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THE GROWTH PROSPECTS OF THE SA BEEF INDUSTRY IN AN UNCERTAIN SOCIO-ECONOMIC ENVIRONMENT



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INTRODUCTION

Against the backdrop of a number of risk factors such as drought, land reform, diseases and uncertain trade policy, the South African (SA) beef industry remains one of the strategic sectors in the South African economy. In 2014 the annual contribution

of the beef industry to the agricultural GDP was R22 billion (DAFF & NAMC, 2015) and in 2013, the industry employed 500 000 people. In terms of the statistics for producers, there are 50 000 commercial producers, 240 000 emerging farmers and 3 million communal farmers who perform a combination of stud farming, beef production (meat) and livestock rearing for building of a social-security-net and wealth creation (DAFF, 2014). In 2013, there were approximately 500 abattoirs slaughtering on an annual basis 2.3 million cattle, 2.4 million pigs and 5.5 million sheep. Except for the economic melt-down that happened in 2008, from 2002 to 2013 both production and consumption have been showing a steady increase (DAFF, 2014). Table 1 presents statistics for the number of cattle slaughtered and consumption figures.

As the most affordable source of animal protein, poultry consumption in particular increased by almost 50% in the past decade compared to a 19% and 33% increase in beef and pork consumption respectively (BFAP, 2016). The increase in consumption of beef products can be attributed to, amongst others, the rising income of the middle-income class, the so called "black diamonds" (BFAP, 2016; Global Agricultural Information Network of the USDA, 2015) and also a change in the demographics and diets in South Africa (Price Water Coopers, 2012; Labuschagne, et al, 2010).

From 2004 to 2014, the proportion of South African adults that are classified as poor declined by more than 80%. This was accompanied by an increase in the share of the adult population that has graduated from the low-income to the middle-income class (Global Agricultural Information Network (USDA), 2015). In 1994, the average person consumed a total of 41kg of meat a year, while 20 years later the average South African consumes 65kg of meat a year – an increase of about 60 percent (Global Agricultural Information Network of the USDA, 2014). Local innovative business strategies and advancements in the area of R&D have also resulted in a strong competitive advantage for the industry with regard to exports markets.

TABLE 1: TOTAL NUMBER OF CATTLE SLAUGHTERED, PRODUCTION AND CONSUMPTION OF BEEF

YEAR	CATTLE SLAUGHTERED	PRODUCTION	CONSUMPTION
	Head	Kilograms	Kilograms
2002/03	2,510,000	574, 000, 000	602, 000, 000
2003/04	2,535,000	610, 000, 000	643, 000, 000
2004/05	2,599,000	632, 000, 000	675, 000, 000
2005/06	2,671,000	672, 000, 000	723, 000, 000
2006/07	2,972,000	769, 500, 000	810, 000, 000
2007/08	3,077,000	830, 700, 000	849, 000, 000
2008/09	2,701,000	727, 500, 000	744, 000, 000
2009/10	2,841,000	763, 600, 000	767, 000, 000
2010/11	2,889,000	822, 100, 000	866, 000, 000
2011/12	2,909,000	823, 300, 000	859, 000, 000
2012/13	2,966,000	855, 000, 000	892, 000, 000

Source: DAFF (2014)

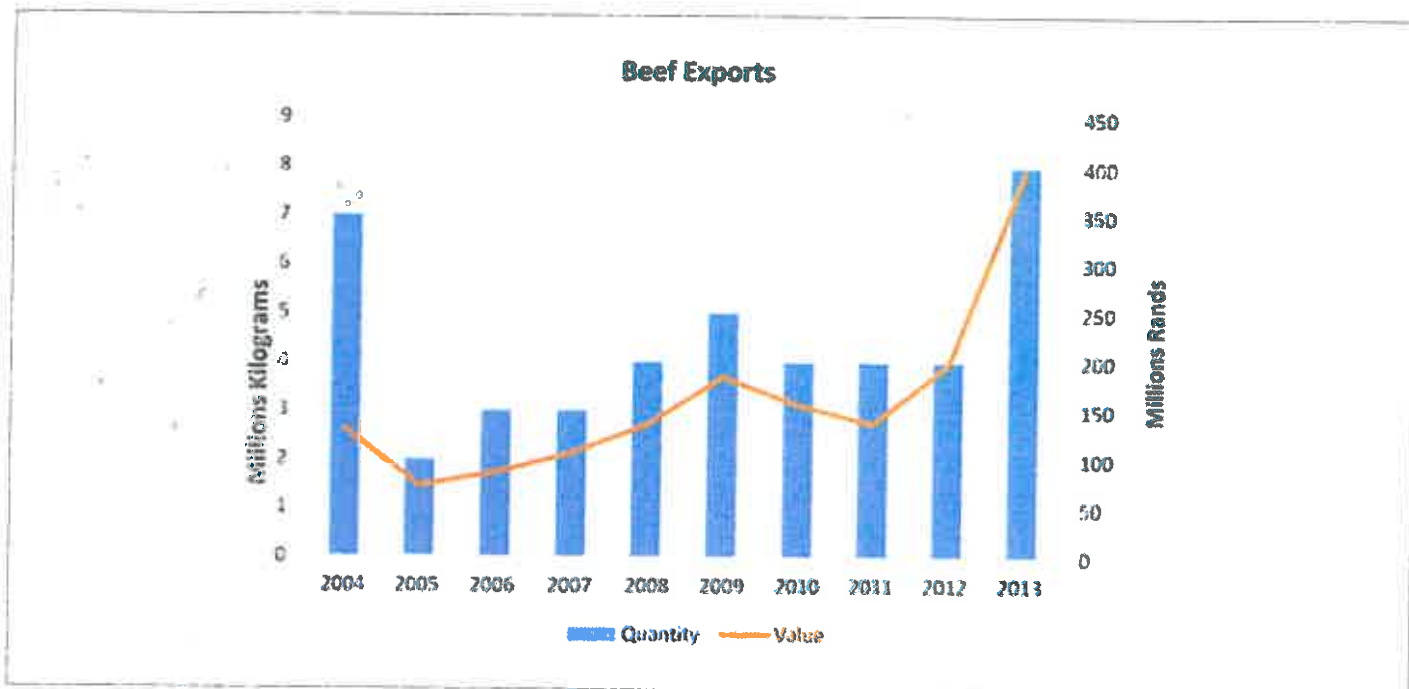


Figure 1: Export volumes and Rand Value
Source: DAFF (2014)

EXPORT TRENDS AND COMPETITIVE ADVANTAGE FOR SA BEEF

The SA Beef Industry can be regarded as world class and this is due to the high level of differentiation and diversification of its product offerings. Some of the world renowned products such as Biltong and Boerewors originated in South Africa (Estelle et al, 2007). South African beef is also slaughtered at a young age - much younger when compared to the international norm and therefore has a lower cholesterol and fat percentage which makes it one of the healthiest sources of beef in the world (Global Agricultural Information Network of the USDA, 2015). Americans consume beef with an average fat content of 30 – 35%. In South Africa it is as little as 13% (Global Agricultural Information Network of the USDA, 2015). While between 2004 and 2012, the beef industry was a net importer of beef, this situation has since changed in 2013 due to the lifting of the export ban by the International Animal Health Organization (DAFF, 2014; BFAP, 2016). This trend is set to increase going forward to at least 2025 (BFAP, 2016). In 2013, South Africa exported 8 million kilograms of beef, yielding an export revenue of R 396 million (DAFF, 2014). During the same period there was a significant increase (86%) in the quantity of beef exported when compared to 2012 (see figure 1).

During the period 2004 to 2013, the African continent remained an important export destination for SA beef. The EU however remained the largest market for SA beef from 2004 and Africa from 2005 to 2013 (DAFF, 2014). In total, Africa imported 28 million kg from SA beef while Europe was second with 9.8 million kg during the past decade. In 2014, exports were however insignificant as it only constituted 1% of local production. At the global level, the share of SA exports was also negligible, totaling only 0.1% in 2009 (DAFF & NAMC, 2011). In 2014, beef exports amounted to R1.13 billion while imports stood at R704 million (DAFF & NAMC, 2015). Amidst these positive prospects regarding beef, the picture looks different when it comes to poultry. Developments in the broiler industry and the AGOA policy that resulted in Americans importing high volumes of chicken to South Africa, is a concern. In the Beef industry, the tariff lines are also high (DAFF, 2014) and appears to be unsustainable and therefore there is a need for a dedicated study to look into the impact of high tariff lines in the industry. Other risk factors to be addressed include effective implementation of land reform and how to mitigate the effects of drought and diseases.

FUTURE GROWTH PROSPECTS

According to BFAP (2016), albeit from a small base, the growth in pork consumption in the coming decade will increase by 37% by 2025. In contrast, growth in beef consumption will decrease by 6% in the coming decade, from almost 19% over the past ten years (BFAP, 2016). Much of this reduction is attributed an expected rapid decline in beef consumption over the next three years. Given the cautious outlook for income growth, consumer spending is expected to be under pressure. Following this initial decline and as income growth recovers, beef consumption is projected to rise once more by 2020, to reach 13.5 kg per capita by 2025 (BFAP, 2016). This makes it the second most consumed animal protein next to chicken (42kg per capita), with pork and mutton significantly lower at 5.2kg and 2.6kg per capita respectively. Although consumption of chicken did slow down during the past decade, it is projected to expand by 29% by 2025, resulting in an additional 500 thousand tons of additional chicken meat consumed - almost 70% of additional meat consumed by 2025 relative to the 2013-2015 base period (BFAP, 2016). According to BFAP (2016) South Africa will become a net exporter of beef, at least up to 2025. The depreciation of the rand of course makes SA beef attractive to world markets.

Given the rapid development of infrastructure in the aftermath of democracy and the expansion of supermarkets into peri-urban and rural areas in South Africa (Das Nair, et al, 2015) and even the entire African continent (Price Water Coopers, 2012), the opportunities for the beef industry to grow are now more than ever. Currently, retail sales account for more than 50 % of total meat sales in South Africa (Global Agricultural Information Network of the USDA, 2015). While the role played by supermarkets in growing the beef industry in local markets is acknowledged, there is little literature to show how this role is displayed on the African continent. Existing literature shows that supermarkets such as Shoprite and Pick 'n Pay, based elsewhere in Africa, source a high proportion of their fruit and vegetables from South Africa. In fact, during 2011 Pick 'n Pay sourced 70% of its produce from home (Mail & Guardian, 2013).

The other important role played by the South African supermarkets is in terms of empowering the small scale farmers through training and offering of supply contracts. An example of the latter is Anna Phosa, a female farmer from Vanderbijlpark that has been running the Dreamland Piggery and Abattoir enterprise since 2006, supplying 10 pigs per week to Pick 'n Pay. She has subsequently increased production and supplied 300 pigs per week to the retailer during 2015 (Sowetan, 2016).

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