth is the main overall driver for the increased demand for broiler meat as rising living standards will push large numbers of consumers towards protein filled diets, health awareness and convenience. Other reasons for the expected increase in the consumption of broiler meat include increased marketing by broiler producers, price competitiveness relative to other proteins on the market and a still relative low per capita consumption of chicken in South Africa compared with other economies in the world. The growing trend towards processed chicken meat and more sophisticated value-added products will create further market opportunities.

The trends in total per capita consumption of meat in South Africa are illustrated in the table

below. South Africans now eat more than double as much poultry as in the 1993.

Table 2: Per capita consumption (kg) of meat in South Africa

Years	Beef	Broiler meat	Pork	Mutton/lamb
1993	18.6	14.4	3.5	4.9
1994	16.9	16.2	3.2	4.0
1995	14.7	17.6	3.2	3.0
1996	14.6	17.8	3.3	3.5
1997	13.9	19.4	3.3	3.4
1998	13.3	18.6	3.2	3.4
1999	13.0	19.7	3.0	3.6
2000	15.2	19.7	3.1	3.7
2001	12.3	18.9	2.6	3.5
2002	13.3	20.1	2.7	3.2
2003	14.0	21.1	3.2	3.2
2004	14.5	21.7	3.8	3.3
2005	15.5	23.1	3.9	3.2
2006	17.4	25.8	4.1	3.4
2007	18.2	29.6	4.4	3.9
2008	16.4	30.0	4.2	3.7
2009	16.7	30.8	4.1	3.7
2010 (estimate)	17.0	31.7	4.2	3.8

Source: Department of Agriculture

Trade:

Broiler meat imports into South Africa are primarily exchange rate driven as can be seen from Figure 4. When the Rand appreciates against the United States dollar, imports of broiler meat increases (as meat imports become cheaper); and when the Rand depreciates against the United States dollar imports of broiler meat decreases.

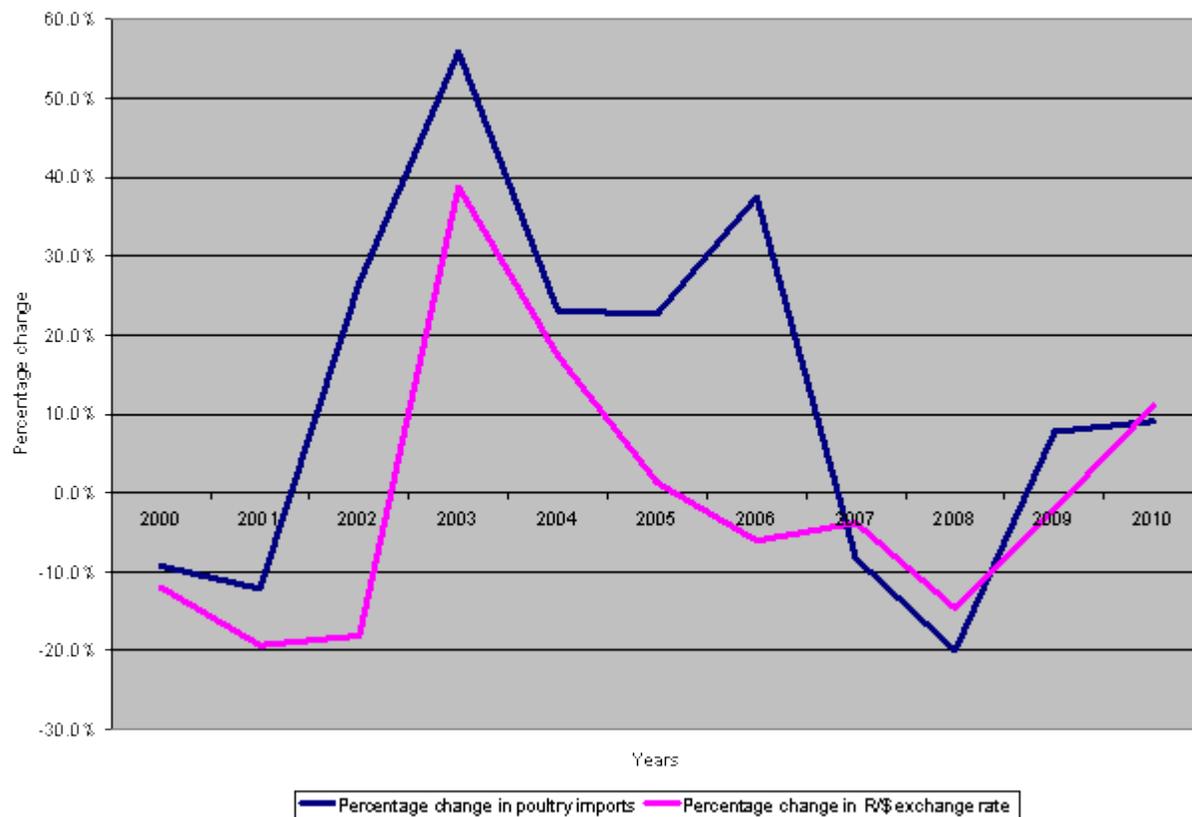


Figure 4: The positive correlation between broiler meat imports and R/US\$ exchange rate

Broiler meat imports increased in 2009 by 7.8 percent to reach 205,827 tons (see also Figure 5). Imports accelerated in the last six months of 2009 when the R/US\$ exchange rate appreciated to an average of R7.66/US\$. The strong Rand continued into 2010 and broiler meat imports until May 2010, at 93,534 tons, are already 8.8 percent higher than the same period in 2009. Broiler meat imports are expected to reach almost 225,000 tons in 2010 or 17 percent of local production.

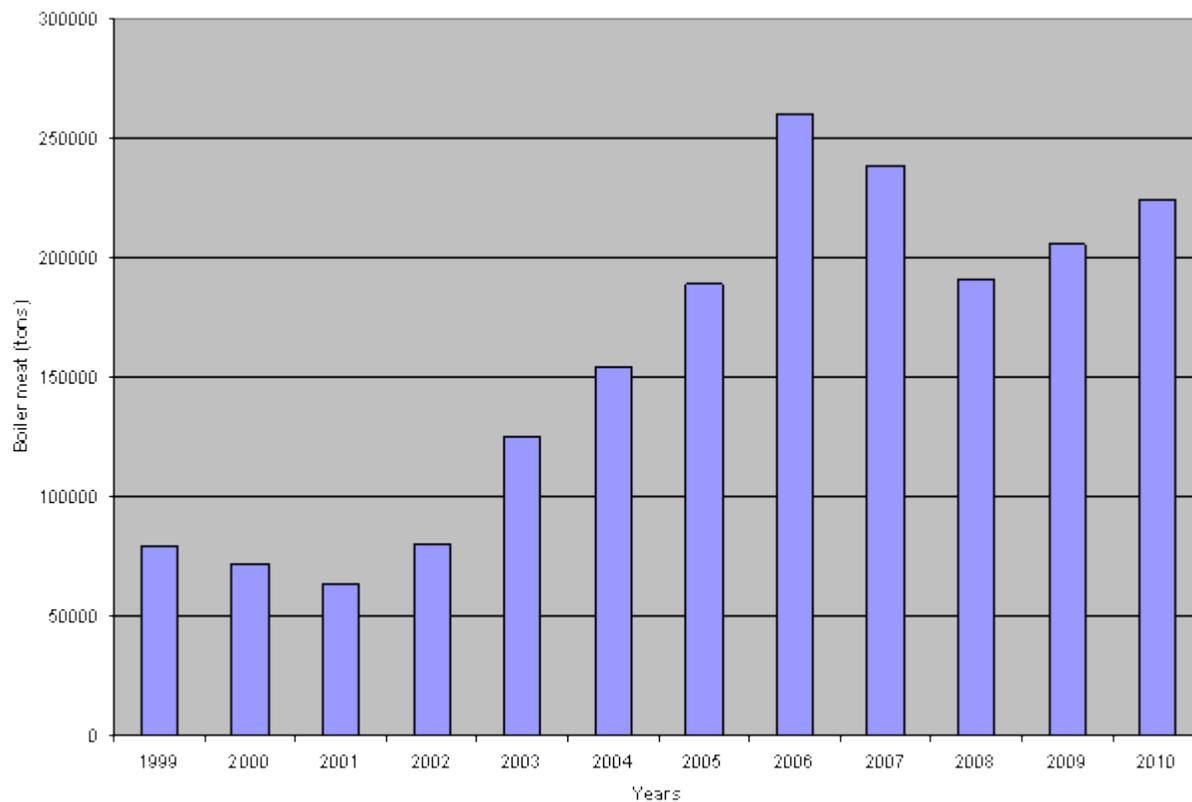


Figure 5: Imports (in thousand tons) of broiler meat by South Africa

Brazil is the most important trading partner for South Africa in terms of poultry meat, having more than 74.6 percent (153,489 tons) of the import market (see Figure 6). Brazil is followed by Argentina, with 15.2 percent (31,358 tons) of the import market, Australia with 3.4 percent (6,946 tons) and Canada with 3.3 percent (6,866 tons). Broiler meat imports from the United States in 2009 reached 2,184 tons or 1.1 percent of total imports.

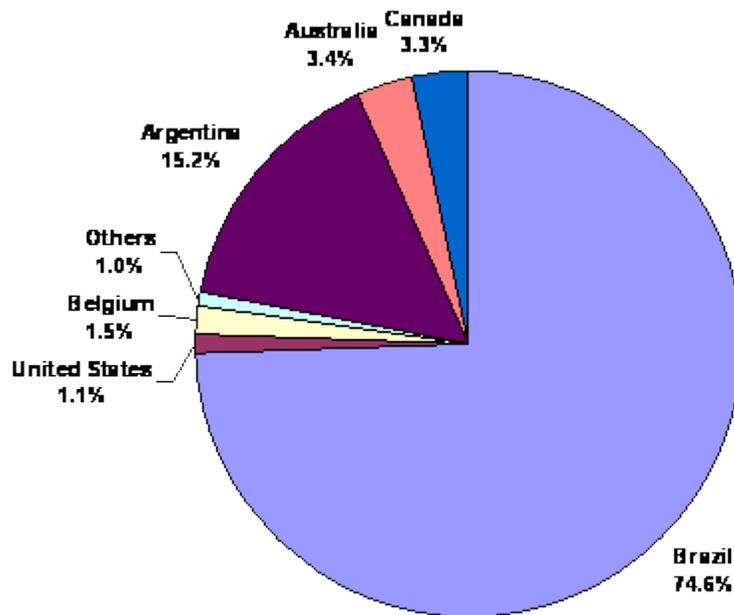


Figure 6: Origin of broiler meat imports into South Africa in 2009

Anti-dumping duties: An anti-dumping duty against the United States for poultry products in tariff number 0207 14 90 (bone in cuts, include the chicken leg quarters) was instituted in 2000 for 5 years, reducing United States imports from more than 31,000 tons in 1999 to only 344kg in 2005. Anti-dumping tariffs, ranging from R2.24/kg to R6.96/kg are currently imposed in addition to an import duty of R2.20/kg, effectively pricing US chicken pieces out of the local market (the anti-dumping duty on product from Tyson Foods is R2.24/kg, from Gold Kist Inc. is R2.45/kg and from any other United States producers is R6.96/kg). The United States poultry exporters applied to have the anti-dumping ruling reviewed in 2005, but the South African Poultry Industry opposed the application and the anti-dumping duty was extended to 2011. However, in 2007, the South African Supreme Court of Appeal found that International Trade Administration Commission (ITAC) had improperly calculated the timetable for doing an anti-dumping sunset review under South African law for a separate case. However, the ruling is applicable on more than 70 products, including United States poultry. This meant that anti-dumping duties on “bone in chicken portions” from the United States can be declared unlawful due to the legal sunset review not being performed timely.

ITAC and SARS are now launching an application to address the consequences of the ruling, which would determine whether the ruling should extend to other industries and request for the continuing of anti-dumping duties called into question after the Supreme Court of Appeal opinion in 2007. The court case will start on August 31, 2010. Effectively what ITAC and SARS are attempting to do is to apply for a moratorium or suspension order to ensure that the anti-dumping duties are maintained for a

further 3 years to allow ITAC time to complete reviews and for the suspension be made retrospective from 4 July 2005 so that there is no basis for any importer to argue for a refund or to enter goods without payment of anti-dumping duty until finalization of the reviews.

On the other hand, meat importers and others (12 products are involved) have asked for an interdict for relief from having to pay the anti-dumping duties, while the above mentioned court case continues. In the court case, they will support the finding that the current anti-dumping duties are illegal, and oppose the request for relief for three years or any period to conduct legal sunset reviews.

The court case could be drawn out indefinitely due to the different nature of the 12 products and the number of respondents. There is also a concern that whichever party loses the matter will be taken to the appeal court.

However, the current 5-year anti-dumping duty on chicken meat portions imported from the United States expires on November 26, 2011. ITAC has notified all stakeholders that the last day for the submission of information is April 21, 2011. The South African Poultry Industry has already formally advised ITAC that they will be applying for the extension of the United States anti-dumping protection so that the need for continued protection can be reassessed prior to its scheduled expiry. The South African Poultry Industry’s view regarding the anti-dumping duty against United States poultry imports is this: “the duties are a justifiable response to an anti-competitive action by United States exporters and are substantively fair. Any attempt to use dubious legal technicality to overturn them will be vigorously defended by the South African Poultry Industry”.

The United States Poultry and Export Council remains actively engaged in the anti-dumping case. Assistant U.S. Trade Representative visited South Africa in May of this year and met with the Department of Trade and Industry (DTI) where she, among other trade topics, raised the issue of anti-dumping duties on United States poultry imports with the Chief Director. The DTI officials urged U.S. exporters to participate in the sunset review for relief and stated that during the last sunset review, U.S. exporters failed to reply to information requests from ITAC, meaning the decision was based mainly on information from South African producers.

The South African Poultry Industry is also progressing with their investigation into Brazilian trade practices regarding poultry imports to South Africa. The South African Poultry Industry remains comfortable that anti-dumping action against Brazil for trade irregularities is likely to be introduced.

Production, Supply and Demand Data Statistics :

Poultry, Meat, Broiler South Africa	2008			2009			2010		
	Market Year Begin: Jan 2008			Market Year Begin: Jan 2009			Market Year Begin: Jan 2010		
	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post	USDA Official	Old Post	New Post
Inventory (Reference)	0	0	0	0	0	0	0		0
Slaughter (Reference)	0	0	0	0	0	0	0		0
Beginning Stocks	0	0	0	0	0	0	0		0
Production	1,153	1,070	1,240	1,178	1,112	1,250	1,210		1,290

