

The contribution of the South African ostrich industry to the national economy

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Abstract

South Africa is a major supplier of ostrich products to the world and produces approximately 70% of all ostrich meat, leather and feathers on the world market. At national level, the ostrich industry is the leading South African meat exporter in terms of volume and value. Despite the important position that the South African ostrich industry occupies in the world market, the contribution towards the local economy is less known. This article attempts to highlight the contribution of the South African ostrich industry to the national economy by investigating the contribution the ostrich industry makes towards economic growth and export earnings of the country and employment and livelihood opportunities it creates. The ostrich industry contributes 2% on average of the total gross value added by animal production as well as the added value by abattoirs, meat processors, tanneries, feather processors and agri-tourism. The contribution towards export earnings and balance of payments is approximately R1 200 million (representing 5% of total agricultural exports), which means that we will generate income, employment and increased production for the local economy to flourish even more. The industry provides employment to approximately 20 000 workers and being a predominantly rural-based industry, the investment in abattoirs and first-level processing units serves as an important stimulant to economic development and related job opportunities in rural areas. It remains crucial to strengthen the competitiveness of the industry due to its vulnerability to both input cost increases and unfavourable foreign exchange rates.

Keywords: economy, exports, contribution, ostrich industry, leather, feathers, meat

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Introduction

The South African ostrich industry became established around the period 1838-1866 with the export of feathers to Europe (Mosenthal and Harting, 1897). Following a collapse in the feather market in the early 1900's, the ostrich industry was later transformed into an intensively managed farming activity during the 1960's. The emphasis shifted from feather production to mainly leather production, with a more recent focus on meat production due to the distinctive health characteristics of ostrich meat (South African Ostrich Business Chamber, 2002).

South Africa is the major supplier of ostrich products to the world and produces approximately 70% of all ostrich meat, leather and feathers on the world market. Its nearest competitors are Western and Eastern Europe (13%), Middle and Far-East (8%), Australasia (7%) and North and South America (5%) (South African Ostrich Business Chamber, 2002). At the national level, the ostrich industry is the leading South African meat exporter in terms of volume and value (of all meat exported). In terms of the value of total agricultural production, based on gross Rand value of agricultural production in South Africa, the industry occupies the 22nd position (Agricultural Statistics, 2006).

Despite the important position that the South African ostrich industry occupies in the world market, the industry's contribution towards the local economy is less known. This article attempts to highlight the contribution of the South African ostrich industry to the national economy. The industry's contribution is measured in relation to the following major macro-economic variables of the national economy: (1) the contribution towards economic growth, (2) the contribution towards export earnings and balance of payments stability and (3) the provision of employment and livelihood opportunities.

Background to the South African ostrich industry

Ostrich farming in South Africa is concentrated mainly in the Western Cape Province in the Little Karoo (65% of the flocks), Southern Cape (25% of the flocks) and Swartland areas. The Eastern Cape and Northern provinces are home to approximately 10% of the flocks, with the Eastern Cape by far the most important area (Van Zyl, 2001 & Nel, 2006). It is estimated that there are approximately 650 ostrich producers in South Africa (Van Zyl, 2001) of which 588 are registered export farms (NAMC, 2003). The total investment in primary ostrich activities (production and first-level processing, excluding value added manufacturing and tourism) exceeds R2.1 billion per year (NAMC, 2003).

World production of slaughter birds was estimated at approximately 420 000 in 2004/05, of which 291 000 was slaughtered in South Africa. The relative market share of South Africa in terms of number of ostriches slaughtered for the period 1995–2000 is depicted in Figure 1.

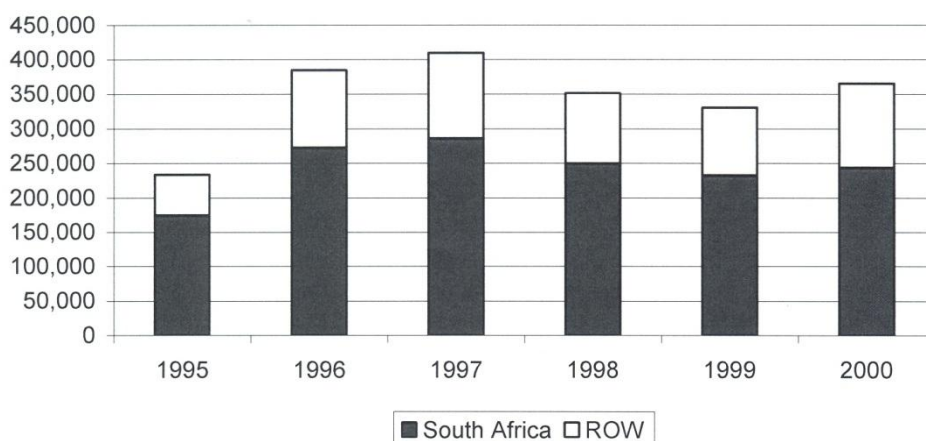


Figure 1 Number of ostrich slaughterings in South Africa compared to the rest of the world (ROW) for the period 1995-2000 (National Department of Agriculture, 2005)

Ostriches were originally domesticated for the harvesting of feathers, but the modern ostrich farming operation provides a diverse line-up of products: healthy low cholesterol meat, durable high quality hides, feather plumes, curios and agri-tourism services (South African Ostrich Business Chamber, 2002). Although ostrich products are marketed locally, the industry is mainly export driven. Ostrich meat is marketed to wholesalers, supermarkets, foodservice suppliers and restaurants. The market for ostrich leather is the fashion and upholstery industries, while the main markets for feathers are the household (dusters), fashion and carnival markets (NAMC, 2003).

Although feathers were originally the main product of the industry, ostrich skins became the major source of income since 1970. From the mid-nineties however, a definite shift occurred in favour of meat (Cornelius, 2002). Combined with a worldwide shift in consumer demand for healthier food, the outbreak of BSE (Bovine spongiform encephalopathy or mad-cow disease) and foot and mouth disease in Europe in 2000 led to a sharp increase in the demand (and price) for ostrich meat. These trends are depicted in Figure 2.

An outbreak of bird flu in 2004 led to a ban on the export of raw South African ostrich products for well in excess of a year, resulting in a substantial decline in foreign currency earnings and producer income. This unfortunate incident forced the industry to focus on domestic market development, as well as new product development. Some new pre-cooked meat products were successfully developed for the export market, indicating the industry's ability to innovate in order to sustain competitiveness.

The ostrich industry is one of the few agricultural industries in the world where South Africa is regarded as the undisputed world leader (National Agricultural Marketing Council, 2003). Combining some of the best breeding stock in the world with an ideal climate, supporting infrastructure, secured world markets and expertise give the ostrich industry a competitive advantage in relation to the rest of the world.

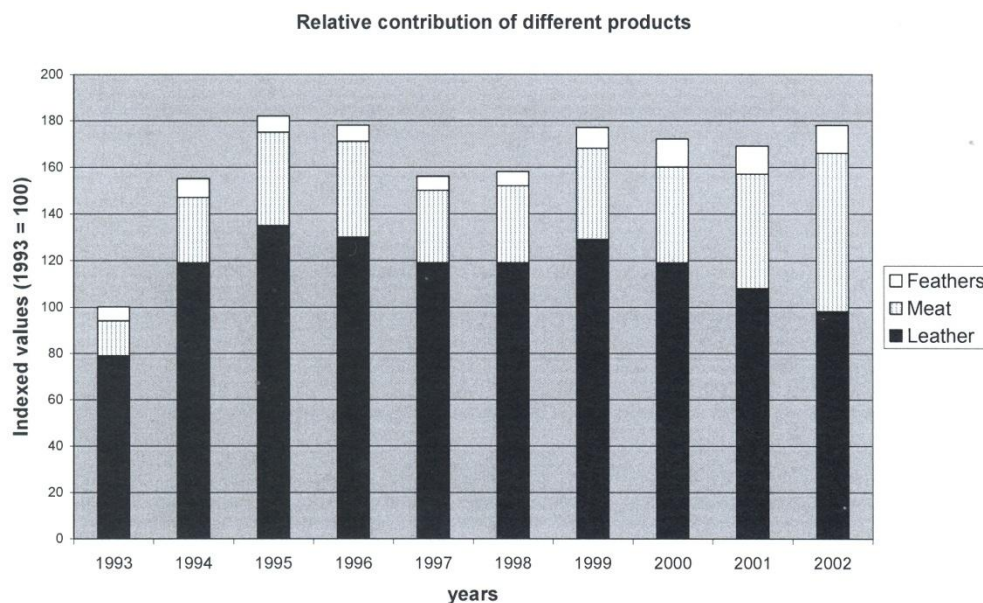


Figure 2 Indexed prices for ostrich skin, meat and feathers for the period 1993-2002 (NAMC, 2003)

Contribution to economic growth

The economic growth of a country is determined by adding the total value of final production of goods and services produced during a particular period, yielding the gross value added by all participants in the economy. The common yardstick for measuring economic growth is the gross domestic product (GDP) or gross value added (GVA) (Mohr & Fourie, 2005).

The total gross value added by agricultural production in South Africa for 2004/2005 is estimated at R67 829 million. This relates to a percentage contribution of the agricultural sector to the annual GDP of approximately 3.1%. The contribution from animal production alone is estimated at R31 929 million, of which the primary ostrich industry contributes approximately 2% on average (Agricultural Statistics, 2006). The gross producer value of the industry over a ten year period (1993–2002) is depicted in Table 1, indicating a gross producer value added by the primary industry at *ca* R561 million in 2002 (NAMC, 2003).

Table 1 Total number of birds slaughtered and gross producer value of birds slaughtered for the period 1993-2002 (Adapted from Cornelius, 2002 and NAMC, 2003)

Year	Number of birds slaughtered and skins produced	Gross producer value (R)
1993	152 000	145 873 858
1994	162 000	237 589 700
1995	175 000	300 075 300
1996	273 000	462 035 500
1997	286 000	302 229 587
1998	250 000	234 657 119
1999	233 000	288 611 750
2000	244 000	344 480 050
2001	320 000	511 892 051
2002	340 000	560 533 189

A 3.1% contribution to GDP by the primary agricultural sector seems insignificant in comparison to other sectors of the economy. As such the contribution of the primary ostrich industry might also be interpreted as insignificant. However, a substantial proportion of the manufacturing and wholesale / retail trade sectors of the general economy can usually be associated with the agricultural supply chain, either as input providers or in the area of product beneficiation. Ignoring these important upstream and downstream linkages in the supply chain masks the real contribution made by the agricultural industry towards the general economy.

In the primary ostrich industry, feed and veterinary/health products represent two major inputs. Feed costs normally contributes 75–80% of the total cost of an ostrich enterprise and it is estimated that the feed manufacturing industry provides feed with a gross value of approximately R550 million per year to the ostrich industry (Brand & Gous, 2006). Gross expenditure on diseases and parasite control amounts to *ca* 10% of the gross expenditure per bird, relating to an estimated R50 million ostrich-related turnover for these industries (Bhiya, 2006).

In the Western Cape, for example, 30–40 % of the secondary manufacturing and processing industries are related to the agricultural sector. In the ostrich industry, the contribution of abattoirs, tanneries and meat and feather processing enterprises need to be accounted for in estimating the value added by the industry. The added value by abattoirs, meat processors, tanneries and feather processors totals *ca* R639 million, with contributions respectively R192 million (abattoirs and meat processors) R415 million (tanneries), and R32 million (feather processors), yielding a total contribution of R1 200 million by the ostrich industry towards GDP (Eckert, 1997).

A further contribution of the ostrich industry towards the general economy is through agri-tourism services. Although no reliable quantitative data exist, the ostrich industry is well known for its pioneering work in providing tourism services (De Jager, 2003 & Van Waart, 1995).

The contribution towards export earnings and the balance of payments

The balance of payments is a summary of all economic and financial transactions of a country with the rest of the world. The balance of payments is often a crucial determinant of the level of economic activity and the direction of economic policy in South Africa (Mohr & Fourie, 2005 & Roux, 2005). For the South African economy to grow, capital and intermediate goods have to be imported. As domestic economic activity increases, imports increase and the demand for foreign currency to pay for imports. Foreign currency can only be obtained by exports or from inflows of foreign capital. Increased exports also mean increased production, income and employment in the domestic economy. If foreign currency is lacking, the Rand will depreciate, which ultimately leads to higher import prices and domestic inflation. Export earnings are therefore of great significance in maintaining the balance of payments and achieving other macro-economic objectives of the country.

The South African ostrich industry is mainly export-driven, with 90% of the market being abroad. At the national level, the ostrich industry is the leading South African meat exporter (of all meat exported, including beef and poultry) in terms of volume and value (NAMC, 2003). Table 2 depicts the number of ostriches slaughtered and volume of meat exported for the period 1993–2002. The total export of ostrich meat in 2002 was in the order of 5.2 million kg with a gross export value of *ca* R360 million (average selling price of R64 per kg) (Wright, 2006). The exports of meat increased relatively to other products during the past decade. South Africa has ten EU accredited export abattoirs and exports ostrich meat to mainly European Union countries (90%) and the Far East (10%).

The number of ostrich hides produced in 2002 amounted to 340 000 with a gross export value of *ca* R780 million (average selling price of R2 294 per hide) (Van Schalkwyk, 2006). Skins are mainly exported to Japan, the USA, China and Korea.

Feathers represents 5% of the gross export value of ostrich products and currently amounts to a value of approximately R60 million (Kruger, 2006). Feathers are mainly exported to Latin America and the European Union.

The total value of ostrich product exports in 2005 amounted to R 1 200 million, representing approximately 5% of total agricultural exports. The contribution of leather, meat and feathers amounted to 65%, 30% and 5% of total ostrich product exports respectively (Agricultural Statistics, 2006 & Kruger, 2006).

Table 2 Total number of birds slaughtered, skins produced and meat exports for the period 1993-2002 (Adapted from Cornelius, 2002 & NAMC, 2003)

Year	Number of birds slaughtered and skins produced	Meat exports (kg)
1993	152 000	400 000
1994	162 000	1 200 000
1995	175 000	1 100 000
1996	273 000	1 600 000
1997	286 000	1 200 000
1998	250 000	2 800 000
1999	233 000	3 000 000
2000	244 000	3 800 000
2001	320 000	4 983 000
2002	340 000	5 295 000

Contribution to employment and livelihood opportunities

Full employment of production factors in the economy, especially labour, is one of the major macro-economic objectives of any economy (Mohr & Fourie, 2005). In South Africa, unemployment is extremely high and it is seen as one of the most pressing socio-political problems facing the country (Kingdom & Knight, 2004). The official rate of unemployment in 2005 was 26.5% (SA Reserve Bank, 2005). Unemployment usually has serious costs, both to the unemployed and to society at large. Unemployed people cannot make a contribution to the production of goods and services, nor are they earning salaries to enable them to buy goods and services produced in the economy, or pay taxes, thereby hampering economic growth and development (Roux, 2005). It is therefore crucially important for industries to contribute to the provision of employment in the economy.

The primary agricultural sector provides employment to approximately 940 800 people (or 5.73% of the economically active population in South Africa) on farms (Agricultural Statistics, 2006). The ostrich industry (the production and processing sectors) provides employment to an estimated 20 000 workers (National Agricultural Marketing Council, 2003). The socio-economic effects of employment in the primary agricultural industries are often underestimated. Apart from employment, provision is usually made for housing, food and a livelihood for the spouse and children of the employee, since the employee in most cases resides on the farm. Furthermore, being a predominantly rural-based industry, the investment in abattoirs and first-level processing units serves as an important stimulant to economic development and related job opportunities in rural areas.

Some strategic and economic challenges for the industry

In order to sustain its leadership role and its competitiveness in the world, the ostrich industry needs to address some issues. A few of the most obvious issues are mentioned below:

- Competitiveness should be established or re-affirmed throughout the supply chain, from input suppliers to final consumers. High input costs and unfavourable exchange rates make the industry vulnerable.
- Future market development is of crucial importance, especially in the light of the changing demand and prices of leather and feathers.
- Market segmentation and the establishment of new/alternative markets, reducing the risk of over-exposure to the highly regulated EU market.
- Sustaining high levels of hygiene, food quality, food safety and traceability to meet international standards.
- Establish early-warning systems and sufficient measures to deal with animal health hazards that may affect market access.
- Increase local value adding and manufacturing. Spies *et al* (2004) are of the opinion that the manufacturing sector is a real missing link in the ostrich value chain in South Africa and remains a huge

challenge for the industry. This also presents an opportunity for the South African government's black economic empowerment (BEE) initiatives.

- Research and development remains important for the industry, requiring the necessary research support systems across the supply chain.
- Subscribing to environmental stewardship in general and accepting the concept of biodiversity conservation, especially at the ostrich farming

Conclusions

The ostrich industry is one of the few agricultural industries in the world where South Africa is regarded as the undisputed world leader. At country level the ostrich industry makes a substantial contribution to the national economy. The total investment in primary ostrich activities (excluding value added manufacturing and tourism) exceeds R2.1 billion per year. It ranks 22nd of all agricultural industries in South Africa in terms of the value of total agricultural production. The primary ostrich industry contributes approximately 2% on average of the total gross value added by animal production in South Africa. Some important upstream and downstream linkages in the ostrich supply chain exist, rendering a substantial contribution towards the general economy. As a predominantly export-oriented industry that exports in excess of 5% of total agricultural exports, the ostrich industry earns foreign exchange and so contributes to balance of payment and price stability in the economy. In terms of employment opportunities, the industry provides employment and livelihoods to a substantial amount of people, mainly in the rural areas of South Africa where job opportunities are mostly scarce.

Acknowledging the contribution the ostrich industry makes to the national economy, it remains crucial to strengthen the competitiveness of the industry due to its vulnerability to both input cost increases and unfavourable foreign exchange rates.

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