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Agro-Processing

Sector Intelligence Report



MBI & P

EXECUTIVE SUMMARY

Several successful experiences internationally of sustained economic growth and structural transformation have been centred on agricultural value chains, yet South Africa has not been able to match the growth rates in high value agricultural exports achieved by countries like India, Mexico, Chile, Brazil and China. The lack of sufficient structural transformation in agriculture and agro-processing sectors, and the failure to industrialise, has further contributed to services dominating the contribution to gross domestic product in South Africa.

Part of the difficulty in achieving greater structural transformation has been the political economy dynamics that have shaped, and continue to shape, outcomes in the agriculture and agro-processing sectors.

Against this background, this report evaluates the factors and trends that have influenced the performance of the agro-processing sector, also evaluate the observed patterns in the agro-processing sector's contribution to the economy.

However, the analysis or rather this report is limited to meat, leather and dairy products and excludes the forestry and fishing subsectors. This largely follows growth patterns in the demand for food, both fresh and processed food, in the southern African region due to urbanisation and growth in incomes per capita.

The report largely utilises secondary data. Quantitative data is sourced from national government departments, mainly the Department of Agriculture, Forestry and Fisheries (DAFF), Quantec and from the International Trade Centre (TradeMap) to identify export potential and opportunities for increased trade in the selected subsectors.

Also in this report, the economic profile of the agro-processing industry in South Africa in general is sampled and analysed. The general trend of most economic indicators shows that the agro-processing industry makes a significant contribution to the manufacturing sector.

South Africa's main trading partners for most agro-processing products are the EU and the SADC, except for the paper and wood divisions, whose exports are largely destined for South and East Asia. Most of the imports of agro-processing products originate from East Asia and the EU. A considerable share of food, wood, textiles and footwear is also imported from South Asia. Agro-processed products imported from the SADC are very limited, except for tobacco.

The structure of the agro-processing industry reveals that since the food, tobacco and wood divisions obtain their primary output from the agricultural sector, they have a strong backward linkage with the

primary industry, while the others who further process the products, such as furniture, footwear and leather, have a strong backward linkage with the secondary sectors. However, the structure of all divisions in the agro-processing industry shows that the backward linkage with tertiary sectors, which consists of trade, transport and finance, is becoming more significant, depicting an increasing trend.

- **Sector profile and analysis**

The purpose of this step is to analyse the agro-processing sector taking cognisance various commodity and production areas, markets and current beneficiation in the National and Gauteng province. The focus of this section is to compile a sector profile perspective with statistics and trends for the agro-processing sector.

- **Summary of important implications**

Following the review and analysis of relevant policy and strategic documents, important implications for the development of an agro-processing industry for the Gauteng province can be summarised as follows:

- There is ample opportunity for job creation in the agro-processing and agriculture value chain and most policies recognise this as a potential to grow these sectors which in turn will contribute to the province economic development.
- The focus of interventions should be on improving competitiveness and addressing the key drivers in transforming the industrial sector's growth path, such as market access, beneficiation and value addition, equity and economic participation, knowledge intensity and service integration.
- The development of the local agro-processing sector could provide an off-set market for local farmers and encourage broad-based access to agriculture.

1. INTRODUCTION

In the State of the Nation Address on 16 February 2018, President Ramaphosa drew attention to the significant contribution of agriculture to the growth of the South African economy in 2017. His emphasis to build on this momentum, including through decisive action to be taken to realise the 'enormous economic potential' of agriculture going forward, was reinforced in the Budget Speech a week later by (then) Finance Minister Gigaba.

Agro-processing is the largest single subsector in manufacturing, and has shown relatively rapid growth in sales and employment over the past years. It is a major source of exports as well as covering key wage goods and some industrial inputs. It supports important areas of job creation and self-employment both upstream, in agriculture, and downstream, notably in retail and food services. Ensuring adequate, affordable basic foods both improves the quality of life for the people and helps moderate labour costs, effectively raising overall economic productivity.

Also, the agro-processing industry is among the sectors identified by the Industrial Policy Action Plan (IPAP), the New Growth Path and the National Development Plan for its potential to spur growth and create jobs because of its strong backward linkage with the primary agricultural sector.

According to Food and Agriculture Organisation of the United Nations (FAO) (1997), "Agro-processing (industry) is a subset of manufacturing that processes raw materials and intermediate products derived from the agricultural sector. Agro-processing thus means transforming products originating from agriculture, forestry and fisheries." Thus FAO (1997) classifies agro-industrial sectors as those that manufacture food, beverages, tobacco, textiles, clothing, wood products, furniture, paper, paper products, printing, rubber and rubber products.

The experts in agro-processing explained the main mega trends at national and international levels that drive the growth of the agro-processing industry globally as, namely the rise in population growth; higher income growth that induces greater demand for highly processed and higher-value food products; greater participation of women in the paid labour force and increased ownership of household appliances (such as microwave ovens and refrigerators).

Moreover, additional trends such as growing urbanization and the internationalization of retail have also contributed to the development of the agro-processing industry, especially in developing countries.

2. SECTOR OVERVIEW

2.1 National Perspective

The IPAP defines agro-processing as food processing and beverage manufacturing subsectors, defined by Chapters 15-24, while the Department of Agriculture, Forestry and Fisheries defines this industry as comprising food products, beverages, tobacco, textiles, wearing apparel, leather and leather products, footwear, paper and paper products, wood and wood products, rubber and furniture (Chapters 15-24 and 44-49). However, for the purpose of this analysis, we use the narrow definition according to the IPAP.

The key-programmes identified for agro-processing within the IPAP is the following:

- Development of a Food-processing Strategy and Action Plan with the objective of accelerated growth in the food-processing sector. □ Development of a small-scale milling industry to enable small-scale maize milling enterprises to produce for local markets at competitive prices.
- Enhancement of competition in the fruit and vegetable canning industry - The creation of a sustainable platform for the long-term growth and competitiveness of the industry.
- Development of a Soybean Action Plan promoting market linkages between primary agricultural producers and processors.
- Development of the organic food sector – The development of a competitive organic sub-sector producing high-quality food products for both local and export markets.
- Supporting the Public-Private Partnership (PPP) for Food Security – Entails smallholder farmer access to formal retail chains, Government procurement and small scale processing opportunities.

The agro-processing sector contributes a significant component of total manufacturing value added as well as employment. The average contribution of agro-processing to the output and value added of the manufacturing sector was 18.1 per cent and 19.6 per cent, respectively, during 2014-2016. Its contribution to domestic fixed investment was 14.9 per cent and to employment 18.0 per cent during the same period.

Among the divisions in the agro-processing industry, the food division remained dominant in its share of the total output (77.8 per cent), value added (70.8 per cent), domestic fixed investment (59.9 per cent) and employment (72.4 per cent), followed by the beverages division in its output (20.2 per cent), value added (25.2 per cent), domestic fixed investment (34.1 per cent) and employment (25.6 per cent) during 2014-2016.

The skill level of employees in all divisions of the agro-processing industry is largely dominated by semi-skilled and unskilled labour. In most of the divisions, except rubber (10.5%) and tobacco (16%), skilled employees constitute less than 10% of the employees. Mid-level skill was higher in the food (40%), wood (30%), paper (31%) and tobacco (34,7%) divisions during 2006-2010. Informal employment, on the other hand, is becoming increasingly dominant in the beverages (40.9%), textiles (32%) and wearing apparel (39%) divisions. Thus, the share of semi-skilled and unskilled labour in these divisions has declined sharply. In general, however, there is a declining trend in the share of unskilled employees in most divisions, though marginally. During the periods of 2006-2010 and 2012-2016 most divisions, especially wearing apparel, textiles and food, shed a significant number of jobs, with the exception of beverages, whose employment has increased substantially. The growth in value added in most divisions was marginal and it declined in the rubber division. Domestic fixed investment also fell significantly in the textiles, wearing apparel, rubber and leather divisions. However, remarkable growth was observed in the wood, paper, food and beverages divisions. Output for the textiles and wearing apparel divisions remained stagnant; however, significant growth was recorded in the food, paper and beverages divisions. For the other divisions, growth of output during the two periods was marginal.

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The structure of the agro-processing industry reveals that since the food, tobacco and wood divisions obtain their primary output from the agricultural sector, they have a strong backward linkage with the primary industry, while the others who further process the products, such as furniture, footwear and leather, have a strong backward linkage with the secondary sectors. However, the structure of all divisions in the agro-processing industry shows that the backward linkage with tertiary sectors, which consists of trade, transport and finance, is becoming more significant, depicting an increasing trend.

Though few of the challenges faced by the SMEs are unique for each division, it can be asserted that lack of access to finance, inadequate skills and inaccessible government support are the foremost challenges facing most SMEs across the divisions. A SWOT (Strength, Weakness, Opportunity and Threats) analysis is also presented in the last chapter to provide insight into the unique challenges and opportunities facing each division in order to guide and assist informed decision-making.

2.2 Provincial Perspective

The Gauteng Province is highly urbanised, comprising of three large metropolitan areas with high population densities. As such, agriculture is critical in supplying food to the population. Although the Province is largely urban in nature, the outer regions of Gauteng are involved in a variety of agricultural activities, with urban agriculture also emerging as activities that contribute to agricultural production. However, the land available for agriculture in Gauteng is limited and is constantly under pressure from further urbanisation and population growth, therefore making the Province dependent on other provinces for its food requirements.

It is estimated that only some 20% of land in Gauteng is covered by irrigated and rain fed commercial agriculture, contributing to the relatively low levels of agricultural production and limited contribution to the economy of the Province.

Agro-processing forms a sub-set of the manufacturing sector and involves the processing/changing of form of raw materials from the agricultural, forestry and fisheries sector and includes a wide range of edible and non-edible agricultural products. Although agro-processing as a sub-set of manufacturing, it is not separately classified and reported on. However, the Standard Industrial Classification (SIC) groups agro-processing activities under the manufacturing sub-groups of:

- Food, beverages and tobacco;
- Textiles, leather and leather products; and
- Wood and wood products, paper and paper products, publishing and printing.

2.3 International Perspective International markets

Neighbouring countries belonging to the Southern African Customs Union (Botswana, SA, Swaziland, Lesotho and Namibia) have abolished internal tariff barriers, making it easy for South African companies to compete with those in neighbouring countries. The establishment of preferential trade agreements, such as the African Growth and Opportunity Act (AGOA) for the United States (US) market and a Free Trade Agreement (FTA) with the European Union (EU), present generous benefits for SA exports (Cobweb Information SA, 2010).

3. THE STRUCTURE OF MEAT INDUSTRY IN SOUTH AND IN GAUTENG

3.1 South African Perspective

The meat industry is the largest sub-sector in South Africa's agricultural economy and comprises mainly the production of:

- Poultry;
- Beef;
- Mutton/lamb; and
- Pork.

Around 2015 – 2016 the production of beef, poultry, mutton/lamb and pork in South Africa exceeded 31 million tons, with a gross value of more than R65 billion. The industry is experiencing steady growth, averaging over 5% across key market segments in 2016. Poultry production is South Africa's largest of these industries, with a gross value of over R32 billion.

The meat industry value-chain in South Africa is characterised by a high degree of vertical integration, enabling companies to acquire the necessary economies of scale. For example, the same company will often operate a farm, feedlot and/or abattoir, and may own their own butchery and distribution network.

3.2 Gauteng Perspective

There are approximately 1,192 commercial farms dedicated to animal production in Gauteng. However, Gauteng farmers produce less than 2% of South Africa's game, cattle, sheep and goats, but approximately 6% of chickens and 12% of pigs.

Across the Province animal farming is located primarily in rural areas with adequate land availability. These areas include Cullinan and Bronkhorstspuit to the North East of Tshwane; Heidelberg and Vereeniging in the Sedibeng District Municipality; and the Krugersdorp area in the West Rand District Municipality.

Although the vast majority of production in Gauteng occurs on large-scale commercial farms, there are a growing number of small-scale black farmers that are entering the formal industry. These small-scale farmers tend to sell their products to low-value markets (abattoirs, local auctions, local butcheries and local residents). The limited access to high-value markets (commercial processors and supermarkets) is attributed not to the quality of product, but rather their low volume of output.

In terms of agro-processing there are 70 registered feedlots in South Africa in 2014, approximately 10 of which operate in the Gauteng Province. These feedlots are primarily in the regions where primary production occur, although some facilities are also located in the more industrial region of Ekurhuleni.

An estimated 86 red meat and poultry abattoirs are operating in Gauteng, which are often owned or affiliated with cattle feedlots.

In 2013, the Province produced 125 million kilos of red meat, including over 120 million kilos of beef, and over 70 million kilos of broiler meat.

The volume of red meat produced for export is higher in Gauteng than in any other province, owing to the proximity to neighbouring markets and export infrastructure leading to the transportation of animals into Gauteng from surrounding regions. In 2013, Gauteng was responsible for the following shares of meat exports from South Africa:

- 48.9% of beef exports or approximately 2.15 million kilos;
- 53.3% of mutton/lamb exports or approximately 120,000 kilos;
- 40.7% of the pork or approximately 380,000 kilos; and
- 51.6% of the poultry or approximately 8 million kilos.

3.3 Role players

The meat industry is highly concentrated, dominated by a handful of producers in each market segment. Several of these producers are based in Gauteng (i.e. Karan Beef, Cavalier Foods, Enterprise, Eskort and Lynca Meats), while others maintain operations in the Province (i.e. Astral Foods).

3.4 Opportunities and Challenges

Small-scale livestock/poultry farmers often have limited access to formal markets, due to poor marketing infrastructure, inadequate access to market information and extension services, insufficient herd size and high transportation and transaction costs.

The meat processing industry is very well-established in Gauteng owing to the proximity to agriculture areas and markets. Although this creates substantial opportunities for farmers, butchers and retailers, the potential for new entrants into the feedlot and abattoir industries are limited. The situation is further exacerbated by the high-capital cost, strong economies of scale, fluctuating prices and strict health regulations associated with meat processing.

In spite of these challenges there is however substantial opportunity for meat producers in niche markets such as the production of premium cuts, prepared meats and uniquely African products destined for export (ie: ostrich meat). The Gauteng Provincial Government can support these producers by providing technical services, market information and other support to emerging farmers, and bolstering export programs and incentives.

There are also opportunities at either ends of the value-chain. Emerging and small-hold farmers can be better integrated into the value-chain by linking them to commercial feedlots and abattoirs, ensuring they understand and can comply with standards and regulations, and facilitating greater access to transport and other necessary services. There is also an opportunity for greater value-addition not only through the manufacture of niche products, but also the development of auxiliary industries such as packaging, canned meats and marketing.

3.5 Industry value chain

- The livestock value chain is increasingly vertically integrated as livestock farming operations move to own as many elements of the value chain, from livestock breeding, throughout the value chain. Linkages include the delivery and sale of fresh or processed products to wholesale and retail customers, selling directly through own outlets to consumers, selling own cooked produce to customers in owned food outlets or through food service operations (Sernick Group and Bidvest Foods/Sparta Foods). This is in an effort to eliminate or minimise input costs and maximise the use of outputs in innovative ways to protect or enhance efficiency, profitability, sustainability and competitiveness.
- Livestock farmers, including the largest feedlot operators, produce or procure feed for their own requirements which is processed in their own milling and feed making plants for consumption by livestock to supplement green feed or pasture grazing. Large feedlot operators own, or have a direct business interest in abattoirs and meat processing plants.
- There are integrated logistics operations with large transport fleets to ensure continuity of raw material supply to farming operations, the delivery of livestock to abattoirs for slaughter and the transport of fresh meat to a variety of distribution outlets, including own retail outlets, butcheries, blockhouses, wholesalers, retailers, meat distribution companies and meat processing operations.
- Ensuring hygiene standards are maintained is essential in the abattoir slaughtering process, for this ensures the safety and quality of meat intended for further processing or human consumption. The slaughter process includes the receiving of livestock, cleaning, sanitation and technical aspects which impact on quality.

- Abattoirs have started doing their own value adding in the food chain involving deboning or meat packing and are undertaking further processing to supply meat in consumer-demanded cuts.
- Hides are processed by tanners into leather for use as car seat covers, leather cut parts, belts, electronic device covers, card cases, small leather goods, handbags and small luggage.
- The processing of by-products, blood meal, carcass meal and tallow through a rendering process yields fats and protein meal for use in pharmaceutical products and as pet food additives. Bone meal is used as an organic fertiliser and animal nutritional supplement.
- Treatment of waste and by-products. Due to the need to reduce cost, add value and increase turnover, abattoirs are increasingly assuming the role previously occupied by the specialist waste processors of red meat waste and resulting by-products. The treatment of processed red meat waste and the resulting by-products are covered under Influencing Factors: Technology, R&D and Innovation. Issues regarding the effects of waste on water contamination are covered under Influencing factors: Environmental.

3.6 Meat Imports

The National Agricultural Marketing Council (NAMC) reported that Brazil supplied 21.6% of meat product imports in 2016, followed by the Netherlands, Spain and United Kingdom (UK). In 2016, these markets supplied poultry meat valued at US\$175m and pork valued at US\$124m.

3.7 Meat Exports

The Agricultural Business Chamber reported that between 2012 and 2016 beef exports increased from 15,000 tons to nearly 40,000 tons and value increased from approximately R300m to nearly R2.5bn over the same period. A less than threefold increase in volume translated into an eight times increase in value.

3.8 SWAT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Globally competitive production. • Well-known brands and quality processing. • South Africa’s red meat industry has a strong focus on Research and Development. • High-throughput abattoirs and meat processing facilities generally compare 	<ul style="list-style-type: none"> • The sector is one of the primary contributors of GHG emissions. • Shortage of skilled personnel. • Limited transformation. • Reliant on climate.

<p>well with those in developed economies.</p> <ul style="list-style-type: none"> • The industry is well represented by a wide spectrum of organisations. 	
<p>Opportunities</p>	<p>Threats</p>
<ul style="list-style-type: none"> • Rising urbanisation and the growth of the emerging middle class is fuelling demand for red meat products. • Export Markets. • The rise in ethical consumerism has resulted in growing demand for grass-fed beef, as well as 100% free range pork, mutton and lamb. Development of the organic food sector has been identified in IPAP2. • An opportunity exists to establish a means to bring unexploited, predominantly goat skins from rural areas into the formal economy for processing. 	<ul style="list-style-type: none"> • Longer than expected herd rebuilding. • Climate change. • Growing competition in export markets. • The sector’s considerable carbon footprint could result in the imposition of tougher environmental regulations. • The red meat industry is sensitive to reduced disposable income, thus recessionary pressures impact adversely on meat consumption. • Increasing bio-security and food safety risks. • Increasing stock theft, predation and crime

3.9 Outlook

Analysts believe that the red meat production sector faces enormous challenges in managing herd rebuilding and maintaining production levels due to the ongoing drought and the lingering effects of drought, high input costs, increased labour costs and cash flow constraints. In the short-term the Bureau for Food and Agricultural Policy forecasts that slaughters volumes will increase by 5% in 2018 and that up to 2026 South Africa will produce sufficient meat products to remain a net beef exporter although prices are expected to decline in real terms as prices increase below inflation. Value-added meat cuts are an identified target market although stiff competition from global industry leaders, the USA and Brazil, will be faced in existing and targeted export markets. In the processed meat products sub-sector increasing competition from imports and alternative protein is expected and new entrants in the agro-processing arena are likely to impact all industry players, particularly marginal players. As a result, contraction and concentration in the red meat industry appear set to continue.

4. THE STRUCTURE OF LEATHER INDUSTRY IN SOUTH AND IN GAUTENG

4.1. South African Perspective

The South African leather industry has experienced cyclical growth, driven largely by fluctuations in downstream demand. The South African government acknowledges the potential for growth in the leather industry and provides a variety of incentives and support. Measurable results in 2013 include:

- 16.2% increase in footwear manufacturing in South Africa;
- 18.3% increase in footwear exports; and
- 97% growth in the export of finished and semi-finished crocodile skins.

In terms of production numbers and exports the following can be said:

- Approximately 2 million bovine (cattle) hides, 1.5 million sheep and goat skins, and 200,000 ostrich skins are collected in South Africa annually.
- The processing of hides and skins into leather occurs at South Africa's 32 tanneries, which have a 60% utilisation rate.
- In 2013, South Africa exported R534 million in raw hides and skins and R171 million in semi-processed and processed leather.

4.2. Gauteng Perspective

Gauteng is not generally a significant livestock producer, with only 2% of South Africa's cattle, sheep and goats being produced in the Province. There is, however, a significant inflow of cattle from neighbouring provinces and Namibia, owing to the large number of feedlots and abattoirs and in the Province. The following figures indicate that although Gauteng is not a key source of raw hides/skins, it is the primary exporter of processed leather, owing to the Province's processing facilities and export infrastructure:

As of 2014, there were 7 tanneries operating in Gauteng, producing primarily chromium tanned (wet-blue) leather and smaller volumes of vegetable tanned (wet-white) leather.

In 2013 output from the clothing, textiles and leather industry amounted to R10.2 billion, approximately R1.8 billion of which was manufactured in the Gauteng Province (17.6%)

In 2013, Gauteng exported 1% of all raw hides and skins and 95% of the semi-processed and processed leather.

In Gauteng, the production of leather into final-goods (either at the tannery or by a down-stream producer) can be divided into three main market segments:

1. Automotive Upholstery (Gauteng Automotive Cluster - Pretoria, Rosslyn): Inputs for the automotive upholstery industry are procured predominantly from South African tanneries, with over 60% of domestically produced hides regarded as suitable for upholstery production.
2. Footwear, Bags and Garment Industry (Central Johannesburg - City Deep, Hillbrow and City West): These manufacturers procure leather from South African tanneries, but also import a significant amount of leather inputs from suppliers in Europe and Australia. Imported leather accounts for 75% of locally produced grain leather (leather grained with the grain on the outside) and 60% of leather for the footwear industry.
3. Skins and Exotic Goods: Demand for these goods is driven by international hunters and the luxury goods market, and as such these businesses are well situated in the Province to gain easy access to the O.R. Tambo Airport.

4.3 Role Players

The market for hides and skins is dominated by several large traders, of which only Hidskin is located in Gauteng. Key players in the Gauteng automotive upholstery industry include Bader SA, Seton SA and Zenda Leather.

4.4 Challenges and Opportunities

South African hides/ skins have improved in quality over the previous decade as a result of the proliferation of feedlots and better abattoir practices that help protect the hides/skins from damage.

There are significant opportunities for leather beneficiation in Gauteng, owing to the Fashion District situated in Johannesburg. The Fashion District houses more than 300 designers, seamstresses, manufacturers and retailers including micro-businesses and high-end designers.

Although demand for automotive upholstery in Gauteng may have declined there is a growing market for footwear leather. The industries transformation has stimulated interest in the establishment of small-scale tanneries, particularly lower cost vegetable-tanneries, and value-added manufacturing for the footwear, clothing and textiles industry.

Opportunities in the Gauteng leather industry are further enhanced by the development of niche markets. These include the market for products manufactured from hunted animals (i.e. luxury goods, furniture), international demand for exotic South African leathers (ie: ostrich, crocodile, kudu, oryx, Nguni cattle), and the demand for footwear, garments and other goods marketed as 'Made in Africa'.

The Gauteng Provincial Government can support the development of these industries by communicating the DTI's leather industry incentives and cluster development programs; and engaging with industry associations, export councils and manufacturers to identify and address development barriers.

Government may also support the industries development at either end of the value-chain through the development and adoption of policies and programs.

4.5 Value chain

The figure below positions the four main sections of the leather industry in relation to one another and their markets. Tanneries occupy the second and third bands, while footwear, general goods and automotive upholsterers occupy the fourth. While the following sections of this report refer to this diagram in more detail, the remainder of this introduction will introduce the value chain.

The value chain depicted in figure below is divided into five stages: hide supply, semi-processed leather, finished leather, finished products, and the market. The various operations are linked by a series of arrows showing imports (red), exports (blue) and transfers down the value chain within South Africa (green). Arrows have different thickness in order to schematically portray the relative volumes of outputs and inputs into the various parts of the value chain.

One of the main features of the diagram is two streams within the value chain: one leading to automotive upholstery and the other leading to footwear and general goods. Although the latter are entirely separate sectors, their fate over the last decade has been somewhat similar and they have been subjected to many of the same pressures. They have therefore been combined for the purposes of this exercise.

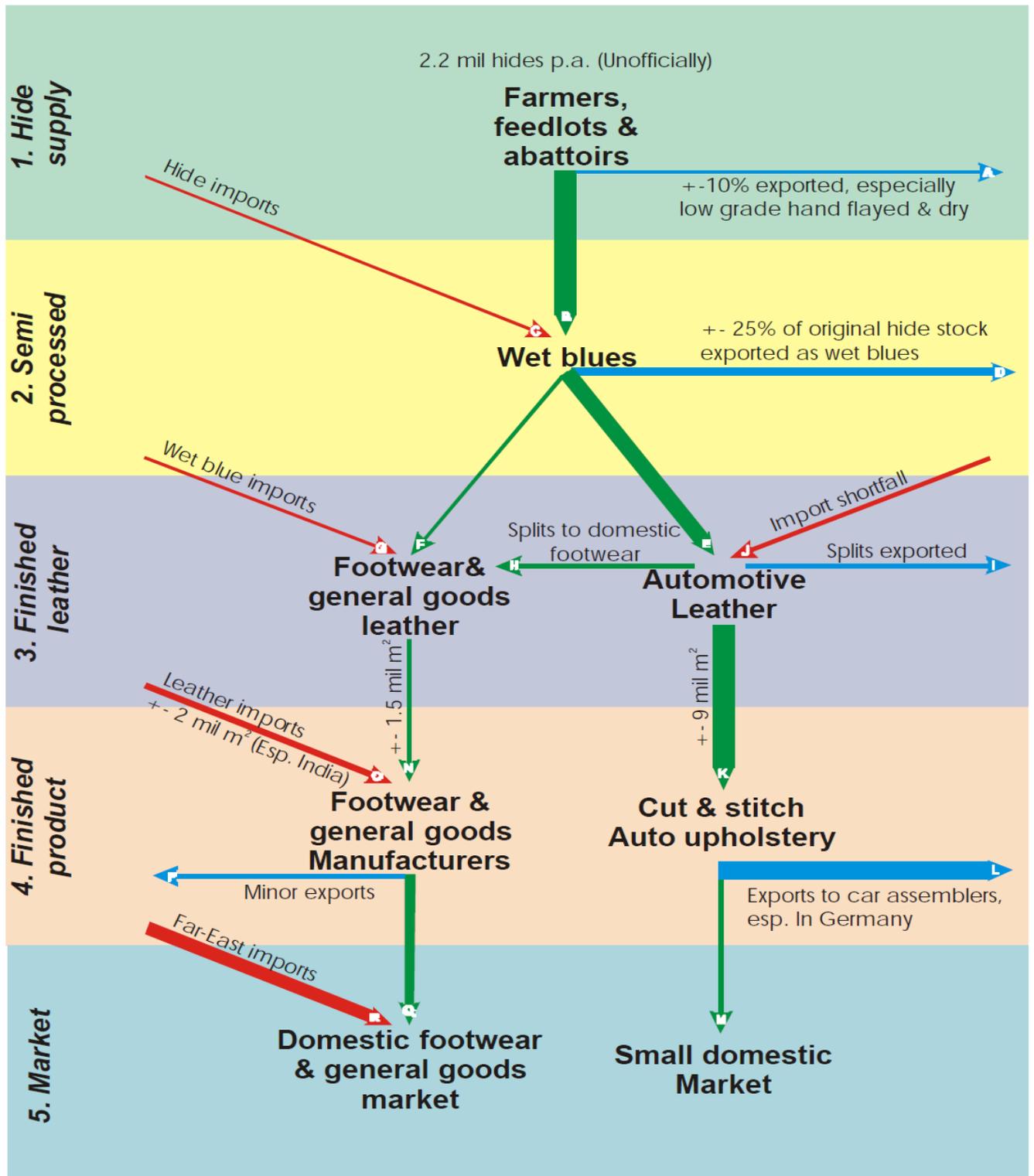
In order to show exactly where these two streams separate, it is necessary to separate the tanning process into two distinct stages. The first stage of tanning takes raw hides and tans them into semi processed leather (Arrows B & C). The second stage takes semi-processed hides and re-tans them into finished leather ready for use by a variety of manufacturers (Arrows E & F). The type of finished leather used in automotive upholstery is very different from the type of leather used in footwear and general goods. It is therefore common to find a separation of the tanning process between different types of tanneries, between those producing only wet blues, those producing for footwear, and those producing for automotive use.

The orientation of bovine finishing tanneries has altered dramatically over the last decade (stage 3). Whereas in the past they were producing leather for footwear, general goods and furniture manufacturers, most are now producing leather for the automotive upholstery manufacturers (Arrow

K). There is now only one major and several small footwear leather producers left in the country. The reason for this is that the footwear manufacture section itself has shrunk due to cheap imports (Arrow R) and the remaining footwear manufacturers are turning to imported leather for their inputs (Arrow O).

The South African tanning industry has a complex relationship with local downstream manufacturers. While they do indeed provide the inputs for these industries (arrows N and K), especially the automotive upholstery industry, downstream manufacturers such as footwear are also increasingly sourcing leather from abroad (Arrow O). Furthermore, the products of South African tanneries (leather, semi-processed hides and even raw hides with no value adding) are exported as products themselves and do not go to downstream value adding activities (Arrows A, D and I).

Leather Value Chain



(Arrows: blue = exports, red = imports, green = value chain within SA)

5. THE STRUCTURE OF DAIRY INDUSTRY IN SOUTH AND IN GAUTENG

5.1. South African Perspective

The dairy industry value chain in South Africa consists of primary producers, who produce raw milk and the secondary producers, who engage in the further processing of raw milk and manufacturing of other dairy products.

The primary dairy producers supply around 7.3 million litres of milk per day and contribute some 7% to the total value of agricultural production in South Africa. Annual milk production have showed a steady increase over the past ten years, in spite of the decline in the number of primary dairy producers across the country.

The Dairy market in South Africa is characterised by:

- A few big processors; some of which operate across several regions of the country;
- A large number of smaller processors operating in specific areas; and
- A number of producer distributors who sell their produce directly to retailers and consumers.

5.2. Gauteng Perspective

The Gauteng Province has a central location ideally located for both domestic distribution and export of dairy products. In terms of production and distribution numbers the following can be said:

There are approximately 100 milk producers in Gauteng, accounting for only a 2.3% share of total milk production in 2014.

Gauteng is home to 24 producer distributors, accounting for 21.3% of the producer suppliers in South Africa.

The highest number (46) of milk buyers are located in Gauteng, representing about 30.1% of milk buyers in South Africa.

Milk production in Gauteng is concentrated in regions to the south east and north east of the Province, including around Vereeniging and Heidelberg in Sedibeng District Municipality and around Cullinan in the Metsweding District Municipality. In these regions, between 25.1 and 50 litres/km² is produced, with the highest cow densities being present in Sedibeng.

As in the case of South Africa, the Province has experienced a decrease in production and distribution numbers:

- The number of primary dairy producers in Gauteng decreased by 59.2% between 2007 and 2015.
- The percentage distribution of milk production in Gauteng declined from 4.4% in 1997 to 2.3% in 2014, leading to reduction of more than half in the share of milk production contributed by Gauteng.
- Despite not being a major milk producing region, Gauteng has over the past 10 years played a major role in the export of milk and dairy products, this is likely due to the fact that Gauteng is the main exit point for most exports. The main origin of exports from within the Gauteng Province is from the City of Johannesburg, the Ekurhuleni Metro and the City of Tshwane respectively.

5.3. Role Players

Most of the role-players have either, processing plants, or major distribution outlets in the Gauteng Province. They include Clover SA, Douglas Dale, Sontic Group and Unique Dairy Products.

5.4. Challenges and Opportunities

Competition in the dairy industry is extremely high due to the presence of large dominant players, which makes it tough for small producers to penetrate the dairy market.

Higher-value products for alternative uses (e.g. body building market) and high demand for value-added products such as sour milk, yoghurt and cheese constitute markets yet to be fully explored.

Shortage of milk in the rest of the African continent is an opportunity that the Gauteng Province is well suited to engage in.

Further processing and packaging innovations to increase product shelf-life could increase the market for dairy products in the lower income groups. In this regard the African market could also be further exploited as the longer shelf-life would reduce transport costs to African countries.

High import volumes indicate a significant latent market for dairy products, which could be supplied by local producers and processors, should pricing be competitive.

In terms of the emerging sector, the development of raw milk collection facilities in rural areas could contribute to enterprise development in the industry.

There is also an opportunity for the smallholders to diversify into products obtained from goat milk since goats require less fodder and can withstand adverse environmental conditions than dairy cattle.

6. TOP TEN AGRO-PROCESSORS IN GAUTENG

Gauteng is South Africa’s largest population centre and industrial capital, with access to significant agricultural inputs and transport infrastructure. For these reasons, many of South Africa’s largest agro-processing companies are based in and/or execute a significant amount of their operations in Gauteng. These companies include:

- diversified food corporations, such as Tiger Brands, RCL Foods and Pioneer Foods, which have grown substantially as a result of numerous brand acquisitions;
- global commodity companies, namely SABMiller, Heineken and British American Tobacco, whose southern African operations are based in Gauteng; and
- vertically-integrated manufacturers in the dairy (Clover), poultry (Astral), baking (Premier Foods) and red meat (Karan Beef, Cavalier Foods and Beefcor) industries.

Top 10 Agro-Processors in Gauteng

No.	Company	Industry	Market (for SA manufactured product)
1	SAB Miller	Beer and non-alcoholic beverages	Southern Africa
2	Tiger Brands	Various foods and household goods	Global
3	RCL Foods	Various foods	Southern Africa
4	Heineken	Beer	Southern Africa
5	Pioneer Foods	Various foods	Global
6	Pioneer Foods	Milling, baking and confectionary	Southern Africa
7	Clover Industries	Milling, baking and confectionary	Sub-Saharan Africa
8	British American Tobacco	Tobacco products	Africa and Middle East
9	Astral Foods	Poultry and animal feed	Southern Africa
10	Red meat processors (Karan Beef, Cavalier Foods & Beefcor)	Animal meat	Southern Africa

7. TRADE

- a. Global trade (highlight major markets/percentage share of market globally)
- b. Major destinations/ top 10-20 local exporters
- c. Export opportunity matrix (to be developed)

8. CONCLUSION

8.1. Implications for the province

The sector overview has shown that the Gauteng Province has a strong agro-processing presence due to its proximity to significant agricultural inputs and transport infrastructure. Gauteng is the preferred location of various agro-processors. In order to optimally benefit from the locational advantages Gauteng has to offer, there are a number of key challenges that will have to be addressed. From the sector overview the key implications can be summarised as follows:

- ❖ There are various agro-processing industries that are very well-established in Gauteng, owing to the proximity of the Province to major agricultural production areas and markets. Although this creates substantial opportunities for farmers, processors and distributors, the potential for new entrants into these industries are often limited. The situation is further exacerbated by the high-capital cost, strong economies of scale, fluctuating prices and strict regulations associated with certain agro-processing industries.
- ❖ Small-scale farmers often have limited access to formal markets, due to poor marketing infrastructure, inadequate access to market information and extension services, and high transportation and transaction costs.
- ❖ Imbalances exist in the agro-processing industry, as the sector is dominated by a few large players that own large proportions of the market share, with a number of small players who own insignificant proportions.
- ❖ South Africa is on the one hand a net importer of processed agriculture, forestry and fisheries products, and on the other hand an exporter of raw materials. These raw materials could be processed within South Africa for the local economy to benefit from the value addition. This will further lead to a direct decrease in the importation of processed goods.
- ❖ Transformation within the agro-processing industry is lacking. New role-players in the sector are few and the skewed participation of farmers and agricultural entrepreneurs in the value chain is evident. The reviving of agriculture and the agro-processing value chain is key for radical economic transformation. More value can also be created in agro processing than in agriculture on its own.