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THE SOUTH AFRICAN BROILER INDUSTRY IN THE CONTEXT OF
THE RELATIONSHIP BETWEEN SOUTH AFRICA AND THE
EUROPEAN UNION: COMPETITIVENESS, TRADE AND
ALTERNATIVES FOR GROWTH AND DEVELOPMENT

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17 June 2019



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Acronyms

AMIE	Association of Meat Importers and Exporters
AVEC	Association of Poultry Processors and Poultry Trade in the EU Countries
BFAP	Bureau for Agricultural Policy
CAP	Common Agricultural Policy
DAFF	Department of Agriculture, Forestry and Fisheries
DFI	Development Finance Institution
EPA	Economic Partnership Agreement
EU	European Union
FCR	Feed Conversion Ratio
FOB	Free on Board
HPAI	Highly Pathogenic Avian Influenza
HS	Harmonized System
IQF	Individually Quick Frozen
ITAC	International Trade Administration Commission of South Africa
MDM	Mechanically Deboned Meat
MFN	Most Favoured Nation
ND	Newcastle Disease
OECD	Organization for Economic Cooperation and Development
OIE	World Organization for Animal Health
OPM	Operating Profit Margin
PEF	Production Efficiency Factor
PSE	Producer Support Estimate
RCL	Rainbow Chickens Limited
ROE	Return on Equity
SACU	Southern African Customs Union
SADC	South African Development Community
SAPA	South African Poultry Association
SPS	Sanitary and Phytosanitary
TIPS	Trade and Industrial Policy Strategies
TBT	Technical Barrier to Trade
TDCA	Trade and Development Cooperation Agreement
UK	United Kingdom
US	United States of America
WTO	World Trade Organization



Executive Summary

Background and Study Objectives

In most years, the broiler industry is the largest sub-sectoral contributor to the value of agricultural production in South Africa and chicken is by far the most widely consumed form of meat, especially by low-income households. The industry has been the subject of heated debate and significant policy intervention over the last few years. Local producers argue that unfair competition from imports, some from the European Union, is harming the domestic industry and has led to substantial production and job losses. They have, on a number of occasions, sought and sometimes been successful in obtaining tariff duty and quota protection. Traders and retailers, on the other hand, point to what they see as limited domestic supply capacity, inefficiency leading to lack of competitiveness and the poor quality of locally produced chicken. They argue that the main reason for the industry's requests for tariffs is to increase their own profits.

The objectives of this short study are:

- a. To gather and assess the available evidence on the causes and impacts of the current 'crisis' in the South African poultry industry
- b. To identify the underlying constraints to the growth, competitiveness and transformation of the broiler industry in South Africa
- c. To evaluate options for public and/or private sector and/or EU intervention.

The South African Poultry Market

In common with most other national or regional poultry industries, broiler production in South Africa is dominated by a small group of large firms. This follows from the high degree of vertical integration and the high capital requirements needed to achieve sufficient economies of scale to compete successfully in the market for a highly tradable generic good such as chicken meat. With international competition driving down producer prices and profit margins per bird, scale is essential for survival. South African firms have to produce at a cost comparable to major highly integrated offshore competitors and are therefore obliged to have similar structures and use similar techniques. The seven largest producers account for a little under 80% of total output, medium-scale producers about 14% and small-scale producers about 7%. The degree of concentration is thought to be growing.

Two fundamental characteristics distinguish the nature of the market for chicken meat in South Africa from those of countries exporting to South Africa: first, the predominant demand is for 'brown meat', i.e. cuts and other products, such as offal, other than breast ('white meat'), and second, almost all locally produced frozen chicken contains brine (up to a maximum of 15%). Relative to offshore markets, the price of brown meat is higher in South Africa, so offshore producers find it attractive to send as much brown meat to South Africa as possible.

The logical response from South African producers would be to market as much of their white meat output offshore as possible. This has not happened so far partly because it is brined. In most other countries – including some SADC member states – the import of brined meat is either prohibited or it may not be sold as 'chicken'. So, while the brining of chicken may increase the profitability of South African producers through adding to the mass of frozen chicken sold without



adding significantly to the cost of production, it largely precludes the export of chicken, thereby confining the industry largely to an import substitution role.

About 60% of chicken is sold in the form of low-priced 2kg and 5kg packs of 'individually quick frozen' (IQF) pieces popular among low-income consumers. Most producers have little choice but to include higher value white meat in such packs. Only 13% of chicken is sold fresh in South Africa and only about 1% has value added by way of cooking, crumbing or marinating. These percentages are small by comparison to offshore markets.

Since 2008, total production of chicken in South Africa has barely shown any growth, fluctuating in the 1.5 to 1.6 million tons per annum range. Consumption during the same period expanded at an average of 1.9% p.a., with the shortfall in domestic production being taken up by rapidly increasing imports, which almost doubled between 2010 and 2015. Much of this increase in imports came from the EU, with frozen bone-in cuts becoming the largest component. The South African government has responded to the increase in imports by imposing tariffs, anti-dumping duties and safeguards on imports of chicken.

Preliminary¹ findings

The reasons for the slow growth of production and exports by the South African broiler industry and for the increasing share of imports in meeting local demand are matters of considerable contention. The analysis undertaken indicates that main reasons for the slow growth of output of the South African broiler industry and for imports to be playing an increasing role in meeting South African demand are that:

- There has been a rapid increase in demand for chicken products not produced in South Africa in recent years, chiefly mechanically deboned meat (MDM), used to make products such as polony.
- The dominant South African business model, together with the limitations of the country's present SPS capacity, have largely precluded local producers from accessing export markets to date. Nevertheless, neither have they constituted impenetrable barriers to growth or exports, nor do they seem likely to do so in the future, given the capacity of the business models to evolve. But in spite of the premiums obtainable on white meat in the EU, the market for generic frozen cuts in the EU may not be attractive enough to South African broiler producers to make it worth their while to try to overcome the country's SPS constraints, if this is to be undertaken largely at their own expense.
- There has been little investment in additional production capacity in the industry as a whole over the past decade, which the industry ascribes mainly to growing competition from imports.

Conversely, there are a number of factors that have often been argued to play a role, but that, on examination, do **not** seem to account significantly for the slow growth of local output or the steady increase in imports. Notably:

1. The industry does not generally seem to have been subject to unfair competition from offshore exporters and, to the extent that it has, it has usually been able to secure effective tariff defence. Rather, it has tended to benefit from increasing levels of Most

¹ This report will be finalized after comment has been received from key stakeholders (see 'Next Steps' below).



Favoured Nation (MFN) duty protection² and, more recently, safeguard duty protection³, neither of which imply unfair competition from abroad.

2. The industry is not inefficient relative to most of its offshore competitors. In terms of technical and economic efficiency, in most years South African producers can equal, or better, all of the countries from which South Africa usually imports, other than Brazil and the US.
3. Disease outbreaks have played a role in constraining the growth and increasing the costs of broiler production in South Africa, but it is uncertain how significant this has been.

Possible implications and opportunities

In respect of each of these findings, the analysis identified the following as implications and/or as key avenues with potential for growing the South African large-scale broiler industry and for government and/or the EU to assist:

- There is scope for South Africa to produce chicken products that are presently mainly or exclusively imported, such as MDM. However, this will almost certainly only happen if an MFN duty for MDM is approved and is set at around the 82% presently being sought by the South African industry on imports of frozen bone-in cuts.
- If South African producers want to enter the high-volume premium market for uncooked IQF chicken breasts in the EU, they will have to take the initiative to develop a public-private partnership with DAFF to address the deficiencies in its SPS capabilities, much as the ostrich and pork industries have done for exports to the EU and to regional markets respectively, and be prepared to foot the bill for most of this. For this to happen, Astral's participation will probably be essential but the company's present growth strategy – which focuses more on setting up new highly vertically integrated chains in other African countries than on exports from its South African operations – makes this unlikely. However, if they only wish to enter or expand their presence in offshore markets for pre-cooked, value added or salted chicken, meeting the SPS requirements involved would probably be much less demanding, while unit profit margins would probably be greater. But it will mean having to innovate continuously to stay ahead of competition. And, for some producers, it would also entail terminating the use of growth stimulants or splitting production lines into 'for export' and 'for local' markets.
- Nevertheless, the case for the EU to continue to offer assistance to DAFF to improve its SPS capabilities is strong as it is critical – not only for companies that do wish to grow through exports, but also for domestic production and consumption – for sufficient action to be taken for South Africa to avoid being declared a disease-endemic country, either for HPAI or for Newcastle disease.
- The main opportunity for increasing the economic efficiency of South African broiler production lies in continuing to increase South Africa's soya bean output. There does not appear to be a need to add to crushing capacity.

² In terms of World Trade Organization principles, Most Favoured Nation duties are the maxima that member countries commit to impose on other members, unless the countries are part of a preferential trade agreement, such as the EU-SADC Economic Partnership Agreement, which eliminated import tariffs on a wide range of goods in both regions, including chicken, to help promote trade and development.

³ Safeguards, which are actions against trade that may be regarded as fair but that overwhelms domestic producers and are used against an unforeseen surge of imports that threatens and/or causes injury to domestic producers. Usually such actions take the form of import duties on the goods concerned.



But as long as the dominant business model – defined most specifically by brining – continues, new investment and growth of total output are likely to remain slow. The dominance of Astral, especially in the IQF market, will either encourage its ‘big 7’ competitors to move out of IQF production altogether over time, or, if they decide to retain IQF as their bedrock, ensure that they do not move away from a brine-based business model, because of the need to be able to compete with Astral’s prices.

What could change this significantly is if consumers progressively incorporate into product choice the information disclosed on the packaging of frozen chicken about the percentage of brine contained. More effective consumer education in this regard would be valuable. However, the retail price differential between brined and unbrined chicken would also need to be small enough to make the switch on a value-for-money basis financially attractive.

In respect of growing the South African small-scale broiler industry, it was found that:

- Compared to large-scale producers, small-scale producers tend to have higher costs of production per kilogram, but realize disproportionately higher prices per kilogram than large-scale producers. Gross margins for primary production per bird and per kilogram for small producers are therefore generally greater than for large producers.
- The main challenge and limiting factor for very small producers comes with marketing. The size of the market for live birds is limited, while slaughtered birds compete directly with the lower priced products of large producers. For most small producers to compete effectively with existing large-scale producers it requires levels of investment, technical and business skills that are prohibitive. This makes an organic growth strategy unworkable.
- Small and medium contract growers constitute an exception. There is real scope for advancing sustainable transformation through assisting the growth (in terms of both production per grower and the number of contract growers) of this category of small producers, but the amounts of capital needed are substantial – of order of R15 million for a sustainable contract growing enterprise. Loans for infrastructure at a concessionary rate of interest EU could assist and help advance inclusivity, though the potential for establishing new entrants through this route is likely to be limited to perhaps 50 across the industry. Nonetheless, this is an important opportunity for South African development finance institutions (DFIs), perhaps in collaboration with European DFIs. The scope for DFI lending may not be confined to contract growing, but may also extend to other functions in the value chain, such as distribution, for broiler companies that have not outsourced this function.

Next steps

Given the objectives of the study, it will be important to share the findings with, and gain feedback from, as many key stakeholders as possible. This should be done by presenting and discussing the findings at appropriate forums, such as stakeholder workshops and conferences, and by circulating and soliciting written comment on the report. Specifically, it is hoped that the study will be of assistance to the ‘broiler industry master plan’ working group, being led by the South African Department of Trade and Industry.



1 Trade and Development Cooperation Context

The European Union (EU) has for many years been South Africa's main trading partner and source of development assistance⁴. More than a quarter of South Africa's exports of goods (by value) go to the EU⁵. While South Africa is a comparatively small destination for EU exports as a whole, for certain categories – notably poultry meat – it has been a key market, ranking first in 2016⁶, though this ranking has since declined sharply⁷. Over the past decade and more, the EU and South Africa have entered a number of economic cooperation agreements, the essential object of which has been to promote mutual economic development through trade.

The EU's Trade and Development Cooperation Agreement (TDCA) with South Africa, which became operative in 2000, established preferential trade arrangements that provided better access to both partners' markets for about 90% of bilateral trade at the time. The Agreement provided for the liberalization of 95% of the EU's imports from South Africa within 10 years – with the main exclusions being certain agricultural products – and 86% of South Africa's imports from the EU within 12 years. Many, including most categories of chicken products – notably the frozen bone-in pieces that are now the subject of much dissension – became duty-free imports into South Africa immediately. Beyond progressive trade liberalization, the aims of the TDCA included: strengthening dialogue between the parties; supporting South Africa in its economic and social transition under democracy; and promoting regional cooperation and South Africa's economic integration into the Southern African and world economies⁸.

The TDCA was consolidated in 2007 by the establishment of the EU-South Africa Strategic Partnership – one of only ten such partnerships worldwide. While cementing the objectives of the TDCA, the Strategic Partnership emphasized cooperation in respect of employment creation; education, training and innovation; and building a capable developmental state through addressing bottlenecks in human resources and systems to improve the state's capacity for service delivery⁹. Implementation of the partnership is driven by annual EU-South Africa summit meetings.

In 2016, an Economic Partnership Agreement (EPA) was signed between the EU and six members of the Southern African Development Community (SADC) – Botswana, Lesotho, Mozambique, Namibia, South Africa and Swaziland (now eSwatini), collectively referred to in the Agreement as 'the SADC EPA States' – key objectives of which are, on the one hand, to stimulate economic development in the SADC EPA States, and on the other, to formally extend the preferential access agreement of the TDCA to all of these countries and to broaden the range of goods included. Among those for which duty-free access applies are the SADC EPA States' imports of chicken meat from EU countries and the EU's imports of chicken meat from the SADC EPA States¹⁰. All countries are entitled in terms of the EPA to apply trade defence instruments,

⁴ ec.europa.eu/trade/policy/countries-and-regions/countries/south-africa/

⁵ www.worldstopexports.com/top-south-african-import-partners/

⁶ EU Delegation to South Africa, The EU Perspective: from Lose-Lose to Win-Win, PowerPoint, 28 November 2017, p8

⁷ European Commission, Committee for the Organization of Agricultural Markets, EU Market Situation for Poultry, 17 April 2019, PowerPoint, p10, ec.europa.eu/agriculture/poultry/presentations_en

⁸ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3Ar12201>

⁹ https://ec.europa.eu/europeaid/countries/south-africa_en?qt-node_tabs_country: pp1-2

¹⁰ Official Journal of the EU, 16.9.2016, EPA between the EU and its Member States, of the one part, and the SADC EPA States, of the other part, Annex I, Part II (pp93-96) and Annex II, Part II (pp1244-1245). While for some purposes, South Africa is treated differently to the other five SADC EPA States in respect of customs duties of the EU on imports originating in the SADC EPA States, for chicken ('gallus domesticus') products, all six countries are treated uniformly. South Africa's cus-



such as anti-dumping and safeguard measures. While the anti-dumping measures provided for are aligned to WTO norms, some of the safeguard measures comply with the WTO's multilateral provisions, but others are bilateral, relating specifically to the EPA¹¹. In the same vein, the use of (explicit) export subsidies on agricultural goods is prohibited¹². Provisions are made for dispute avoidance and settlement¹³.

Critically, the EPA also affirms the commitment of all parties to the rights and obligations provided for by, inter alia, the WTO's and the World Organization for Animal Health's (OIE) Sanitary and Phytosanitary (SPS) Measures. Imports into the respective countries/regions are therefore required to comply with that country's/region's SPS requirements, as governed by WTO/OIE requirements. Recognizing the limited capacity of many SADC member states to implement these requirements, an important objective of the EPA is to help 'establish and enhance SADC EPA States' technical capacity' in this regard, including, inter alia, in 'applying the principles of zoning or compartmentalization', in the 'development of epidemiological surveillance network(s)' and in the 'exchange (of) information on the occurrence of pests and diseases'¹⁴.

In the context of the broiler industry, for the EU the implication of these agreements is that, while it is clearly in its interests to regain and retain South Africa as a leading destination for its exports, this should ideally be achieved in a way that also secures the continued growth of the industry in South Africa, as one of the main generators of agricultural output and employment. For South Africa, the implication is to take the fullest advantage of the provisions of the agreements to enable its industry to grow.

As per the terms of reference¹⁵, the objectives of this study are:

- a. To gather and assess the available evidence on the causes and impacts of the current 'crisis' in the South African poultry industry
- b. To identify the underlying constraints to the growth, competitiveness and transformation of the broiler industry in South Africa
- c. To evaluate options for public and/or private sector and/or EU intervention.

toms duties on chicken products originating in the EU are the same as those of its four Southern African Customs Union (SACU) partners – Botswana, Lesotho, Namibia and Swaziland (eSwatini).

¹¹ Ibid., Articles 32-39 (pp19-24)

¹² Ibid., Article 40 (p35)

¹³ Ibid., Articles 79-89 (pp39-42)

¹⁴ Ibid., Articles 59-67 (pp32-35)

¹⁵ DNA Economics, Broiler Trade and Competitiveness in South Africa and the European Union: Stocktaking Study and Industry Consultations (version 10), p3. DNA Economics was contracted by the EU-South Africa Strategic Economic Partnership Programme to gather and assess evidence on the causes of the current 'crisis' in the poultry industry in South Africa and to identify potential remedies.



2 An Overview of the South African Poultry Industry

2.1 Production: Market structure

The poultry industry has two major components: the broiler, or chicken meat, industry and the egg industry. Though the egg industry contributes about 2% to broiler consumption through the slaughter of culled layers¹⁶, the two industries are largely separate. This report relates largely to the broiler industry.

The broiler industry is a dominant role-player in South African agriculture. In most years, it is the largest sub-sectoral contributor to the value of agricultural production, typically accounting for between 16 and 17 percent¹⁷. The industry directly employs about 47 000 workers¹⁸ - as much as 5% of total agricultural employment – despite its high capital intensity. Its up-stream and downstream importance is enormous too, with almost 44% of animal feed being produced for the industry¹⁹. South Africa accounts for more than 70% of broiler output in SADC²⁰. So the wellbeing of the industry is clearly of major importance to agriculture and rural development both in South Africa and in SADC.

Though a small player in the overall international context, in common with most other national or regional poultry industries, broiler production in South Africa is dominated by a relatively small group of large firms. This follows from the high degree of vertical integration, described below, and the high capital requirements needed to achieve sufficient economies of scale to compete successfully in the market for a highly tradable generic good such as chicken meat. With international competition driving down producer prices and profit margins per bird²¹, scale is essential for survival. South African firms have to produce at a cost comparable to major highly integrated offshore competitors and are therefore obliged to have similar structures and use similar techniques. These characteristics bring with them high barriers to entry and make it difficult for small players to compete, except in niche markets.

Table 1 lists the dominant large-scale players and their market shares in 2013.

¹⁶ Bureau for Agricultural Policy (BFAP), 2016, Evaluating the Competitiveness of the South African Broiler Value Chain, 2016, p10

¹⁷ Department of Agriculture, Forestry and Fisheries (DAFF), Abstract of Agricultural Statistics 2013, p72 (this is the most recent edition available)

¹⁸ South African Poultry Association (SAPA), Broiler Organization Committee Chairman's Report 2017, PowerPoint, p28. This figure includes employment in broiler breeder, hatchery and rearing, broiler processing and broiler distribution. A further 58 000 are indirectly employed in support industries.

¹⁹ BFAP, Competitiveness of the South African Broiler Industry, March 2019, p2

²⁰ SAPA, 2017 Industry profile, p25

²¹ Gross margins per bird are lowest for large scale commercial producers (Louw, M, T Davids and N Scheltema, Broiler production in South Africa: Is there Space for Smallholders in the Commercial Chicken Coup (sic)?, Development Southern Africa, 2017, v34(5), pp564-574)



Table 1: Market share of the seven largest commercial chicken producers in South Africa, 2013²²

Producer	Market share (%)
Rainbow Chickens Limited (RCL)	25.04
Astral Foods	22.45
Country Bird Holdings	7.99
Tydstroom Poultry (Pioneer Foods)	6.39
Afgri Poultry	5.97
Chubby Chick	5.86
Sovereign Foods	4.53
(Others)	(21.77)
Total	100.00

It should be noted that since 2013 the percentages and rankings will probably have changed significantly, as some firms – in particular RCL – have chosen to diversify and reduce their production of chicken because the market has been seen as overtraded and too competitive to achieve acceptable levels of profitability, partly because of the increasing volume of imports. As a percentage of RCL's total revenue, unprocessed frozen and fresh chicken meat fell steeply from 91,6% in 2012²³ to no more than 38.7% in 2015²⁴.

While this drop also reflects the purchase of other major assets and no recurrent comparable annual figures are given for the volume of chicken output, RCL's 2016 Annual Report mentions that the 'over a period of 24 months (from mid-2014 to mid-2016), (the) chicken (division) more than halved the production of IQF from 600 tons to 260 tons per day (i.e. a decrease of about 57%)'²⁵. The 2018 Annual Report follows this by noting that 'production reduced from 4.8 million birds to 3.4 million birds per week (i.e. by about 30% from 2017)'²⁶, much of these falls resulting from the sale or closure of two major plants²⁷. With some of the smaller members of the 'big 7' also taking actions of one kind or another to minimize their exposure to South Africa's generic chicken meat market (see section 3.2), the implication of this is that Astral, which focuses solely on integrated chicken production, will have become the largest producer and a still more dominant player in the industry.

Most of the largest firms are affiliated to the South African Poultry Association (SAPA), which is understood to represent about 70% of domestic production²⁸ and is recognized by government

²² Davids, T and FH Meyer, Price Formation and Competitiveness of the South African Broiler Industry in the Global Context, Agrekon, 2017, v56(2), p127

²³ RCL Foods, Integrated Annual Report 2013, p96

²⁴ RCL Foods Integrated Annual Report for the year ended 30 June 2015, p53. 2015 was the last year in which chicken meat was important enough in RCL's evolving product range to be reported on separately.

²⁵ RCL Foods, Integrated Annual Report 2016, p50

²⁶ RCL Foods, Integrated Annual Report 2018, p53

²⁷ RCL closed 15 farms and retrenched 1 350 workers in 2017. (SAPA, op. cit., p8)

²⁸ CEO, SAPA Broiler Organization, verbal communication



as representing the industry²⁹. The Association's Developing Poultry Farmers' Organization included 173 small broiler producers in 2017³⁰. Small-scale producers of various types account for about 7% of South African production, of which small-scale commercial farmers contribute roughly 4% and subsistence/non-commercial producers 3%. The former – of which the Department of Agriculture, Forestry and Fisheries has a list of more than 2 000 – comprise producers of both slaughtered and live birds and contract growers³¹, and the latter mainly of live birds³². The roles played by this group of producers and the scope for EU intervention to assist them are examined in later sections of the report.

2.2 Production: The domestic value chain

The large-scale South African broiler value chain is described in detail by the University of Pretoria's Bureau for Agricultural Policy³³. It is an integrated series of value chains, consisting of an upstream feed manufacturing and day-old chick production value chain, the primary broiler production value chain and the downstream distribution/marketing value chain.

The feed manufacturing chain begins with production by primary grain and oil seeds producers (farmers) of the two main components of feed – yellow maize (carbohydrate for energy) and soya beans (protein for growth). Feed is supplied both to the day-old chick industry and to the 'growers', or raisers of these chicks, who form part of the primary broiler production value chain.

The primary broiler production value chain spans the activities of rearing, slaughtering, cutting the carcass into portions, packaging and freezing. Some large- and small-scale producers perform these operations entirely in house, while others – large-scale producers – prefer to outsource part or all of the rearing phase to contractor growers.

The last of the three value chains involves distribution of the products of domestic primary producers, augmented by imports, to wholesalers (35%)³⁴, retailers (52%), quick service restaurants (7%) and other caterers (6%) for marketing to consumers.

Though there is considerably more variation among small-scale production models, the overall value chain³⁵ is similar, the main differences being that, because primary producers are not tightly integrated upstream and downstream:

- feed often flows through independent feed stores (though some may be purchased directly from feed manufacturers forming part of integrated large-scale firms)
- day-old chicks are often purchased from small-scale or larger independent hatcheries (though some may be acquired from hatcheries forming part of integrated large-scale firms)
- particularly for subsistence producers, some or all mature birds are marketed live

²⁹ SAPA, op. cit., p31

³⁰ Ibid., p22

³¹ To increase and ensure a fairly constant, even flow of throughput, most large integrated producers not only engage in the process of raising day-old chicks to maturity themselves, but also contract independent out-growers to undertake the same function under very tight control (see pp50-51). Such out-growers are called 'contract growers'.

³² BFAP, op. cit., 2016, pp48-49; SAPA records 90.5% of small broiler producers' sales as being in the form of live birds in 2017 (SAPA, op. cit., p24)

³³ BFAP, op. cit., 2016, pp9-13

³⁴ Data for 2015 (Davids and Meyer, op. cit., p128)

³⁵ BFAP, op. cit., 2016, p53



- producers often do their own marketing, both of live birds and of birds slaughtered by an abattoir.

Participants in the primary production component of the value chain include both independent broiler producers and contract growers, some of whom may be contracted to integrated large-scale firms.

2.3 Domestic consumption

If the broiler industry is a dominant role-player in agricultural production, its produce – along with imports – is no less important in terms of consumption. Chicken is by far the most widely consumed form of meat and source of protein, especially by the low-income households who constitute the substantial majority of South Africa's consumers. At 65%, it makes up almost two thirds of the total tonnage of meat consumed, having grown faster than any other type of meat over the past decade³⁶, despite a significant slowing in the rate of growth of chicken consumption over the same period³⁷. Much of its popularity is attributable to its ubiquitous availability and its low cost per kilo compared to other meats³⁸.

Two fundamental characteristics distinguish the nature of the market for chicken meat in South Africa from those of countries exporting to South Africa. The first is that the predominant demand is for 'brown meat', i.e. cuts and other products, such as offal, other than breast ('white meat'), and the second is that almost all locally produced frozen chicken contains brine³⁹.

In the markets of countries exporting to South Africa, white meat is generally preferred and sells at a premium to brown meat⁴⁰. But for most of the low-income consumers who make up the overwhelming bulk of demand in South Africa, the main consideration is to get as much meat for their money as possible, without much importance being given to the nature of the cuts. Relative to offshore markets, the demand for and price of brown meat is therefore greater in South Africa.

Not surprisingly, major offshore producers find it attractive to send as much brown meat to South Africa as possible. However, whether locally-based meat importers prefer to buy from these offshore sources depends on whether the net price paid for such imports – that is, the 'free on board' (FOB) price plus any duties that may be payable⁴¹ – is lower than the South African producer price for the same cuts. This is examined further below.

The logical response from South African producers would seem to be to market as much of their white meat output offshore as possible. But this has not happened to any significant extent so far, partly because of the second distinguishing characteristic – brining⁴². In most other countries – including some SADC member states – the import of brined meat is either prohibited or it may not be sold as generic uncooked chicken meat. So, while the brining of chicken may increase the profitability of South African producers through adding to the mass of frozen chicken sold without

³⁶ Ibid.

³⁷ BFAP, Baseline Agricultural Outlook 2018-2027, 2018, pp62-63

³⁸ Ibid., p64

³⁹ No adequate way has yet been found to make fresh chicken retain brine while on retailers' chilled shelves.

⁴⁰ Both are equally good sources of protein.

⁴¹ Freight and insurance costs for transport are borne by exporters.

⁴² The 13% of chicken that is sold fresh in South Africa (BFAP, op. cit., 2016, p29) is not brined, but most exports of chicken are frozen for transport. It is not known if any such South African exports are not brined.



adding significantly to the cost of production, it largely precludes the export of chicken, thereby confining the industry largely to an import substitution role.

One corollary is that local consumers of South African-produced frozen chicken, probably unknowingly, pay not only for the chicken meat that they buy but also for the brine which seeps out on defrosting – unless the chicken happens to have been imported. Imported chicken should generally not contain brine, as little brined meat is produced in most of the countries from which South Africa imports. However, there are unconfirmed reports that imported chicken is sometimes defrosted, injected with brine and frozen again to be sold as ‘individually quick frozen’ pieces (IQF) by local importers⁴³, even though this is illegal in terms of South African health regulations.

Prior to 2016, when regulations were introduced in South Africa to restrict the brined content to a maximum of 15% of the mass sold, brining levels of up to 43% were acknowledged by the industry⁴⁴. Even at a level of 15%, with frozen cuts comprising no less than 80% of chicken sold by retailers in South Africa - mostly in the form of low-priced 2kg and 5kg mixed packs of IQF popular among low-income consumers⁴⁵ - the boost to profitability generated by brining (and the temptation to importers to brine illegally) can be seen to be substantial.

On the other hand, a second corollary, less favourable to South African producers, is that most producers have little choice but to include higher value white meat in such mixed packs. While fresh and frozen individual cuts (e.g. drumsticks only) do make up 15% of sales⁴⁶, only 4 or 5% relates to breasts. So, were they not to include white meat in mixed IQF packs, with the much lower price that such potentially premium-priced meat then realizes, producers would be left with a surplus of breast meat that could only be cleared at a price close to that of mixed IQF packs. As breasts make up about 35% of carcass weight⁴⁷, this has a substantial negative effect on profitability, relative to other countries.

Over and above the technical and economic characteristics that are discussed in 3.3, the practice of brining therefore has critical implications for the sources of profit and ability of the South African broiler industry to compete abroad in markets for uncooked IQF chicken, as well as distinguishing the industry from those in other countries. Though a limited percentage of output by South Africa’s large-scale producers is not brined, brining, perhaps more than any other characteristic, defines the nature of the production and the dominant business model. This is also discussed in more detail in 3.2.

One further characteristic of production and consumption in South Africa is important to note, namely, the small percentage of chicken that is sold fresh – only 13%⁴⁸ - and the still smaller percentage that has value added in some way, such as cooking and/or adding a coating of crumbs or sauce. Data from SAPA for 2013⁴⁹ records only 1% of production as ‘frozen value added’ and nothing for fresh value added, though these percentages have probably increased since then. While they reflect the overwhelming predominance of low income households as consumers in South Africa, the lack of emphasis on value addition contrasts with higher-income

⁴³ Interview with CEO, SAPA Broiler Organization.

⁴⁴ RCL Foods Annual Report 2016, noted in Association of Meat Importers and Exporters (AMIE), Let’s Make South African Poultry Great, PowerPoint, undated, p8

⁴⁵ BFAP, 2016, p29. 60% of the 80% is sold in the form of mixed IQF packs. These typically sell at about half of the price per kilo of fresh meat, but more or less equal to the price of the same weight of imported IQF pieces. Unconfirmed comments indicate that these packs are widely used by retailers as loss leaders to attract low-income consumers into stores. 1% of the 80% is sold in the form of frozen whole birds.

⁴⁶ Ibid.

⁴⁷ AMIE, op. cit., p20

⁴⁸ BFAP, op. cit., 2016, p29 (4% as whole fresh chicken and 9% as fresh cuts.)

⁴⁹ Ibid.



markets, such as the EU and the US, where there is a substantial and growing demand for value-added products, both of the types mentioned and produced as ‘free range’, organically or without antibiotics. From a producers’ point of view, value addition of this nature is attractive because of the possibilities for product differentiation and accompanying increased profit margins that it opens up⁵⁰.

2.4 The role of imports and exports

The popularity and rapid increase of the domestic demand for chicken has not been matched by the growth of domestic supply. While imports have long played a role in satisfying domestic demand, from 2000 to 2010 only 14% of consumption growth was met through imports, whereas in the following 7 years, from 2010 to 2017, no less than 73% of the increase in demand was met through this source⁵¹. Between 2015 and 2017, with local production averaging about 1.6 million tons⁵² and imports averaging about 550 000 tons⁵³ annually, the share of net imports in providing for domestic consumption was about 27%. By 2027, BFAP projects this to rise to about 38%⁵⁴. Exports, on the other hand, have remained small and presently account for only 3.8% of production⁵⁵ – almost all to Southern African Customs Union (SACU) or other SADC member countries⁵⁶.

Having grown by more than 50% from 2001 to a level 1.5 million tons in 2008, from then until the present, total production of chicken in South Africa has barely shown any growth, fluctuating in the 1,5 to 1,6 million tons range. Consumption during the same period expanded at an average of 1,9% p.a.⁵⁷, with the shortfall in domestic production being taken up by rapidly increasing imports, which grew from a level of about 200 000 tons in 2001 to the present roughly 550 000 tons, almost doubling between 2010 and 2015⁵⁸.

Much of this increase in imports came from the EU, with frozen bone-in cuts becoming the largest component of imports from 2010. Figure 1 shows the rapid growth and the dominance of the EU as a source. By 2016, at 282 770 tons, products from the EU made up about half of South Africa’s chicken imports. Over this period, South Africa also emerged as the EU’s largest market for chicken, at 16.8% of the EU’s chicken exports – more than twice as much as the EU’s next most important export destination, the Philippines⁵⁹.

⁵⁰ See, e.g., Mulder, N-D, Rabobank, EU Poultry Outlook 2020: Sharpen the Industry from a Global Perspective, PowerPoint, pp27-37, bordbia.ie/industry/events/SpeakerPresentations/2016/PoultryEggConference2016/...

⁵¹ BFAP, op. cit., 2019, p2

⁵² BFAP, op. cit., 2018, p65

⁵³ South African Poultry Association (SAPA), NEDLAC – South African Poultry Industry, PowerPoint, 28 February 2019, unpublished, p2

⁵⁴ BFAP, op. cit., 2018, p65

⁵⁵ SAPA, op. cit., 2018, p27

⁵⁶ AMIE, op. cit., p14

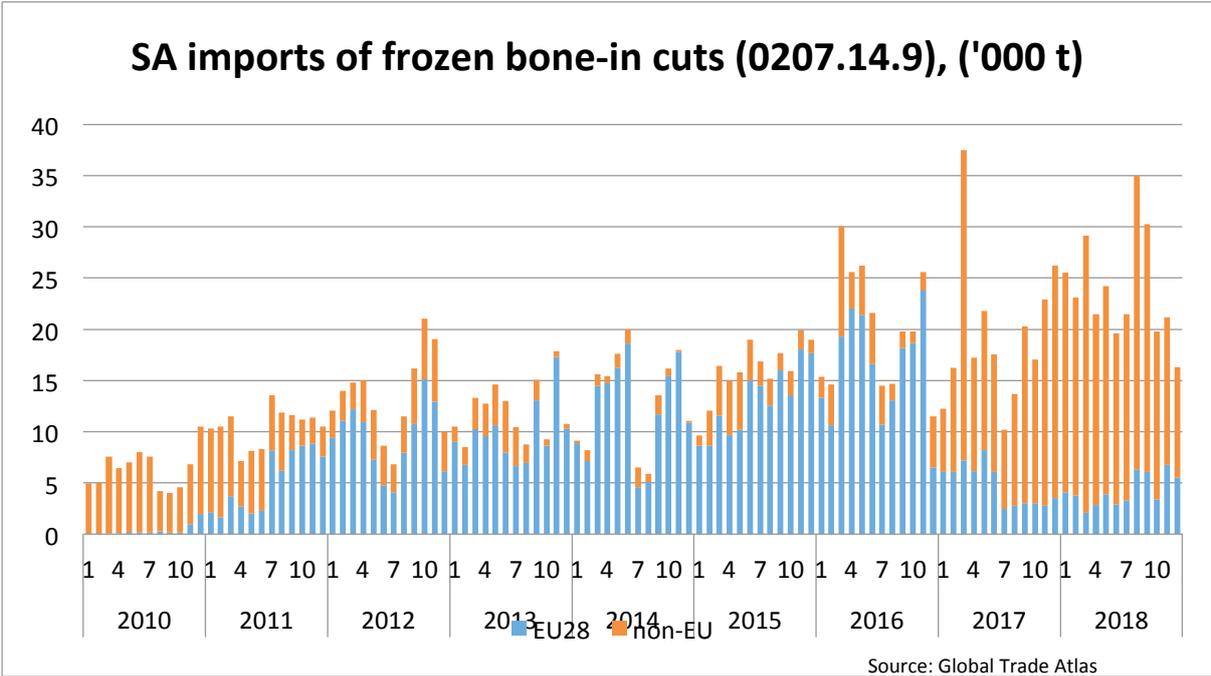
⁵⁷ BFAP, op. cit., 2018, pp64, 66

⁵⁸ BFAP, op. cit., 2016, p28

⁵⁹ European Commission, Committee for the Organization of Agricultural Markets, 17 April 2019, *ibid*.



Figure 1 South African imports of frozen bone-in cuts, 2010-2018⁶⁰



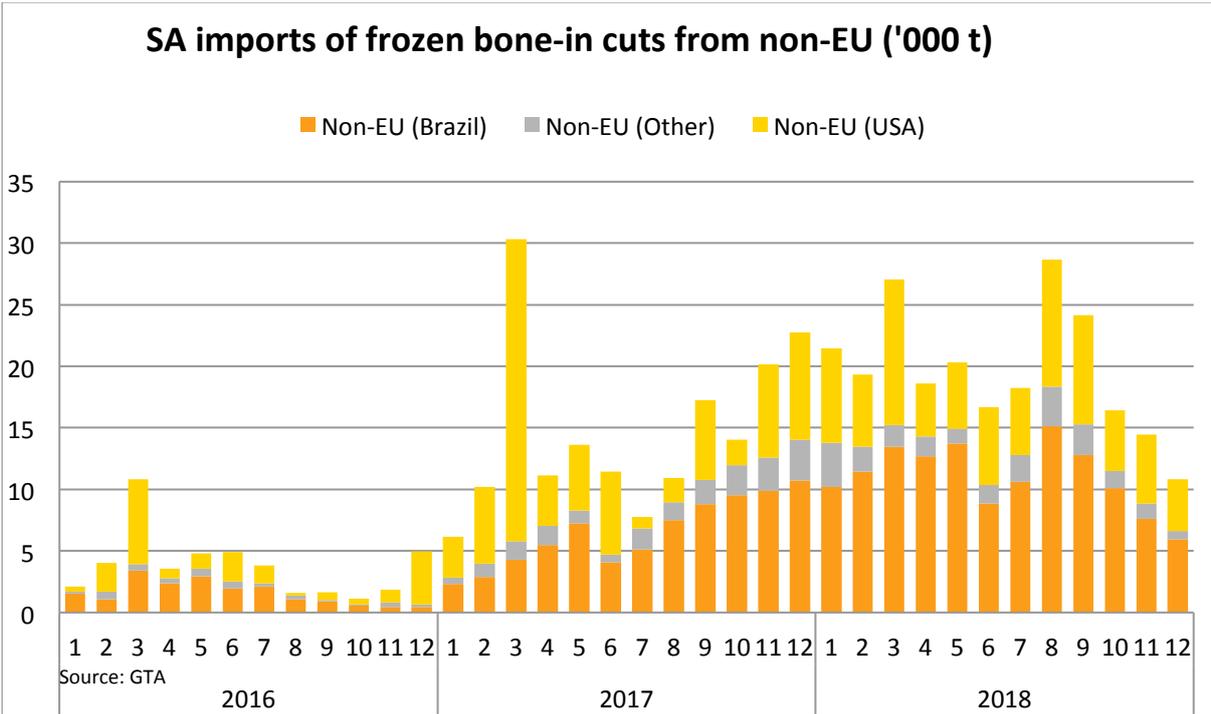
The rapid growth of imports of frozen bone-in cuts from 2010 was assisted by the abolition of duties applicable on this category of product in 2000, in terms for the TDCA. This trend was broken by the suspension of imports from all EU member states exporting chicken to South Africa, except Denmark and Ireland and, later, Poland and Spain⁶¹, following an outbreak of highly pathogenic avian influenza (HPAI) in Belgium, France, Germany, Hungary, the Netherlands and the United Kingdom (UK) in 2016. This resulted in exports falling sharply from 282 770 tons in 2016 (16.8% of exports) to 78 490 tons in 2017, increasing slightly to 84 518 tons in 2018 – only 4.7% of exports in both of the latter years⁶². As Figure 2 shows, Brazil quickly filled most of the gap left by the suspension of imports from these countries. It can be expected that the EU will be keen to regain this lost share of the market, but France, Germany, Hungary, the Netherlands and the UK⁶³ have not yet been allowed to resume exports to South Africa, despite having been declared HPAI-free since late 2017/early 2018. The reasons for the prolonged suspension are not clear and are a source of tension in the Partnership. This is discussed further in 3.2.

Annexure A provides a detailed breakdown of South African production and imports for 2016, 2017 and 2018.

⁶⁰ EU Delegation in South Africa, SA Imports of Poultry 2010-2018, unpublished memo, 2019, p1
⁶¹ The suspension of imports from Poland and Spain was lifted in September 2018 (SAPA, 2019, op. cit., p27)
⁶² European Commission, 17 April 2019, ibid.
⁶³ Belgium is not recorded as having been exporting chicken to South Africa at the time of the suspension.



Figure 2 South African imports of frozen bone-in cuts from non-EU sources, 2016-2018⁶⁴



3 Reasons for the Slow Growth of Production and Exports and the Increasing Share of Imports

The reasons for the slow growth of production and exports by the South African broiler industry and for the increasing share of imports in meeting local demand are matters of considerable contention. Along with the composition, prices and sources of imports they call for examination in some detail, because of their implications for growth of the South African industry and trade.

A key reason for the slow growth of exports, namely, the dominant South African business model and the practice of brining and lack of emphasis on value addition that it entails, was noted earlier. However, there are also other reasons that relate more to the inability of most local producers to meet potential export markets' SPS requirements. This will be elaborated on in section 4.

For imports to be playing an increasing role in meeting South African demand, there would seem to be only five possible explanations, some of which could be operating simultaneously:

1. There is an increasing demand for types of chicken product that are not produced locally.
2. South African producers are in some way unfairly disadvantaged.
3. South African producers are technically and/or economically inefficient in most years compared to the countries from which imports of chicken are sourced.
4. South African producers are efficient, but production is constrained by disease outbreaks to which all broiler industries, however efficient, are prone.

⁶⁴ Ibid., p2



5. South African producers are efficient, but are reluctant for some reason(s) to undertake the investment needed to increase production.

These are considered in turn.

3.1 Is there an increasing demand for types of chicken product that are not produced locally?

Until 2010, MDM used for manufacturing products such as polony – also popular among low-income consumers as a cheap source of protein – was the largest component of imports. In 2015 it was still the second largest, comprising about 175 000 tons – just under 40% - of imports, equal to more than 10% of total local production. Imports of MDM grew on average at almost 15% annually between 2010, when about 100 000 tons was imported, and 2015, compared to an average annual growth rate for total production of around 1% p.a. This gap in local production – accounted for by the substantial difference between the price of imported MDM and local production costs, given the higher price fetched by carcasses⁶⁵ – helps significantly to explain why imports grew so much faster than local production, almost doubling between 2010 and 2015⁶⁶.

Most MDM and other non-IQF imports were sourced from countries other than those in the EU⁶⁷. Not being in direct competition with local production, MDM has not so far been subject to import duties⁶⁸. As it is understood that the South African industry now plans to develop its own capacity in MDM production⁶⁹, it is possible that import duty protection will be applied for shortly.

3.2 Are South African producers in some way unfairly disadvantaged?

Since 2011, MDM has been overtaken by frozen bone-in portions⁷⁰, which have grown steadily as the largest component of chicken imports and now make up roughly half of the total tonnage imported⁷¹. As these compete directly with locally produced IQF portions, the bedrock of local consumption, the South African industry has felt the price competition acutely and has sought – and often been granted – tariff protection of various forms.

The body responsible for making decisions in response to applications by the South African industry for relief⁷² is the International Trade Administration Commission of South Africa (ITAC), a Public Entity. Its decisions are taken ‘in compliance with domestic law and WTO agreements’⁷³. The three ‘trade remedy’ instruments that it reports it most often applies are:

⁶⁵ See 4.1

⁶⁶ BFAP, op. cit., 2016, p28

⁶⁷ Global Trade Atlas, 2019, p

⁶⁸ BFAP, op. cit., 2016, p13

⁶⁹ DAFF, Presentation on the Progress Made on Implementation of the Poultry Task Team Recommendations – Briefing to the (Parliamentary) Portfolio Committee on Agriculture, Forestry and Fisheries, 12 March 2019, PowerPoint, p12

⁷⁰ BFAP, op. cit., 2016, p28; BFAP, 2019, p10

⁷¹ BFAP, op. cit., 2016, p28

⁷² ITAC may also initiate investigations into the possibility of imposing, increasing, decreasing or terminating duties or quotas on imports itself.

⁷³ ITAC, An Overview of ITAC, www.itac.org.za/pages/about-itac/an-overview-of



- anti-dumping measures, which relate to ‘situation(s) where goods are sold in a foreign market at prices lower than in the country of origin’⁷⁴
- countervailing measures, ‘that are used against subsidized imports that threaten and/or cause injury (i.e. decrease in prices; loss of market share; decrease in profits; decrease in sales volumes; job losses, etc.) to domestic manufacturer(s)’
- safeguards, which are ‘actions against trade that may be regarded as fair but (that) overwhelms domestic producers (and) are used against an unforeseen surge of imports that threatens and/or causes injury to domestic producers’⁷⁵.

In addition, from time to time, ITAC may also adjust Most Favoured Nation (MFN) import duties, subject to maxima set by WTO multilateral agreements. Once determined by an importing country, in terms of WTO principles this rate must be applied universally (as a maximum) to imports from all countries, in the absence of special trade agreements between countries/regions, such as the EU-SADC EPA. The factors that are taken into account in setting the levels of MFN duties are determined by the importing countries themselves. Critically, MFN duties may be applied when none of the circumstances that trigger anti-dumping, countervailing or safeguard duties are present.

The principles that ITAC reports using in reviewing all tariffs, including MFN duties, are: ‘Changes to the tariff structure need to be calibrated to the production possibilities of each sector. Tariff investigations based on applications received or self-initiated are conducted on a case-by-case basis, informed by the peculiarities of each sector and supported by evidence. More emphasis is now placed on the principle of reciprocity when granting tariff support to industries, varying from one sector to another. This means tariff amendments will be conditioned on a commitment by beneficiaries on how they will perform against government’s set policy objectives, in particular employment and investment. Tariff increases will also be tied to a specific period of time after which tariffs may be reviewed. Tariff setting for agricultural products is challenging in that not only the profitability of farmers must be taken into account, but also the price ramifications down the value chain and the price raising effects for consumers, in particular the poor.’⁷⁶

In addition to import tariffs, technical barriers to trade (TBT) constitute a very important form of protection. The most important of these, de facto – though stated their objective is the legitimate defence of animal and public health in importing countries – is often a country’s SPS requirements for imports. These may be more or less demanding and, in practice, may be applied more or less energetically – for example through increasing the number or size of samples taken for analysis – and/or strictly. In the instance of broiler imports, more energetic and stricter application of SPS standards has been very important in recent years in keeping out sub-standard imports⁷⁷ and is being looked to as a still more important TBT in the immediate future⁷⁸.

The WTO has set out a set of basic principles for the implementation of TBTs⁷⁹, to which South Africa as a member has committed itself⁸⁰. The ‘substantive disciplines’ involved are: non-

⁷⁴ It is understood that ITAC may take into account other criteria as well, some of which relate to the cost of production in exporting countries and the anti-dumping duty applied by other countries to the same product.

⁷⁵ ITAC, op. cit.

⁷⁶ ITAC, op. cit.

⁷⁷ SAPA, op. cit., 2019, p34; among the most serious cases was the export to South Africa, amongst others, of so-called ‘weak flesh’ from Brazil for some months in 2017, following the alleged bribery of food sanitation inspectors by some producers (BFAP, 2018, p21)

⁷⁸ SAPA, op. cit., 2019, p43

⁷⁹ WTO, Technical Barriers to Trade, The WTO Agreements Series, undated, pp15-24, https://www.wto.org/english/re_e/publications_e/tbttotrade_e.pdf

⁸⁰ See DAFF, op. cit., 12 March 2019, p15



discrimination, transparency, use of international standards and avoidance of unnecessary barriers. Technical assistance and special and differential treatment for developing countries is an accompanying principle. Though the principles are described as clearly as possible, disputes can arise about the fairness of interpretation or application – for example around the strictness and energy of application. While in such cases, resort may be made to the WTO's dispute settlement mechanisms, trade being the bargaining activity that it is, it may often be easier for aggrieved countries – justifiably or not – to take countermeasures of their own – such as applying its own SPS requirements with added energy and strictness. It goes without saying that this is a lose approach, best avoided by both parties. Trade liberalization calls for the opposite.

Though related, the capacity of a country to police its SPS requirements on imports is distinct from its capacity to assist its exporters to meet other countries' SPS requirements. In South Africa, DAFF is responsible for both, although the Department of Health is reported to assist with the former ⁸¹.

Table 2 details tariff protection provided by ITAC to the South African broiler industry since 2000 in respect of frozen bone-in chicken imports.

Table 2 Tariffs applying to imports of frozen bone-in chicken cuts⁸², 2000-2020

Starting date	Tariff type/trade remedy	Exporting country/region	Level of protection
2000	Anti-dumping	United States	R9.40/kg ⁸³
2006	Anti-dumping	United States	R9.40/kg ⁸⁴
2006	MFN	all countries/regions except the EU ⁸⁵	18% = R2.20/kg ⁸⁶
2011	Anti-dumping	United States	R9.40/kg ⁸⁷
2013	MFN	all countries/regions	37% = R3.70-R4.20/kg ⁸⁸ (2013); R4.71/kg ⁸⁹ (2018)
July 2014 (expiring Jan 2015)	Anti-dumping	Germany, Netherlands (excluding certain firms), United Kingdom	Germany: 31.3-73.33% Netherlands: 3.86-22.81% United Kingdom: 12.07-30.99% ⁹⁰
February 2015 (expiring Feb 2020)	Anti-dumping	Germany, Netherlands (excluding certain firms), United Kingdom	Germany: 31.3-73.33% Netherlands: 3.86-22.81% United Kingdom: 12.07-

⁸¹ Ibid., p42

⁸² This refers to products falling into Harmonized System (HS) Classification Code 02071490 (<https://unstats.un.org/.../Harmonized-Commodity-Description-and-Coding-Systems-HS>)

⁸³ SAPA, op. cit., 2019, p25

⁸⁴ Ibid.

⁸⁵ In terms of the Agreement on Trade, Development and Cooperation between the European Community and its Member States, of the One Part, and the Republic of South Africa, of the Other Part (TDCA), duties on chicken products imported into South Africa from the EU applied only to the HS 0207 1200 category, 'fowls (gallus domesticus) not cut in pieces, frozen'. These duties were phased out over a 5-year period from 2000. Duties on HS category 0207 1400, 'fowls, cuts and offal, frozen', including both boneless and bone-in portions, were abolished from the date at which the TDCA came into effect on 1 January 2000.

⁸⁶ Average across imported cuts (leg quarters, wings, thighs, drumsticks) – SAPA, op. cit., 2019, p25

⁸⁷ Ibid.

⁸⁸ Ibid., p28; 37% represents the rate for frozen bone-in portions only. MFN rates currently still applicable on frozen whole-bird imports are 82%, on frozen carcasses 31%, on frozen boneless cuts 12%, and on frozen offal 30% (Department of Trade and Industry (DTI), Media Statements, 9 December 2016, Concerns of the Poultry Industry, thedti.gov.za/editmedia.jsp). Zero MFN tariffs apply to fresh or chilled whole birds, cuts and offal and to MDM. These are the only categories of chicken product presently imported into South Africa (BFAP, 2016, op. cit., pp13, 28).

⁸⁹ Unweighted average across imported cuts (leg quarters, wings, thighs, drumsticks), 2018 – SAPA, ibid, p21

⁹⁰ South African Government, 2 March 2015, Trade and Industry on Anti-Dumping Duties Imposed on Imported Frozen Chicken Portions, <https://www.gov.za/speeches/anti-dumping-duties-imposed-frozen-chicken-portions-imported-germany-netherlands-and-united>



			30.99% ⁹¹
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⁹¹ ibid



Starting date	Tariff type/trade remedy	Exporting country/region	Level of protection
Jan 2016	AGOA ⁹² -related Tariff Rate Quota (anti-dumping duty-free)	United States	65 000 tons p.a. ⁹³
Sept 2016	EU-SADC EPA	EU ⁹⁴	0% ⁹⁵
Jan 2017	safeguard	EU	13.9% ⁹⁶
2017	Anti-dumping (for imports exceeding 65 000 tons p.a.)	United States	R9.40/kg ⁹⁷
Sept 2018	Safeguard	EU	35.3% ⁹⁸
March 2019 (expiring March 2020)	Safeguard	EU	30.0% ⁹⁹
March 2020 (expiring March 2021)	Safeguard	EU	25% ¹⁰⁰
March 2021 (expiring March 2022)	Safeguard	EU	15% ¹⁰¹

As can be seen, the South African industry has often been successful in applying for anti-dumping protection in the case of the United States (US). This has applied more or less continuously since 2000. Although the US is among the most efficient producers in the world, ranking third best in terms of total broiler production costs per kilogram in 2015 and 2017¹⁰², the tariff of R9.40/kg – or an addition of around 77% to the ‘free on board’ (FOB) price¹⁰³ – was sufficient to virtually entirely exclude imports of frozen bone-in cuts from the US from the South African market between 2000 and 2016, when the AGOA duty-free quota of 65 000 tons/year came into effect¹⁰⁴. Since July 2014, anti-dumping duties of between 3% and 73% have been imposed by ITAC on frozen bone-in cuts imported into South Africa from German and United Kingdom (UK) exporters and some Dutch firms. These are due to expire in February 2020, unless ITAC determines that their termination could be expected to lead to further dumping and injury to South African producers¹⁰⁵. Submissions by affected parties have been requested.

While it is possible that dumping may indeed have been practiced on other occasions by other countries, either the South African industry has not been able to detect and prove it and/or other duties have already been in force that have exceeded the anti-dumping duty that would have been applicable had dumping been proved.

⁹² US African Growth and Opportunity Act, 2000

⁹³ SAPA, op. cit., 2019, p25

⁹⁴ Overrides MFN duties. Only frozen whole birds, in one form or another (HP Code 02071200), were affected by the progressive tariff duty scale-down agreed in the EU-South Africa TDCA. (Official Journal of the European Communities, Agreement on Trade, Development and Cooperation between the European Union, and its Member States, of the one part, and the Republic of South Africa, of the other part, 2000, pp9-11, 277)

⁹⁵ See footnote 7.

⁹⁶ SAPA, op. cit., 2019, p27

⁹⁷ Ibid., p25

⁹⁸ South African Government, Government Gazette no.41939, 28 September 2018, Notice R1009

⁹⁹ Ibid., Notice R1008

¹⁰⁰ Ibid., Notice R1007

¹⁰¹ Ibid., Notice R1006

¹⁰² BFAP, op. cit., 2019, p9

¹⁰³ This is the price per kilogram received by the exporter. It excludes freight and insurance charges payable by the exporter.

¹⁰⁴ SAPA, ibid., p25

¹⁰⁵ Anti-dumping tariffs expire automatically after a maximum of five years from the date of imposition, unless the authorities determine that the expiry of the duty would likely lead to the continuation and/or recurrence of dumping and material injury.



It is notable that South African producers have had the benefit of MFN protection since 2006 – at the level of about 18% for seven years, until 2013, and from then on at the higher level of 37%. An application by SAPA to more than double this to 82% on frozen bone-in chicken¹⁰⁶ is presently under consideration by ITAC. MFN duties applied to imports from all countries and regions, except the EU, which was exempted under the TDCA, from 2006.

As noted earlier, imports from the EU grew steadily from imports from 2010, but fell sharply from late 2016, owing to the outbreak of HPAI in a number of countries in the EU¹⁰⁷. Despite this fall, in January 2017, South African producers were successful in applying for safeguard protection against the high volume of imports from the EU. The tariff level was set at 13.9%. This was raised to 35.3% in September 2018, but reduced to 30.0% in March 2019. This rate will decline to 25% in March 2020 and 15% in March 2021, which will apply until March 2022. In terms of the EPA, if the circumstances that warranted the imposition of these safeguard duties initially continue to exist, such duties may be applied for up to 8 years¹⁰⁸.

As can be seen from the description above of the circumstances in which these two types of tariff apply, in neither instance can the competition from imports be regarded as unfair.

It has been argued that offshore exporters, especially those in EU countries, benefit unfairly from subsidies. In the past, the EU's Common Agricultural Policy (CAP) did indeed confer high levels of subsidy on a volume-related basis that incentivized producers to increase production. Over the past decade the basis of subsidy has changed to reduce the incentive to producers to increase output, but other forms of direct and indirect subsidy continue. Direct agricultural export subsidies ended in 2015 and are explicitly disallowed under the EPA.

Measured across agriculture as a whole, 'the Organization for Economic Cooperation and Development (OECD) Producer Support Estimate (PSE) database indicates that producer support under the CAP is high relative to producers in South Africa'¹⁰⁹. The OECD website presently records that, as a percentage of farm-gate receipts, policy transfers to agricultural producers in the EU represent 18.3%, whereas in South Africa they come to 1.9%¹¹⁰. In the US, the comparative figure is 9.9% and in Brazil 2.0%, almost the same as South Africa.

In respect of the poultry sub-sector, 'EU policy instruments are aimed at structuring and safeguarding market prices facilitating the marketing of products and establishing rules in trade with third party countries and providing stability for EU producers and processors. While these policies are aimed at supporting the (sub-)sector several domestic policies in the EU regarding animal welfare and environmental stability raise the cost of producing chicken in the region CAP support to producers assist(s) them in complying with sustainable agricultural practices'¹¹¹.

Though none of the PSE estimates relate specifically to the broiler industry, making it difficult to arrive at a more accurate comparison, the respective orders of magnitude suggest that the net level of producer support in the EU is still above the level in South Africa. If this is correct, then the appropriate response from the South African broiler industry would be to apply for

¹⁰⁶ Delegation of the EU to South Africa, May Economic and Trade Report, 15 May 2019, p1. A duty of 82% already applies on imports of frozen whole birds.

¹⁰⁷ BFAP, Economic Impact of the 2017 Highly Pathogenic Avian Influenza Outbreak in South Africa, February 2018, p22

¹⁰⁸ Official Journal of the European Union, op. cit., 2016, Articles 6, 7 (pp20-21). A review is required after 4 years to assess whether the extension of duties for a further 4 years is justified. Submissions from affected parties may be requested. Safeguard duties may never exceed MFN duties and 'clear elements progressively leading to (the) elimination (of safeguard duties) at the end of the set period' must be included.

¹⁰⁹ BFAP, op. cit., 2016, p26

¹¹⁰ OECD, Producer and Consumer Support Estimates database, oecd.org/sothafrica/producerandconsumersupportestimatesdatabase.htm

¹¹¹ BFAP, ibid.



countervailing measures, which are allowed in terms of the EU-SADC EPA¹¹², in compliance with WTO principles.

The conclusion that must follow is therefore that the South African broiler industry has in general not been subject to unfair competition from offshore exporters and, to the extent that it has, it has been able to secure effective tariff defence. Rather, it has benefitted from increasing levels of MFN duty protection and, more recently, safeguard duty protection, neither of which imply unfair competition from abroad. Clearly, EU and Brazilian imports were able to compete favourably with their South African equivalents in spite of being subject to a 37% MFN duty, replaced by safeguard duty in the case of the EU from 2017.

This raises questions about the relative efficiency and competitiveness of the South African industry.

3.3 Are South African producers technically and/or economically inefficient in most years compared to the countries from which imports of chicken are sourced?

A number of in-depth studies of the technical and economic efficiency of the South African broiler industry have been carried out by BFAP in collaboration with the Landbouwe Economisch Instituut, University of Wageningen in recent years. This section extracts from and summarizes the findings¹¹³.

‘At primary producer level, competitiveness in the global context is considered in terms of efficiency, both technically and economically. Several indicators exist for the measurement of technical efficiency in broiler production. The most commonly used indicators are feed conversion ratios (FCR), which provide a measure of the amount of feed required per kilogram of meat produced, as well as production efficiency factors (PEF), which combine multiple indicators such as slaughter weight, mortality, age and feed conversion into a single indicator.’

‘(Several studies) indicate that South African producers achieve high levels of technical efficiency (attaining) PEFs that are comparable to top broiler producing countries such as Brazil and the US. Technological improvement in both genetics and housing facilities, combined with improved management practices, have resulted in continuous improvements in the technical efficiency of South African producers over the past 20 years, as illustrated by declining FCRs and rising PEFs¹¹⁴.’

In terms of FCRs, South Africa had the lowest (best) ratio of 16 countries – including 9 in the EU, the US, Brazil, Thailand, Argentina, Russia and the Ukraine – in a 2017 study. However, this needs to be qualified by the young age and low weight at which chickens are typically slaughtered in South Africa – about 1.8kg, half a kilogram lighter than the average slaughter weight (2.3kg) in most other countries. The reason for this evidently relates to domestic marketing strategy: it is reported¹¹⁵ that retailers and quick service restaurants understand that most consumers – that is, low income consumers – assess the value of their product packages primarily in terms of the number pieces received per package or kilogram. From the point of view of the FCR, this skews the comparison in favour of South Africa, because the FCR (kg feed/kg

¹¹² Official Journal of the EU, op. cit., p19

¹¹³ Main sources: BFAP, op. cit., 2016, pp17-25, as updated by BFAP, op. cit., 2019, pp3-10

¹¹⁴ BFAP, op. cit., 2016, p17

¹¹⁵ AMIE, verbal discussion, April 2019



meat) tends to increase as birds grow older. So exact comparison is difficult. Nevertheless, adjusting for differences in slaughter weight suggests that the technical efficiency of large-scale South African producers compares well with many, if not most, of their offshore competitors.

‘However, the cost of production must also be considered, due to its impact on economic efficiency. Despite high levels of technical efficiency, (studies) indicate that the economic efficiency of South African producers does not compare as well as (their) technical efficiency in the global context, due to higher production costs¹¹⁶, though these can vary substantially from year to year. Table 3 provides a percentage breakdown of variable production costs.

Table 3 Variable production cost breakdown of South African broiler producers¹¹⁷

Variable cost component	Average share of variable cost of production (%)
Feed	71.3
Day-old chicks	20.0
Labour	1.3
Heating and electricity	3.3
Bedding, waste removal and cleaning	1.7
Vitamins and vaccinations	0.6
Maintenance	0.7
Catching	0.4
Other	0.7
Total	100.0

‘As the single greatest contributor to variable production costs, the cost of feed remains the most important factor that influences the competitiveness of broiler producers. Feed costs account for up to 70% of variable cost in South Africa¹¹⁸. The main component of feed in most countries is maize (carbohydrate for energy), with most of the balance made up of soya cake (protein for growth).

The price per ton for these two ingredients depends to a large degree on whether a country is a net exporter or importer of these commodities in most years, with prices in exporting countries generally being significantly lower than prices in importing countries. In most years South Africa is a net exporter of maize, but, up to the present it has always been a net importer of soya cake. Typically, the price of soya cake per ton is more than twice the price of yellow maize¹¹⁹, so broiler feed costs are disproportionately influenced by the price of soya cake. South African producers suffer accordingly.

‘Following feed, day-old chicks represent the second largest variable cost to broiler producers globally¹²⁰. In South Africa, they comprise about 20% of total variable costs¹²¹. ‘South Africa imports genetic material, providing access to the best genetics globally, on a continuous basis. Importing core genetics enables access to a larger and more efficient selection programme than would be affordable domestically and has been a critical factor in efficiency gains over the past decade. Broiler breeders are imported into South Africa at great grandparent or grandparent level, as regulations prohibit imports of commercial day-old chicks and limit importation of parent

¹¹⁶ BFAP, op. cit., 2016, p19

¹¹⁷ Davids and Meyer, op. cit, p127

¹¹⁸ Ibid.

¹¹⁹ BFAP, op. cit., 2019, p6

¹²⁰ BFAP, op. cit., 2016, p21

¹²¹ Davids and Meyer, op. cit., p127



level chicks. Consequently, the cost of feed remains an important driver of day-old chick costs, effectively influencing the cost of production at two different levels of the value chain¹²².

With both genetic material and soya cake both being imported on an on-going basis, the depreciating tendency of the Rand relative to the currencies of many of its broiler competitor countries influences the economic efficiency of South African producers negatively. 'South African producers paid less than the average per chick (for the 16 countries in the 2017 study). However, once accounting for the lower slaughter weight in South Africa, the costs per chick rose to above the average'¹²³.

Jointly, housing – a fixed cost – and labour – a variable cost – are the next most important component of the total cost per kilogram of primary production¹²⁴, equal to between 55 and 60% of the cost of day-old chicks¹²⁵. A range of factors, from climate to animal welfare regulations to labour and social security laws, influence these costs. South Africa had the lowest combined cost for housing and labour in a 2014 sample for the same 16 countries, helped by having the third lowest cost for labour, after the Ukraine and Russia¹²⁶.

When the costs of primary production – that is, from the purchase of day-old chicks and feed up to the point of mature bird slaughter – are aggregated, 'the cost of producing a kilogram of chicken in South Africa is very close to (marginally more than) the average (of the 16-country 2017 sample), at a level similar to countries such as Poland and Hungary. This is typically lower than most EU producers, as well as the average for all EU countries, but still higher than leading producers such as the US and Brazil'¹²⁷.

To arrive at the most accurately comparable cost of production, the costs of slaughter (including labour, packaging, energy, transport and sanitation) need to be included, as international trade in chicken meat only involves products that have gone through this process, not live birds. With the costs of slaughter in South Africa being lower than average, when the total costs of broiler production are compared with the same group of countries, South Africa ranked fourth lowest in 2017, on a par with Russia, behind Brazil (first), the Ukraine (second) and the US (third)¹²⁸.

Though costs and rankings will vary from year to year between countries and regions, the 'bottom line' for efficiency is therefore that South African producers can generally equal, or better, all of the countries from which South Africa usually imports, other than Brazil and the US. BFAP concludes: 'South Africa imports substantial quantities of chicken from countries such as the Netherlands, Germany and the UK, where production costs are higher (at least in 2017). This would indicate that (South Africa's) rising imports are not merely a result of differences in production costs, but that additional factors such as the policy environment (i.e. subsidies) and marketing strategies also need to be considered'¹²⁹.

¹²² BFAP, op. cit., 2016, p21

¹²³ BFAP, op. cit., 2019, p7

¹²⁴ BFAP, op. cit., 2016, p22

¹²⁵ Estimated from data in BFAP, op. cit., 2016, Figure 14, p23

¹²⁶ BFAP, op. cit., 2016, p23

¹²⁷ BFAP, op. cit., 2019, p8

¹²⁸ Ibid.

¹²⁹ BFAP, op. cit., 2016, p25



Differences between the EU and South Africa in the subsidies (PSE) and additional costs that result from the respective policy environments were considered in the previous section and were found, probably, to favour EU producers. Yet no application for countervailing duties is known to have been lodged by South African producers. This suggests that it is marketing strategy differences between the EU and South Africa that are key to explaining the slow growth of production in South Africa and steadily rising imports. These differences were touched on in section 2.3. But before arriving at this conclusion, possible explanations 4 and 5 need to be examined.

3.4 Are South African producers efficient, but production is constrained by disease outbreaks to which all broiler industries, however efficient, are prone?

The two most important types of disease to which poultry are prone and that lead to extensive or mass culling are highly pathogenic avian influenza HPAI and Newcastle disease (ND). Both also lead to the suspension of exports from the areas concerned, if any, though not necessarily to the local sale of culled birds.

An outbreak of the HPAI H5N8 virus, affecting the poultry industry, occurred in South Africa in 2017 and extended into 2018¹³⁰. It was reported in the popular press that ‘this is the first time that a highly pathogenic strain of bird flu has been detected in poultry in South Africa’¹³¹. This appears to be confirmed by a peer reviewed veterinary journal article which records the occurrence of H5N8 in South Africa in 2017, but no prior incidence either of that strain or of the H5N1 virus which has occurred widely in Africa since 2006 and is now regarded as endemic in some countries¹³².

With the egg industry being more vulnerable to such diseases because of the longer life cycle in layer production¹³³, the brunt of the outbreak was not borne by the broiler industry, but broiler producers were nevertheless obliged to cull over 700 000 birds – more than 10% of the domestic breeding flock, valued at R68.3 million¹³⁴. Income lost by the broiler industry was estimated at R287 million, but this amounted to no more than 0.74% of the total gross value of broiler production in South Africa in 2016¹³⁵. To date, HPAI has therefore not played a significant role in constraining the growth of broiler production in South Africa.

In contrast, periodic outbreaks of ND have been occurring since 1945, a number of which – in 1970-72, 1993-94, 2004-06 and 2013-14 – have affected commercial production¹³⁶. A leading South African researcher concludes¹³⁷: ‘Small-scale poultry production has enormous potential to stimulate the socio-economic growth of resource-poor households. Chickens provide a good

¹³⁰ Food and Agriculture organization of the United Nations (FAO), 2016-2018 Spread of H5N8 HPAI in Sub-Saharan Africa, Focus On no.12, August 2018, p3, www.fao.org/3/CA1209EN/ca1209en.pdf

¹³¹ News 24, Over 2 Million Birds Now Dead in Western Cape’s Worst Bird Flu Outbreak, 2 October 2017, <https://www.fin24.com/Economy/over-2-million-birds-now-dead-in-western-cape-s-worst-bird-flu-outbreak-20171002>

¹³² Fasanmi, O.G. et al., Public Health Concerns of Highly Pathogenic avian Influenza H5N1 Endemicity in Africa, *Veterinary World*, v10(10), October 2017, p1200, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5682264/>

¹³³ BFAP, op. cit., 2018, p7

¹³⁴ Ibid., p8

¹³⁵ Ibid., p11. At the time of publication of the report, no figure seems to have been available for the total value of broiler production in 2017.

¹³⁶ Abolnik, C, 2017, History of Newcastle disease in South Africa, *Onderstepoort Journal of Veterinary Research*, 84(1), a1306. <https://doi.org/10.4102/ojvr.v84i1.1306>, pp3-6

¹³⁷ Ibid., p6



source of protein and a ready source of cash for households, help to sustain the rural economy yet ND is the single largest threat to poultry production in Africa. The commercial sector also bears a huge economic burden as a result of the disease. In addition to production losses incurred during outbreaks and the chronic costs of control through vaccination, with a constant ND-endemic status valuable trade and export markets remain inaccessible.’ South Africa does not appear to have this status, but neither does it appear to have ND-free status¹³⁸.

Unlike HPAI, there is no immediately available information about the cost of ND outbreaks to the large- or small-scale poultry sectors or the estimated impact on production. So it is not possible to say how seriously it has constrained production and this makes a firm conclusion about the overall impact of diseases on broiler production in South Africa difficult. However, clearly it has had some degree of negative impact on large-scale producers and remains an ever-present threat, along with the increase in costs from culling and vaccination, where practised, and on-going preventative and surveillance measures.

3.5 Are South African producers efficient but reluctant for some reason(s) to undertake the investment needed to increase production?

Generally speaking, investment only occurs when the expected returns are high enough. Returns can be measured in a number of ways. Two of the most widely used in South Africa are operating profit margin (operating profit before interest and tax as a percentage of revenue) and return on equity (net profit attributable to ordinary shareholders as a percentage of shareholders’ equity, that is, a company’s assets minus its debt¹³⁹).

Not all of the ‘big 7’ are public companies in their own right – that is, they form part of a larger public company for which the data on returns published in its annual reports do not usually relate specifically to the chicken producing firm concerned. Moreover, a number are not solely, or even primarily, chicken producers. Thus, to get a sense of the operating profit margins (OPM) and returns on equity (ROE) of those that are solely chicken producing public companies in their own right, Astral, as the largest producer at present, and Sovereign Foods, as one of the smaller large-scale producers, were selected¹⁴⁰. Table 4 presents the data.

Table 4 Operating Profit Margin and Return on Equity, Astral and Sovereign Foods, 2012-17 (%)¹⁴¹

	2012	2013	2014	2015	2016	2017	Unweighted average
Operating Profit Margin							
Astral	5.8	3.1	5.1	9.8	4.6	8.7	6.18
Sovereign	6.0	6.3	4.9	6.7	6.9	-1.1	4.95
Return on Equity							
Astral	20.8	12.7	18.7	36.3	15.8	28.0	22.05
Sovereign	7.2	8.4	6.9	10.9	10.7	-4.9	6.53

Though there is no immediate benchmark other than South Africa’s rate of inflation to compare these results to, despite the negative results for Sovereign in 2017¹⁴², three of the four sets of

¹³⁸ Ibid., p7

¹³⁹ <https://investopedia.com/terms/r/returnonequity.asp>. This is not a precise definition.

¹⁴⁰ Country Bird Holdings also fulfils these criteria, but has for some years been subject to poor financial results that cannot be ascribed mainly to the nature of the industry.

¹⁴¹ Astral Integrated Report 2016, p36; *ibid.*, 2017, p39; Sovereign Foods Integrated Report 2016, p6; *ibid.*, 2017, p6



indices exceeded the average rate of inflation for the period, which was 5.61%¹⁴³, and all four would have done so, were it not for particularly unfavourable market conditions in 2016-17. So positive real returns were therefore the norm. Indeed, in Astral's case, an average nominal ROE of 22.05% (or a real ROE of 16.44%) is outstanding for a company at the mature stage of the lifecycle that it has reached, especially in a sector as volatile as agriculture.

From the point of view of investment, arguably ROE is the more important of the two indicators and average ROE such as Astral's over this period should attract investors like a magnet, even if the company's dividend policy is conservative¹⁴⁴. So funds for investment aplenty there were Astral, with the potential for yet more in the wings, were it needed. In Sovereign's case, a much smaller average real ROE of 0.92% - though this rises to 3.21% if one bad year is excluded (which most investors will tolerate) – would obviously have been less attractive, but not so bad as to be unattractive, nonetheless. So even Sovereign, which appears from its annual reports to be a well-run company with an incisive strategy for growth (see 3.4), should not have found it difficult to find funds for investment.

What then were the levels of investment for the two companies? The data provided in annual reports do not make it easy to assess this, as neither company provides much detail about capital expenditure (capex). In particular, no distinction is made between new and replacement investment and Astral's financial statements do not provide a single annual figure for capex. However, Astral's 2016 annual report does helpfully include a graph of 'capital investment' for the years 2002 to 2016¹⁴⁵, which, while showing sharp year-to-year fluctuations, more significantly, suggests a net flat trend at around the R250 million per year level in nominal terms. As the average nominal value of total assets for the period was R3 207 million¹⁴⁶, this indicates an average nominal level of capex of between 7% and 8% p.a. – about 2% p.a. ahead of the average inflation rate for the period (5.48%¹⁴⁷).

This in turn suggests that, apart from the years in which capex spiked substantially (2004, 2006-7 and 2014), most of the investment that took place at Astral was for the replacement of existing assets, rather than the addition of new assets. Astral's annual reports confirm this. 2004 saw 'the R250 million acquisition of the outstanding 50% of Earlybird Farm (Pty) Limited'¹⁴⁸, 2006-7 the expansion of production capacity at Earlybird totaling R499 million¹⁴⁹ and 2014 'the commissioning of the new Standerton feed mill (and) acquiring poultry processing equipment and farms from a number of producers exiting the industry'¹⁵⁰. From the perspective of the industry as a whole, while some of these outlays by Astral represent net additions to capacity, others simply

¹⁴² Given that Sovereign's financial year ends on 28 February, the 2017 (financial year) results mainly reflect market conditions in 2016, which was a particularly bad year for chicken producers, amongst others, because of the high cost of maize brought about by the drought in South Africa's summer rainfall areas. Nevertheless, Astral – whose financial year ends on 30 September and whose results for the drought year therefore came through mainly in its 2016 financial year – was clearly better able to ride out the high price of maize better than Sovereign.

¹⁴³ Unweighted, un compounded average of the Consumer Price Index for the period (statista.com/statistics/370515/inflation-rate-in-south-africa/)

¹⁴⁴ Astral's dividend cover became steadily more conservative over the six years, starting at 1.2 and ending at 1.8 (Astral, *ibid*). But even 1.8 hardly rates as more than moderately conservative.

¹⁴⁵ Astral, *op. cit.*, 2016, p3

¹⁴⁶ Calculated from Astral, *op. cit.*, 2016, p36 and Astral Foods Annual Report 2009, p7

¹⁴⁷ Unweighted, un compounded average of the Consumer Price Index for the period (inflation.eu/inflation-rates/south-africa/historic-inflation/cpi-inflation-south-africa.aspx)

¹⁴⁸ Astral Foods, Annual Report 2004, p8

¹⁴⁹ *Ibid.*, 2006, p12

¹⁵⁰ Astral Integrated Annual Report 2014, p10



denote the transfer of assets between firms. Clearly, though, most of Astral's growth has been organic, rather than through acquisition.

The period in which these investments took place is important too: the acquisition and further development of Earlybird during 2004-7 took place at a time when competition from imports was not a serious concern for South African producers, whereas the investment in the Standerton feed mill in 2014 occurred at a time when this was. More than the purchase of farms and equipment from outgoing producers, building a new feed mill was a significant statement of faith in the future of the industry and the firm. But it is also revealing in another way, in that it represents the only major addition to industry capacity undertaken by one of its two largest players for a decade, during the era of intense import competition, and probably one of only a few by the 'big 7' as a group.

Data accessible on-line for Sovereign Foods extends from 2011 to 2017, with no data appearing to be available for 2014. Table 5 records the amounts spent by Sovereign on capex during this period.

Table 5 Capital expenditure by Sovereign Foods, 2011-2017 (R million)¹⁵¹

2011	2012	2013	2014	2015	2016	2017
R24.524	R8.250	R66.837	?	R109.100	R5.400	R5.315

Significant spikes in capex took place in 2011, 2013 and 2015. For a company with assets of over R1.4 billion¹⁵², capex of the order of R5 million to R8 million that occurred in the other years represents no more than replacement investment. No details are available in the annual reports about the purpose of the R24 million spent in 2011 and surprisingly little about the much larger R66 million spent in 2013, which it was reported, opaquely, was 'to create headroom in the supply chain to allow for operational disruptions'¹⁵³.

However, the R109 million outlay in 2015 was 'to complete the purchase of the Hartebeespoort abattoir'¹⁵⁴, near Johannesburg and Pretoria, from the Pioneer Foods Group's Quantum Foods, of which Tydstroom Poultry, the fourth largest producer in 2013, is part. So it is probable that some, or all, of the large capital outlays in 2011 and 2013 were to initiate that purchase – in which case most of Sovereign's capex for the period represents the intra-industry transfer of assets, rather the adding of new capacity. But the 2016 annual report does add that 'the Group will expand production at Uitenhage (its headquarters near Port Elizabeth in the Eastern Cape) and Hartebeespoort with a focus on Hartebeespoort'¹⁵⁵, so it is possible that some new additions to capacity were made.

The overall picture that emerges, bearing in mind RCL's closure of 12 farms and sale of a plant, is that very little net new investment to expand the total production capacity of the industry has been undertaken for most of the past decade, and probably longer. If there was any spare capacity at the beginning of the decade, it is probable that most of that would have been taken up within a few years, even with the modest increase of around 10% in production that has taken place since 2008. And the only references to lack of capacity that can be found in annual reports were responded to by the acquisition of more capacity from other firms. It is therefore hard to

¹⁵¹ Sovereign Foods, Integrated Report 2017, p75; *ibid.*, 2016, p78; *ibid.*, 2013, p84

¹⁵² *Ibid.*, 2017, p16

¹⁵³ *Ibid.*, 2013, p15

¹⁵⁴ *Ibid.*, 2015, p12

¹⁵⁵ *Ibid.*, 2016, p14



avoid the conclusion that lack of investment in new industry capacity has been a major constraint on the growth of total local production. This does not mean that no investment, other than replacement investment, took place, but that such investment in new capacity as did occur focused more on increased efficiency and initiatives such as value addition through developing new product lines (see 3.2).

This begs the question: why was there so little investment? It is certainly true that consumption grew more slowly over the last decade than the previous one, as was noted earlier. But consumption nevertheless grew at about twice the pace of production on average over the course of the decade. So that is hardly likely to have been the main reason. It is also true that policy uncertainty, both at the macro level and at the agriculture sectoral level, increased steadily during the period, most recently in respect of land ownership. But again, there are few references to this as a deterrent to investment in annual reports and, occupying so little land, the chicken industry is one of the least likely to be affected by land claims or land expropriation. So policy uncertainty is also unlikely to have been an important reason for lack of new investment. And lack of access to funding for investment has already been shown to be unlikely to have been a factor.

The reason that comes through time and again in annual reports is competition from imports, which, more often than not, is referred to as unfair or dumping. As has already been seen, though there have been instances of dumping which ITAC has responded to with anti-dumping measures, this has not generally been the case – other than in the instance of the US – and it has been other measures – MFN and safeguard duties – that have been invoked to limit offshore competition, neither of which is premised on unfair competition.

3.6 Summary of reasons for slow growth of production and exports and for the increasing share of imports

To sum up, the main reasons for the slow growth of output of the South African broiler industry and for imports to be playing an increasing role in meeting South African demand appear to be that:

1. There has been a rapid increase in demand for chicken products not produced in South Africa in recent years, chiefly MDM.
2. The dominant South African business model, together with the limitations of the country's present SPS capacity (as will be shown in 4.2), have largely precluded local producers from accessing export markets.
3. Little investment that has added to the production capacity of the industry as a whole has taken place over the past decade, which the industry ascribes mainly to growing competition from imports.

Conversely, factors that have often been argued to play a role, but that, on examination, do *not* seem to account significantly for the slow growth of local output or the steady increase in imports, are that:

1. The industry does not generally seem to have been subject to unfair competition from offshore exporters and, to the extent that it has, it has usually been able to secure effective tariff defence. Rather, it has tended to benefit from increasing levels of MFN duty protection and, more recently, safeguard duty protection, neither of which imply unfair competition from abroad.
2. The industry is not inefficient relative to most of its offshore competitors. In terms of technical and economic efficiency, in most years South African producers can equal, or



better, all of the countries from which South Africa usually imports, other than Brazil and the US.

3. Disease outbreaks have played a role in constraining the growth and increasing the costs of broiler production in South Africa, but it is uncertain how significant this has been.

If these, then, are the main factors that have influenced the growth of domestic output in response to steadily growing domestic demand, what are the implications and the main options open to South African producers, if they wish their growth to accelerate? What could government do to assist? And, given its commitment to the development of the South African economy in terms of the EU-South Africa Strategic Economic Partnership and the EU-SADC EPA – as well as to pursuing the continued development of the EU economy – what are the main options for the EU to assist? The discussion first considers large-scale firms, then small-scale producers.

4 Options for Growth for the South African Large-Scale Broiler Industry and for Government and/or the EU to Assist

The main options for growth for the South African industry initiated by players in the industry themselves and for external parties, in particular government and the EU, to assist respond directly to the six conclusions arrived at above. The discussion is structured accordingly.

4.1 There has been a rapid increase in demand for chicken products not produced in South Africa, chiefly MDM.

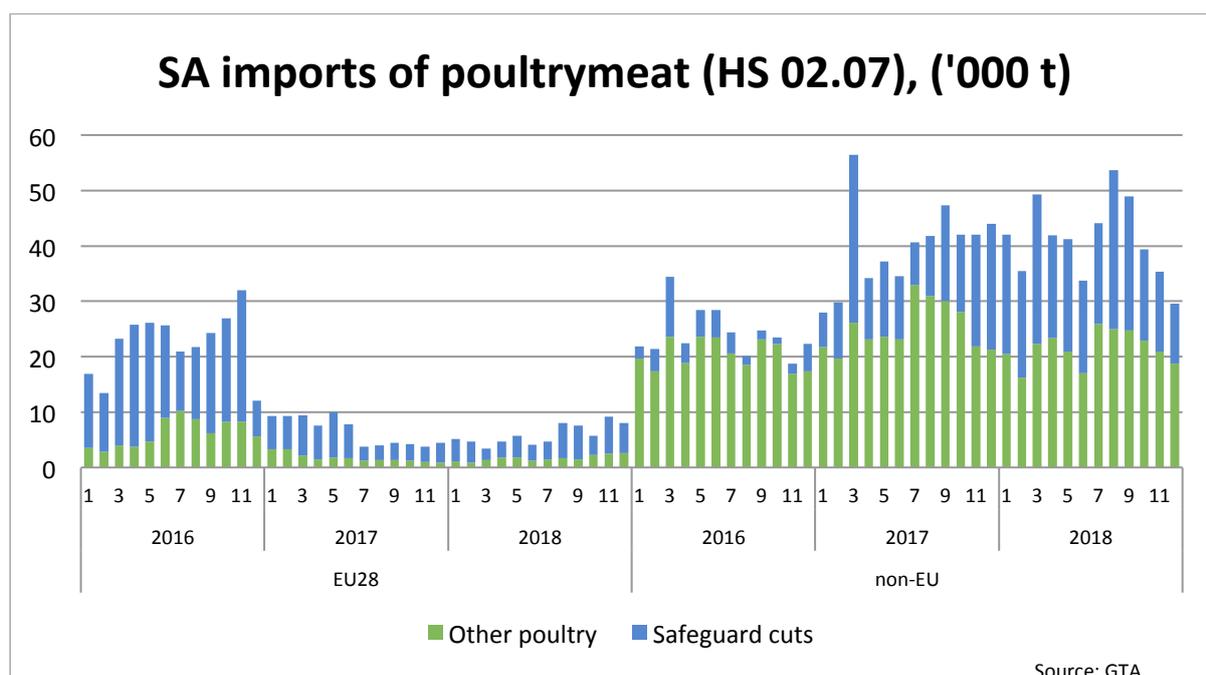
MDM is the only chicken product imported into South Africa that is not produced locally¹⁵⁶. While MDM is no longer the largest single component of imports, MDM imports are still substantial, as Figure 3 indicates, and amounted to about 270 000, or just less than half, of the roughly 550 000 tons imported in 2018 (see 2.3). However, only about 20 000 tons of this came from the EU, or about a quarter of the total of roughly 60 000 tons of chicken products imported from the EU in 2018.

Figure 3 South Africa's Imports of poultry meat, 2016-2018¹⁵⁷

¹⁵⁶ BFAP, op. cit., 2016, p28

¹⁵⁷ EU Delegation in South Africa, op. cit., p3. 'Safeguard cuts' refer to 'frozen bone-in portions of fowls of the species *gallus domesticus*' (South African Government, Government Gazette no.41939, 28 September 2018, Notice R1009).





With such a large quantity of MDM being imported, it is surprising that South African producers have not begun to produce MDM themselves. The reason appears to be that, as in the instance of frozen bone-in portions, it is difficult for them to compete with imports. It is reported that MDM can be imported at R10 per kilogram – considerably less than the domestic price for chicken carcasses (R16 per kilogram)¹⁵⁸ from which MDM is produced. However, as mentioned in 3.1, it is understood that one or more South African producers do now plan to start MDM production.

The main premise on which such plans must be founded is a high enough level of protection to make local producers competitive. With the bulk of MDM (about 80%) having emanated from non-EU sources in 2016 – probably mainly Brazil – before imports from several EU countries were suspended because of HPAI, the form of protection needed will probably be MFN duties, because it is unlikely that, if South Africa has not sought or been granted anti-dumping protection from Brazilian frozen bone-in imports, it would receive such protection from MDM imports. Safeguard duties only provide temporary protection and Brazil's level of PSE is almost the same as South Africa's, ruling out the possibility of countervailing duty protection. The level at which MFN duties would need to be set is probably almost the same as the 82% being sought by SAPA for frozen bone-in cuts for local MDM production to be profitable, taking into account the difference between the price for domestically produced carcasses and the price of imported MDM, as well as the cost of processing. It is not known if MDM was included in the application from SAPA to ITAC.

Given the relatively upmarket nature of demand in the EU, it also seems unlikely that South African producers would succeed in an application to ITAC for anti-dumping protection against imports of MDM from the EU. As the EU is exempt from MFN duties in terms of the EU-SADC EPA, South African producers would have to rely on safeguard protection, though this is only temporary and might not be granted because of the relatively small quantity of MDM imported from the EU annually (less than 70 000 tons, if imports rise again, post-HPAI suspension, to the apex level reached in 2016) and because there is not yet any production in South Africa to be

¹⁵⁸ AMIE, op. cit., p11. It is understood that chicken carcasses are sold as ingredients for flavorants for porridges. Significant tonnages are also imported for this purpose (see Annexure A).



protected from harm. The EU-SADC EPA does provide for infant industry protection, but its applicability in an instance such as this is uncertain.

So it will be a brave undertaking if some South African producers do indeed commence production of MDM and will almost certainly only happen if an MFN duty for MDM is approved and is set at around 82%. Bearing in mind the investment required, the scale probably needed to make it pay and that MDM, despite being a value-added processed product, is still akin to a generic commodity – like IQF pieces – and therefore has only limited potential for product differentiation-based profit, it may well only be Astral that is considering the production of MDM. If so, local monopoly status may help to make the investment attractive for the producer(s) – at the expense of consumers.

It is possible that some up-market value-added chicken products of the kind mentioned in 2.2, but not produced in South Africa, now form part of the import mix. If so, though the quantity will still be small, it can be expected to grow. Emphasis is now being placed on producing such products in the EU¹⁵⁹ and given the wide scope for product differentiation, developing uniqueness, at least temporarily, is not difficult. This is something South African producers should also keep in mind as a possibility for taking advantage of market niches both at home and abroad. This calls for some elaboration.

¹⁵⁹ See, e.g., Mulder N-D, *op. cit.*



4.2 The dominant South African business model, together with the limitations of the country's present SPS capacity, have largely precluded local producers from accessing export markets

It was noted in 2.3 that a key reason for the slow growth of exports is the dominant South African business model, characterized by the practice of brining – which is prohibited in frozen and fresh chicken products in most other countries, unless sold as ‘prepared chicken’ – and a lack of emphasis on value addition. However, it ought not to be too difficult or expensive to develop a separate post-slaughter production line for unbrined chicken. The growing process would need to be differentiated between production for the domestic market and for exports, given that the standard size of slaughtered birds in most major importing countries is 2,3 kilograms, rather than the 1,8 kilograms of the local market¹⁶⁰, increasing the weight expected of cuts. There may also be differences regarding what is acceptable in terms of medication.

So there must be other reasons for the slow growth of exports. These relate to the inability of most local production to meet potential export markets' SPS requirements. The requirements vary from country to country and by livestock type, but all call for the same broad capacities to monitor and prevent diseases and/or other practices, such as the use of growth hormones and even vaccinations, in exporting countries. Many potential exporting countries, including South Africa, have deficiencies in this regard, particularly in respect of services usually seen to be the responsibility of government. Moreover, some South African producers are understood to apply growth hormones and/or vaccines.

In June 2016 in collaboration with the Department, the EU commissioned an audit to ‘evaluate the animal health controls in place for ratites (in this instance ostriches) for breeding and production, including the hatching of eggs and day-old chicks thereof, and for meat from farmed ratites that are intended for export to the EU’¹⁶¹. Although the findings relate to ostriches, which at the time were prohibited from import into the EU because of an outbreak of HPAI that had affected the ostrich industry in South Africa, most probably apply equally to the broiler industry. The following paragraphs summarize.

‘On paper, the system to provide the necessary animal health guarantees in the context of the certification of exports to the EU is well conceived, but its implementation presents important shortcomings.’

‘The inspection programme on ratite holdings (i.e. farms), in practice does not take into account important risks and it does not contribute to reinforce the measures planned to decrease the risk of infection with HPAI and Newcastle disease viruses. The surveillance programmes for these diseases present important pitfalls in their conception and implementation and the system for their early detection is ineffective.’

‘The management of disease suspicions and outbreaks, e.g. implementation of control and education measures, together with the low frequency of conclusive pathotyping and full characterization of detected AI viruses does not enable the South African competent authorities

¹⁶⁰ BFAP, op. cit., 2016, p18

¹⁶¹ European Commission, Directorate for Health and Food Safety, Final Report of an Audit Carried out in South Africa from 7 June 2016 to 15 June 2016 in order to Evaluate ... to the EU, DG (Sante)/2016-8768-MR



to give appropriate assurances with regard to the status of free from infection with high pathogenicity AI viruses in poultry. Similar deficiencies in relation to Newcastle disease compromise the provision of the necessary certification guarantees for exports to the EU of the commodities covered by the scope of this audit.

'All these factors, together with poor verification of the official activities implemented on the ground, mean that the competent authorities cannot give all of the necessary guarantees for the export of ratites and their products to the EU'¹⁶².

A set of 12 recommendations followed, the essence of which were:

1. 'To make available sufficient adequately trained staff
2. 'To provide for adequate verification of effective implementation by provincial veterinary services of animal health controls and disease surveillance activities
3. 'To provide for the effective implementation of an official inspection system that can contribute to reinforce the effectiveness of preventive measures for HPAI and ND
4. 'To provide for serological (i.e. diagnostic surveillance of blood serum) surveillance programmes for HPAI which are properly implemented on ratite holdings and documented for poultry other than ratites
5. 'To (make) the early detection of HPAI and ND more effective by raising awareness of the importance of rapid reporting of any signs(s) compatible with the presence of those diseases
6. 'To improve the design (and) effectiveness of surveillance for ND
7. 'To provide for adequate epidemiological analysis of cases where the presence of HPAI or ND (is suspected) or has been detected
8. 'To provide for a consistent epidemiological analysis (system) to confirm the presence or absence of residual animal and public health risks before lifting restrictions on exports
9. 'To provide for proper control and eradication measures for cases where a virulent strain of disease cannot be excluded
10. 'To improve the quality assurance of laboratories designated for diagnosis
11. 'To provide for: a) the systematic, effective pathotyping of all detected HPAI viruses, b) a significant increase in the number of isolates of viruses fully characterized, and c) the virulence determination of all ND viruses detected
12. 'To submit without delay to the EU reference laboratory for HPAI and ND virus isolates from outbreaks and to provide the EU Commission with immediate and updated epidemiological information.'¹⁶³

¹⁶² Ibid, p54

¹⁶³ Ibid, pp55-59



A further audit – of residue monitoring capacity – was carried out in February 2017, which recommended:

1. 'Ensur(ing) that the residue monitoring plan envisages the testing of all relevant substances in line with the range of veterinary medicinal products authorized and reflects EU maximum residue limits for the substances tested
2. 'Ensur(ing) that all analytical results are obtained with methods demonstrably fit for purpose and (are) reported in a sufficiently timely manner.'¹⁶⁴

The response of the Department and the ostrich industry is instructive. With both aware of the lack of capacity within the national and the provincial departments to implement what the findings of the 2016 audit referred to as 'a well-conceived system on paper', a public-private partnership was formed to carry out the detailed responses of the Department to the recommendations. In effect, this appears to have involved outsourcing most of the on-the-ground activities under the supervision of the Department, enabling the competent authorities to sign off on compliance on an informed basis.

The division of costs is uncertain, though it may – appropriately – require the industry to carry the greater part of the burden. But what matters most is that both the approach and the implementation met with the approval of the EU health and food safety authorities and enabled the industry to resume exports of ostrich meat to the EU. Though the South African pork industry does not export pork to the EU – most exports go to neighbouring SACU or SADC countries – it is understood that the pork industry has adopted a similar approach, with similar success.

It would almost certainly be more complicated in the much bigger broiler industry, with many more small participants, but the precedents have been set – and not only by the ostrich and pork industries, but also by some of the 'big 7' in the broiler industry who have chosen to circumvent the challenges of exporting uncooked products by exporting cooked, value-added products.

Many of the smaller members of the group, as well as one of the two biggest players – RCL – in answer to the intense competition for the IQF market and the low returns to be had from it, have opted to reduce their output of generic chicken meat and move towards adding value and differentiating their products. In RCL's instance, the move has involved a sharp decline in overall chicken production (described in 2.1) in South Africa. The firm is now focusing on adding value, especially through making pies – which are exported widely into Africa and the Middle East¹⁶⁵ - and its 'Freezer to Fryer' range¹⁶⁶.

Sovereign decided to start moving away from the IQF market as long ago as 2012, when it began to develop its 'home meal replacement' range – fully cooked and crumbed portions¹⁶⁷. This range of higher margin, niche products now includes crumbed, coated, fully cooked, marinated and tumbled frozen or fresh products, which have grown steadily and by 2017 were generating 34% of the firm's turnover¹⁶⁸. Some of these are now being exported¹⁶⁹, it is understood particularly to Middle Eastern markets¹⁷⁰. Two major advantages of this strategy are that exports benefit from the weakening tendency of the Rand and that brining doesn't constitute a constraint on exporting

¹⁶⁴ DAFF, Response of the competent authorities of South Africa to the recommendations of report ref. DG (Sante)/2017-6181-MR, 5 May 2017, p1

¹⁶⁵ RCL, Integrated Annual Report 2017, p13

¹⁶⁶ Ibid., p61

¹⁶⁷ Sovereign Foods, Integrated Annual Report 2013, p4

¹⁶⁸ Ibid., 2017, p4

¹⁶⁹ Ibid. p13

¹⁷⁰ AMIE, verbal information



frozen cooked products, as there is no point in brining before cooking. Sovereign now has a policy of keeping reliance on IQF income to below 30% of total revenue¹⁷¹.

The main point, in the context of meeting foreign countries' SPS requirements, is that these are less demanding for cooked, value-added products than for frozen, uncooked IQF pieces, because of the reduced likelihood of transmitting diseases. Sovereign and RCL have taken advantage of this and are increasingly supplying these products to markets elsewhere in Africa and the Middle East but there appear to be other unexploited opportunities for exports relating to substantial markets, including the EU.

One is the market for whole birds – mainly in the Middle East, but also in some African and South American countries. The tonnage of whole bird imports absorbed by these markets exceeded 1,6 million in 2015 and it appears that South Africa could export to them at a competitive FOB price¹⁷². The possibility of entering these markets is being explored¹⁷³, but the requirements for meeting their SPS standards are unknown¹⁷⁴.

The second is the market for 'salted chicken' in the EU, i.e. 'frozen boneless chicken cuts impregnated with salt (though not in the form of brine), with a salt content of 1.2-3 per cent'¹⁷⁵, the size of the market for which is comparable to that for unsalted cuts¹⁷⁶. Again, it ought not to be too difficult or expensive to develop a separate post-slaughter production line for salted chicken, although the growing process would need to be differentiated to produce 2.3-kilogram birds, but the SPS requirements would presumably be similar to those of unsalted breasts.

A third is the market for 'heated chicken' in the EU, which 'could start once the residue monitoring plan for such (a) commodity is submitted and approved by the (European) Commission'¹⁷⁷. This appears to refer to pre-cooked chicken products, for which, as pointed out above, brining is not a consideration. Firms, such as Sovereign and RCL may already have developed – but otherwise certainly have been able to find externally – adequate residue monitoring capacity¹⁷⁸. For individual firms or the industry to meet this requirement would certainly seem to be much less demanding than fulfilling the long list of requirements for exporting generic uncooked IQF cuts detailed above. But to access this market and the market for salted chicken, residue monitoring would need to show that the EU's requirement for birds not to have received artificial growth stimulants/hormones has been met. It is understood that at least some major producers would need to split their production processes between 'production for EU markets' and 'production for local/other export markets' to demonstrate this¹⁷⁹.

If South African producers want to enter the high-volume premium market for IQF chicken breasts in the EU, whether salted or unsalted, they will have to take the initiative to develop a public-private partnership with DAFF to address the deficiencies in its SPS capabilities, much as the

¹⁷¹ Sovereign Foods, op. cit., p9

¹⁷² AMIE, op. cit., p17

¹⁷³ SAPA, op. cit., 2017, p10

¹⁷⁴ Parliamentary Monitoring Group, South African Poultry Association, Association of Meat Importers and Exporters on Industry Challenges ..., 13 March 2015, <https://pmg.org.za/committee-meeting/20501/>

¹⁷⁵ WTO, EC Chicken Cuts (DS269, 268), https://www.wto.org/english/tratop_e/dispu_e/cases_e/269_e.htm

¹⁷⁶ AMIE, op. cit., pp18-19

¹⁷⁷ This is identified as an important export opportunity for the South African broiler industry in: Delegation of the European Union to South Africa, op.cit., 15 May 2019 (attachment, p2)

¹⁷⁸ For evidence of this, see SAPA, op. cit., 2017, p80. National residue monitoring and microbial reduction programmes are being developed by DAFF (ibid., pp80-81)

¹⁷⁹ DAFF, verbal information reported by Delegation of EU to South Africa.



ostrich and pork industries have done, and be prepared to foot the bill for most of this. Some may also need to split their production processes to meet the EU's 'no artificial growth stimulants' requirement. To date, this hasn't happened, despite some encouragement from the EU to the industry and DAFF to start the export application process¹⁸⁰.

Beyond bureaucratic delays, there appear to be two important reasons for this: the costs and difficulties involved in meeting the requirements listed above, and doubts about whether the game would be worth the candle in relation to profits.

Without a good deal more research, specific to the broiler industry, it is difficult to assess the order of magnitude of the costs and organizational challenges entailed in the requirements for meeting the EU's SPS standards. But the lists of findings and recommendations from the audits undertaken for the EU suggest that they will be considerable for an industry as widely distributed and with as many small producers as the broiler industry. For it to be worth the industry's and government's while to make the investments and foot bill for recurrent operating costs, a critical mass of exporters – including Astral, given its dominance of the industry – would need to be involved.

The challenge most often mentioned by the South African industry is the need for a practical system of compartmentalization to provide effective surveillance and control and eradication measures where a virulent strain of disease occurs. It is understood by the industry¹⁸¹ that EU regulations prohibit imports from anywhere within an extensive radius of an outbreak, confirmed or suspected. Not only is this reckoned to be more extensive than appears to apply to many of the EU's own producers – which is seen to be unfair – but effective surveillance of the many small producers and owners of backyard chickens is near impossible in large areas.

What is most important for chickens that are being produced for mass domestic and export commercial markets is effective preventative, surveillance and disease control systems within the confined space of enclosed growing facilities. This is more easily achieved by integrated single-site plants than when off-site contract growing is involved, but it is felt by large South African producers that the EU should be willing to review and relax the present requirement, which they see as being nothing more than a convenient TBT. It is beyond the competence of this study to assess the epidemiological merits of this view. However, less strict, less energetic application of South Africa's SPS requirements for imports of EU origin might be seen as a reasonable quid pro quo for relaxing the requirement (see 3.2).

On the other hand, it is not clear how many of the 'big 7' are seriously interested in entering the intensely competitive market for uncooked IQF breast meat in the EU, despite the premium prices that they would receive – about 37% higher than in local markets¹⁸². The relief that the EU-SADC EPA provides on import tariffs that the Thai, Brazilian and Ukrainian exporters – who are currently the main sources of EU imports¹⁸³ – have to pay would certainly be an advantage, but this is offset by the higher transport costs that South African producers would incur, at least in relation to Brazil and the Ukraine.

Complaints about the difficulties of accessing the EU market for IQF breasts are to be found in the Chairpersons' and Chief Executive Officers' statements in the annual reports of South Africa's large producers, but not nearly as frequently as those about unfair competition in local markets.

¹⁸⁰ However, it is understood that preparations are now being made by SAPA to complete the necessary EU questionnaire.

¹⁸¹ CEO SAPA, verbal information

¹⁸² In 2016, the FOB boneless chicken export price from South Africa was R27.48/kg (SARS), while the price for the same item in a locally marketed IQF pack was R20.08/kg. (AMIE, op. cit., p21)

¹⁸³ European Commission, 17 April 2019, op. cit., p6



Most firms seem to prefer to go the alternative, probably more profitable, route of developing product-differentiated, value-added export markets, as the EU is encouraging its own producers to do¹⁸⁴.

The major exception to this is Astral, for whom the vertically integrated generic chicken meat value chain remains almost the sole focus. It now completely dominates this value chain in South Africa, with RCL's change of strategy and consequent diversification. Unlike most of its smaller colleagues¹⁸⁵ in the 'big 7', Astral's expansion into other countries in Africa involves setting up similar vertically integrated value chains¹⁸⁶ and its corporate strategy is 'to be the best cost integrated producer in selected African countries'¹⁸⁷. Value-added products do form a growing part of the overall product mix and contributed 7% to revenue in 2017 – up from 5% in 2016¹⁸⁸ – but there is scarcely another mention of these products in annual reports and no mention whatever of aspirations to enter EU markets, despite IQF portions making up 53% of total turnover¹⁸⁹.

With the outstanding returns that Astral has made since 2012 (see Table3), if not longer, one has to ask: what incentive is there for it to change its current business model and expansion strategy? Clearly, Astral is extremely good at what it does and has done successfully despite the ups and downs of maize prices and the competition from imports. Protection certainly will have helped and may help yet more, if SAPA's current application to ITAC to raise MFN duties to 82% on imported IQF portions (other than from the EU) succeeds. But if it doesn't, and MFN protection remains at 37%, Astral has shown it can do very well without it. Given the critical contribution to employment that Astral makes, it is unlikely that ITAC will want to reduce the MFN tariff below its present level in the foreseeable future, consumer interests notwithstanding.

Though the safeguard duty on EU frozen bone-in imports is presently almost at the same level as MFN duty, it is expected to continue decreasing and may lead to an application by SAPA for anti-dumping protection in due course. But even when EU imports were at their peak in 2016, when there were no safeguard duties – and which coincided with a peak in maize prices – at least some South African producers still made good profits (see Table 4).

All of this also may help to explain why, despite their on-going complaints about unfair competition from imports, both South African firms and DAFF have not responded actively to the invitation by the EU to begin the application process for access to the EU for exports¹⁹⁰. They may neither be particularly keen to do so, given costs and uncertain returns, nor may they really need to do so, given the returns that they have realized without access and the growth that they have achieved through other strategies.

The conclusion regarding the impact of current South African business models and the country's limited SPS capacity is therefore that, on closer examination, neither has constituted an impenetrable barrier to growth or exports, nor do they seem likely to in the future, given the capacity of the business models to evolve. Despite the premiums obtainable on white meat in the

¹⁸⁴ Mulder, N-D, *op. cit.*

¹⁸⁵ Country Bird follows a similar strategy in Mozambique (Country Bird Holdings, Consolidated Financial Statements 2014, p11)

¹⁸⁶ See, e.g., Astral, *op.cit.*, 2016, pp 27-28

¹⁸⁷ *Ibid.*, p19. While some of these countries – Mozambique and eSwatini (formerly Swaziland) – are part of the EU-SADC EPA, increasing the intensity of competition from EU chicken, others (Ethiopia and Zambia) are not, possibly giving Astral some protection from EU exports.

¹⁸⁸ Astral, *op. cit.*, 2017, p 30

¹⁸⁹ *Ibid.*

¹⁹⁰ AMIE, *ibid.*, p 22



EU, the market for generic frozen cuts in the EU may not be attractive enough to South African broiler producers to make it worth their while to try to overcome the country's SPS constraints, if this is to be undertaken largely at their own expense. An independent Poultry Disease Monitoring Agency has been formed and is presently being funded by SAPA to drive this process¹⁹¹. However, if the costs of improving the country's SPS capabilities were not mainly to be borne by the industry, it seems likely that at least some of the 'big 7' would review their business models and adjust their production lines to accommodate the production of breasts for export, as remarks from Sovereign confirm¹⁹².

Should there be a ban on brining to try to increase the attraction of exporting IQF breasts? The answer to this would surely be 'no', if this is the main objective, as this would be a case of the tail wagging the dog. Would the case for banning brining be any stronger if it put consumer interests first? Possibly, but brining may not be inherently bad and may possibly have some benefits in terms of succulence and taste¹⁹³.

What would seem to be most important is to control the level of brining – now legislated for at a maximum of 15% - and for consumers to be more effectively enabled to make informed choices about the value-for-money of their purchases. The packaging of frozen chicken is required to declare whether a product contains brine or not and, if so, at what level. While this should allow consumers to make informed choices, it is not easy to do so when comparable packages of brined and unbrined IQF pieces are not on offer together. Casual visits to some retail chain stores suggest that this is often not the case.

4.3 Little investment that has added to the production capacity of the industry as a whole has taken place over the past decade, which the industry ascribes mainly to growing competition from imports

As already noted (see 3.5), investment to increase local capacity is occurring in the form of improvements to efficiency and equipment to develop new value-added product lines. This is reflected in the gradual expansion of production, averaging around 1% p.a., which has occurred over the past decade.

As also already noted (see 3.1), investments to increase local production, at least of MDM, will probably be spurred if MFN duties are increased, as requested by SAPA. This would come at the expense of consumers, but increased imports from the EU, even with the current level of safeguard duties, could be expected to put a cap on the extent to which prices would rise, though also on the volume of new investment. The progressive reduction of safeguard duties over the next two or three years will tighten these caps.

But most important, it was noted further (see 3.2) that as long as the dominant business model – defined most specifically by brining – continues, new investment and growth of total output are likely to remain slow. The growing dominance of Astral, especially in the IQF market, will either encourage its 'big 7' competitors to move out of IQF production altogether over time – as may be RCL's strategy – or, if they decide to retain IQF as their bedrock, ensure that they do not move

¹⁹¹ SAPA, op. cit., 2017, pp75-80. The Agency's initial activities include the formation of a 'community of practice' to assess disease risks for imports, exports and local production.

¹⁹² Ibid, 2017, p13

¹⁹³ See Sovereign Foods, ibid, 2013, p11



away from a brine-based business model, because of the need to be able to compete with Astral's prices. What could change this significantly is if packaging becomes obliged to disclose the percentage of brine¹⁹⁴ and if consumers progressively incorporate this information into product choice. Whatever other measures are taken to assist the growth of the industry, this should surely be recommended – as should consumer education in this regard. There can be few valid objections.

Lastly, as also noted in 3.2, the development of DAFF's SPS capacity in collaboration with, but not placing the burden entirely on, the industry, could be expected to accelerate investment and output, though perhaps not dramatically, given the intensity of competition in generic IQF cuts markets. Continuing efforts by the EU to support DAFF in building its SPS capacity will assist, as will greater public sector budget allocations.

4.4 The industry does not generally seem to have been subject to unfair competition from offshore exporters and, to the extent that it has, it has usually been able to secure effective tariff defence. Rather, it has tended to benefit from increasing levels of MFN duty protection and, more recently, safeguard duty protection, neither of which implies unfair competition from abroad

The main options for protection open to the South African industry are, as already mentioned (see 3.2), to seek (i) higher MFN duties – which it is in the process of doing – or (ii) at least in the instance of the EU, countervailing duties – which, for reasons that are not clear it doesn't yet appear to have done – as there is very little budgetary capacity for South Africa to increase its PSE, or (iii) an extension or renewal or increase of safeguard duties – which could extend up to as long as 8 years after the date of imposition in terms of the EU-SADC EPA¹⁹⁵.

In the instance of the present application for greater MFN protection, ITAC will no doubt be taking into account the industry's contribution to employment, but it will be constructive if it demands higher levels of investment. New investment will certainly take place if MDM production capacity is developed, but the need for more investment could also be prioritized in respect of the application for increasing MFN duties on more important IQF production.

In addition, the industry will still need to keep its eyes open for possible instances of dumping and act immediately on them – which exporting countries could not validly object to – or South Africa's health authorities could apply its SPS requirements for imports yet more energetically or strictly – which, as noted in 3.2, may have some significant downsides.

¹⁹⁴ In terms of International Food Standards, 'added water shall be declared in the list of ingredients (in the labelling of food products) except when the water forms part of an ingredient such as brine ...' (FAO/WHO International Food Standards, Codex Alimentarius, General Standards for the Labelling of Prepackaged Foods, CXS 1-1985, as revised in 2018, p4, Clause 4.1.2.5), www.fao.org/input/download/standards/32/CXS_001e.pdf

¹⁹⁵ Official Journal of the European Union, op. cit., 2016, Article 34, paragraph 6(b) (p21)



4.5 The industry is not inefficient relative to most of its offshore competitors. In terms of technical and economic efficiency, in most years South African producers can equal, or better, all of the countries from which South Africa usually imports, other than Brazil and the US.

It was seen earlier that South African large-scale producers are amongst the most technically efficient in the world and that investments to increase efficiency are being made by this group of producers, thereby making possible the gradual growth of output that has occurred over the past decade, despite little investment being undertaken aimed specifically at increasing total production capacity. In terms of increasing technical efficiency there does not seem to be much scope for improvement beyond continuing this approach.

The main opportunity for increasing economic efficiency was shown to lie in increasing South Africa's soya cake production capacity. Off a zero base in the early 1990s, local production of soya beans has grown steadily and exceeded the 1 million tons level for the first time in the 2014/15 season. The country has comfortably more than enough capacity to crush the crop. However, in 2015/16 it was expected that 55% of local demand for soya cake for livestock feed would still need to be met by importing¹⁹⁶, thereby pushing up the cost of feeds in relation to other livestock producing countries, chiefly Brazil and the US, which do not need to import either yellow maize and soya cake.

While imports of soya cake decreased by about 45% between 2011 and 2014, there is clearly considerable scope for increasing local soya bean production to bring down the cost of livestock feed. It is expected that the area planted will continue to grow to take advantage of this need, until the local price is no longer set by import parity, although recent relatively low international prices for soya beans may slow this process. There is not thought to be a need to invest further in crushing capacity¹⁹⁷. Especially with the expected long term weakening of the Rand relative to the currencies of many of the countries from which it imports chicken – though perhaps, importantly, not Brazil – the anticipated increase in local soya bean production should gradually increase South African broiler producers' economic efficiency.

4.6 Disease outbreaks have played a role in constraining the growth and increasing the costs of broiler production in South Africa, but it is uncertain how significant this has been.

The measures needed to reduce or prevent the incidence of HPAI and ND have already been outlined (see 3.2), but it was noted that it was not possible for this study to try to estimate the cost, to either the public or the private sector, of implementing them effectively. However, it does seem critical, not only for exports, but also for domestic production and consumption, for the recommendations to be implemented well enough for South Africa to avoid being declared a

¹⁹⁶ Sihlobo, W and Kapuya, T, South Africa's Soya Bean Industry: A Brief Overview, Grain SA, March 2016, <https://www.grainsa.co.za/south-africa-s-soybean-industry:-a-brief-overview>

¹⁹⁷ Ibid.



disease-endemic country, both for HPAI and for ND. This again emphasizes the value of continuing support from the EU for improving the capacity of DAFF's SPS directorates.

The absence of a recommendation for vaccination, bearing in mind that the audits concerned were commissioned by the EU, suggests that the EU does not permit the import of vaccinated chicken meat. So vaccination does not appear to be an option for any producer who may wish to export to the EU, though it does appear that vaccinated chicken meat can be sold legally in South Africa¹⁹⁸. BFAP's modelling suggests that a widely applied vaccination strategy for HPAI would have a significant cost initially, but not over a longer period¹⁹⁹.

5 OPTIONS FOR GROWTH FOR THE SOUTH AFRICAN SMALL-SCALE BROILER INDUSTRY AND FOR GOVERNMENT AND/OR THE EU TO ASSIST

BFAP's comprehensive 2016 study of the broiler industry in South Africa addressed options for growth for small-scale producers in some depth²⁰⁰. These were summarized in a journal article in 2017²⁰¹. The discussion below draws heavily on the findings of that research, as well as on a related article by BFAP staff, also published in 2017, focusing on price formation and contract growing²⁰².

A brief outline of the importance of small broiler production and of the small broiler production value chain was provided in 2.1. South Africa's small producers can be divided into five main groups:

- Very small production units with live sales, direct to consumers only, which typically raise about 500 birds at a time
- Very small production units that sell both live direct to consumers and slaughtered birds, which typically raise about 1 000 birds at a time
- Small to medium units that only market live birds directly to consumers and that stagger their intake of day-old chicks, typically raising about 10 000 birds at any moment
- Small to medium farmers who slaughter only and stagger their intake of day-old chicks, also typically raising about 10 000 birds at any moment
- Small to medium-scale contract growers.

Compared to large-scale producers, all small-scale producers have higher costs of production per kilogram, because they usually do not form part of an integrated supply chain and cannot procure inputs in bulk. On the other hand, most small-scale producers realize disproportionately higher prices per kilogram than their large-scale counterparts²⁰³. Gross margins for primary production

¹⁹⁸ SAPA, Code of Practice 2012 – Broiler Production, p15

¹⁹⁹ BFAP, op. cit., 2018, p30

²⁰⁰ BFAP, op. cit., 2016, pp48-65

²⁰¹ Louw, M, Davids, T and Scheltema, N, op. cit., pp564-574, <https://doi.org/10.1080/0376835X.2017.1335593>

²⁰² Davids and Meyer, op.cit.

²⁰³ This is because live birds do not compete directly with the slaughtered birds produced by large firms and because small producers generally market directly to consumers (BFAP, op. cit., 2016, p56). When small producers resort to marketing through third parties, such as hawkers, the price realized per kilogram can be expected to be lower.



per bird and per kilogram for small producers are therefore generally greater than for large producers, although their turnover is only a tiny fraction.

The main challenge and limiting factor for very small producers comes with marketing. Those who rely only on live sales – generally in rural areas where few households have fridges – often struggle to find enough over-the-fence customers for 500 birds or so at a time and, if some are sold to hawkers or kept by the producer, either the price drops or the costs rise or both. This reduces the gross margin. For very small producers who raise around 1 000 birds at a time, slaughter at an abattoir is almost unavoidable for a large part of the ‘crop’ for the same reasons. This also raises costs, at the same time as leaving farmers with products that both need refrigeration if they are not sold immediately, and that compete directly with the products of large-scale producers. This limits the price at which they can be sold. These factors all also trim gross margins.

Similar challenges, only writ larger, apply to the two small-to-medium groups of producers. To respond to this, many develop a relationship with a larger-scale producer who guarantees off-take and who will also often procure feed at a lower price for the small to medium-scale producer along with his or her own. This helps to offset the lower price that accompanies off-take commitments. Relationships of this nature move the small to medium-scale producers involved towards the status of the last of the five groups identified, namely contract growers.

Beyond the nature of the relationship being tighter, in the form of a detailed comprehensive contract, most contract growers in South Africa, in common with contract growers in many other major broiler-producing countries, are supplied with both feed and day-old chicks – which together make up about 90% of total variable production costs – and sometimes other inputs, such as bedding and medication, by the large-scale producers to whom they are contracted. The growers have no say in terms of the quality and price of these inputs, but, importantly, because the price is fixed in terms of the contract, they are enabled to shift input price risks to the large-scale firm. In addition, the cost of catching mature birds is usually borne by the large-scale partner²⁰⁴.

However, what is perhaps most important is the basis on which the price paid by the off-taker is determined. Compensation consists of two main components – that is, a fixed margin per kilogram and a cost recovery component, based on a ‘tournament pricing’ system. In some instances a bonus, based on a fixed performance standard, may be included as a third component. Tournament pricing is used to describe ‘situations where wage differences are based not on marginal productivity (as in conventional economic theory) but ... on relative differences between ... individuals’²⁰⁵.

So each contract grower supplying mature chickens to a large-scale firm is paid, not on the basis of the market price of the birds produced, but on the basis not only of his or her own performance, but also of the average performance of other contract growers supplying the same firm, including the firm’s own farms – all of whom have been provided with the same quality of inputs at the same price and are obliged in terms of their contracts to meet the same minimum performance requirements.

The system therefore shifts output price risks onto the off-taker and rewards contract growers for outperforming their colleagues in terms of output and cost recovery, thereby setting up a ‘win-win’ relationship both for better-average contract growers – who identify themselves in each

²⁰⁴ Ibid., p127

²⁰⁵ Wikipedia, Tournament Theory, https://en.wikipedia.org/wiki/Tournament_theory



production cycle – and for off-takers, who score from the efficiency improvements of their contract growers, while average and below-average growers will at least cover their costs.

A further important aspect of contracts, with particular relevance in South Africa, concerns the duration of contracts. The system just described relates only to variable costs and assumes that growers have the infrastructure required for the scale of production for which they contract. In practice, this is assessed carefully by outsourcers before contracting growers. In many instances in South Africa, large firms lend, or arrange for loans from third parties, to growers in order to ensure that they have the necessary infrastructure and use the period estimated to pay back the loan to determine the duration of the contract. This facilitates the entry of new participants with the skills but not the capital required into the industry and provides an important avenue for advancing ‘transformation’ or (racial) inclusivity.

If loans can be made available at a concessionary (sub-market) rate of interest, it assists grower recipients and accelerates the growth of inclusivity. There is real scope for advancing sustainable transformation through assisting the growth (in terms both of production per grower and the number of contract growers) of this category of small producers, but the amounts of capital needed are substantial – of order of R15 million for a sustainable contract growing enterprise²⁰⁶. Loans for infrastructure at a concessionary rate of interest could assist and help advance inclusivity, though the potential for establishing new entrants through this route is likely to be limited to perhaps 50 across the industry. Nonetheless, this is an important opportunity for South African development finance institutions (DFIs), perhaps in collaboration with European DFIs.

This opportunity may not be confined to contract growing, but may also extend to other functions in the value chain, such as distribution, for firms that have retained this function in-house. In other industries, such as the beverage industry, loans are often advanced to the drivers of the large refrigerated trucks used for distribution to enable them to take ownership with the same objective. The poultry industry could consider doing likewise. And there may be other opportunities of a similar nature which someone with an intimate knowledge of the industry could identify.

A final aspect of contract growing of significance in the context of transformation is scale. The list of five small producer categories described the growers concerned as ‘small to medium-scale contract growers’. A notable exception to the general pattern of small producers’ realizing better prices per kilogram and greater gross margins than their large counterparts is contract growing, where BFAP’s research showed the opposite²⁰⁷. The reasons for this evidently relate mainly to scale, in respect both of fixed and of variable costs. Larger contract growers are generally better able to spread the overhead costs of infrastructure than small, and larger contract growers are also more likely than small growers to supply larger off-takers, who are best able to secure low input prices. Given the fineness of contract growers’ margins, these differences make a noticeable difference to contract growers’ bottom lines.

There is therefore a substantial incentive for smaller growers to develop a relationship with larger producers – and, critically, with the infrastructure and skills that smaller growers already have and the facilities for advancing loans that already exist, there is again real scope for advancing sustainable transformation through assisting the growth of this category of small producers.

What scope is there for doing the same for the other categories? Regrettably, it seems it is probably much less. The marketing challenges of small-scale producers of live birds have already been described and it was seen that to cope with these small to medium scale producers of live birds had to accept higher costs, lower prices and consequently slimmer margins, offset only by

²⁰⁶ Astral, verbal information.

²⁰⁷ Louw, Davids and Scheltema, op. cit., pp569, 571



increasing scale, but still with the fundamental advantage of only being in limited competition with the large-scale sector's spent egg laying hens, that are usually also marketed live.

BFAP estimated that there is still unexploited capacity in the market for live birds, but this is very location-specific, so assistance from government or donors to establish more very small-scale producers would need to be carefully targeted, if it were not simultaneously to reduce the price realized by existing small-scale producers – not an easy task. Also, most very small and small to medium scale producers operate at far below maximum capacity – SAPA reports this at an average of only 30 %²⁰⁸. This would make a strategy of increasing the capacity of existing producers of live birds to take up unmet demand inefficient and ineffective.

For very small and small to medium producers of slaughtered birds, the iron constraint is direct competition with large-scale producers, with the low ceiling that that puts on price, exacerbated by the higher costs per kilogram that smaller producers incur. In addition, growth to a significant scale requires that farms be close to a feed mill, veterinary services, an abattoir and cold chain facilities²⁰⁹

It is hard to see a way round these constraints on the growth of small producers. Unfortunately, to compete effectively with existing large-scale producers requires levels of investment and technical and business skills that are so much greater than those of small and small to medium producers, that trying to facilitate the transition to large-scale of even a small number of medium-sale producers would absorb an inordinate proportion of government's grant budget, ignoring the additional skills needed. That private sector investors, DFIs and well-endowed NGOs have not attempted to do this is testimony to the magnitude of the challenges involved, not least from the pressure placed on local producer prices by imports.

6 CONCLUSIONS

What then does the evidence suggest about the validity of the positions taken by the various parties in the debate about the South African broiler industry and about the implications for them and the South African economy?

Broadly, they are as follows: relative to most of its competitors, the South African industry is not inefficient, technically, but suffers from the prices of some of its major inputs being higher, which makes it less economically efficient. In respect of both aspects of efficiency it is continuing to improve, but is always going to find it difficult to match the overall efficiency of countries such as Brazil and the US.

So, purely on the grounds of efficiency, the prices charged for chicken products in South Africa should be equal to or better than the prices at which the same products can be imported from overseas. But prices are themselves a product not only of the costs of supply, but also of market demand. And the patterns of demand for chicken are different in the various countries and regions competing in the market for chicken across the world. In South Africa, the preferences of most consumers are for brown meat, whereas in most other countries, they are for white meat. This means that, even when their costs of production are somewhat higher, regions such as the EU can usually export brown meat to South Africa at prices that are not lower than they are in their markets. So, when they do so, they are not 'dumping' in terms of WTO criteria. This is why,

²⁰⁸ SAPA, 2018, op. cit., p22

²⁰⁹ SAPA, op. cit., 2017, p74



other than in the instance of the US, ITAC has seldom granted applications for anti-dumping protection against the frozen bone-in cuts that comprise the largest component of South Africa's imports of chicken.

South African producers, on the other hand, have not found it easy to take advantage of the higher prices on white meat that offshore markets offer, because most of the chicken meat that they produce is brined and may not be sold as generic, uncooked frozen 'chicken' in those markets. In addition, South African frozen uncooked chicken cuts from South Africa cannot usually be shown to meet the SPS requirements of most such markets.

Mainly for these reasons, over the past decade, the lower prices at which imports of brown meat can be sourced from overseas have meant that the greater part of the increase in the demand for chicken in South Africa has been met by imports and little new investment has been made to expand the capacity of the of the South African industry. This is despite the assistance provided to DAFF by the EU to improve its capacity to help enable South African producers to meet the EU's SPS standards. Given the capacity challenges that DAFF faces, developing sufficient capacity to achieve this is almost certainly going to call for the broiler industry to take the lead and to foot most of the bill, as the ostrich industry has done. So far, it has been unwilling to do this, perhaps because it judges the profits to be had from exporting generic uncooked frozen white meat to the EU to be too small, in such an intensely competitive market, to justify the costs. By comparison, the market for South African ostrich meat exports is much less intensely competed and South African exports play a dominant role.

But export markets have not been totally closed to South African broiler firms. The SPS requirements for cooked chicken are generally less demanding than for uncooked chicken and, even if it has been brined before cooking, brine is no longer contained in cooked value added chicken products. Though still quite small, a number of South African producers are steadily growing their exports of such products to other African countries and the Middle East, attracted too by the fact that unit profit margins are usually greater for value added specialty products than for undifferentiated uncooked generic frozen cuts. With relatively little investment in residue monitoring capacity, South African producers ought also to be able to enter the substantial EU market for such products, though, with the growing competition that can be expected, it will take continual product innovation to remain profitable.

A further strategy to penetrate export markets has been to set up similar highly integrated production chains in other African countries to take advantage of the growing market for chicken as living standards rise. Given their ability to produce at a lower cost per unit than smaller local producers, these new enterprises will probably quickly have been able to take a significant share of the market, with fewer SPS requirements to worry about and with new investment and new jobs to secure the support of governments. To date, this strategy, followed by South Africa's largest broiler firm and some others, has worked well, though, at some point, it may strike a ceiling imposed by tariff-free imports from the EU in countries in which the EU-SADC EPA operates.

However, as long as the production of brined, uncooked generic frozen chicken cuts forms the bedrock of the business models of South African firms, new investment in and the growth of local output by the industry is likely to be slow and to require higher levels of tariff protection, because of the superior economic efficiency of Brazil and the price differentials for brown meat between major exporters' and South Africa's markets. New investment may be made to produce MDM locally to replace this second largest form of imports, but only if a high level – probably of MFN – tariff duty protection is granted from the start and, perhaps later, temporary safeguard protection against EU imports.



In assessing the merits of applications for such protection, ITAC is continually going to be faced by the choice between higher local retail prices and jobs and investment. In a country where there are exceptionally high levels of unemployment and labour is strongly organized and is a key supporter of government – whereas far more numerous consumers are not – and where levels of food price inflation are moderate, applications for tariff protection can generally be expected to be treated favourably. Importers will have to live with this, but local firms would be making a serious mistake to take this as a cue to ignore the need to expand their presence in far larger export markets²¹⁰.

²¹⁰ SAPA (op. cit., 2017, p104) draws attention to this.



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ANNEXURE A: SOUTH AFRICAN BROILER PRODUCTION AND IMPORTS, 2016, 2017, 2018

		SOUTH AFRICAN TRADE IN BROILER PRODUCTS, 2016 ²¹¹							SOUTH AFRICAN PRODUCTION ²¹² (TONS)	TOTAL SA PRODUCTION + IMPORTS	% IMPORTS
HS CODE	DESCRIPTION	TOTAL IMPORTS (TONS)	EU IMPORTS (TONS)	% IMPORTS FROM EU	NON-EU IMPORTS (TONS)	% TOTAL SA CHICKEN IMPORTS	MFN DUTY	EU DUTY			
020712	NOT CUT frozen										
02071210	<i>Mechanically deboned meat</i>	195 253	21 333	10.9%	173 920	36.9%	0%	0%	-	195 253	100.0%
02071220	<i>Carcasses²¹³</i>	21 415	11 577	54.1%	9 838	4.1%	31%	0%	87 824	109 239	19.6%
02071290	<i>Other (including whole chicken)</i>	9 567	8 745	91.4%	822	1.8%	82%	0%	48 108	57 675	16.6%
02071100	NOT CUT fresh or chilled										
02071100	<i>Whole fresh</i>	-	-	-	-	-	0%	0%	39 350	39 350	-
020713	CUT fresh or chilled										
02071300	<i>Fresh cuts</i>	-	-	-	-	-	0%	0%	94 129	94 129	-
-	<i>Fresh soup pack/sundry</i>	-	-	-	-	-	-	-	7 178	7 178	-
02071400	CUTS frozen										
02071411-15	<i>Boneless cuts</i>	12 506	435	3.5%	12 071	2.4%	12%	0%	49 095	61 601	20.3%
02071421-29	<i>Offal</i>	49 747	25 833	51.9%	23 914	9.4%	30%	0%	231 635	281 382	17.7%
02071490-95	<i>Frozen Bone-in pieces</i>	239 589	194 399	81.1%	45 190	45.4%	37%	0%	1 018 012	1 257 601	19.0%
160231-39	Value added (fresh/frozen)	-	-	-	-	-	-	-	36 403	36 403	-

²¹¹ SAPA, 2019, unpublished; applies also to data for 2017, 2018

²¹² Ibid., estimated; applies also to data for 2017, 2018

²¹³ Includes frozen soup packs; applies also to data for 2017, 2018



TOTAL		528 077	262 322	49.7%	265 755	100.0%			1 611 734	2 139 811	24.6%
SOUTH AFRICAN TRADE IN BROILER PRODUCTS, 2017									SOUTH AFRICA PRODUCTION (TONS)	TOTAL SA PRODUCTION + IMPORTS	% IMPORTS
HS CODE	DESCRIPTION	TOTAL IMPORTS (TONS)	EU IMPORTS (TONS)	% IMPORTS FROM EU	NON-EU IMPORTS (TONS)	% TOTAL SA CHICKEN IMPORTS	MFN DUTY	EU DUTY			
020712	NOT CUT frozen										
02071210	<i>Mechanically deboned meat</i>	201 795	1 800	0.9%	199 995	38.6%	0%	0%	-	201 795	100.0%
02071220	<i>Carcasses</i>	14 246	1 088	7.6%	13 158	2.7%	31%	0%	92 787	107 033	13.3%
02071290	<i>Other (including whole chicken)</i>	9 504	6 142	64.6%	3 362	1.8%	82%	0%	38 746	48 250	19.7%
02071100	NOT CUT fresh or chilled										
02071100	<i>Whole fresh</i>	-	-	-	-	-	0%	0%	40 882	40 882	-
020713	CUT fresh or chilled										
02071300	<i>Fresh cuts</i>	-	-	-	-	-	0%	0%	107 762	107 762	-
-	<i>Fresh soup pack/sundry</i>	-	-	-	-	-	-	-	4 452	4 452	-
02071400	CUTS frozen										
02071411-15	<i>Boneless cuts</i>	21 821	93	0.4%	21 728	4.2%	12%	0%	49 840	71 661	30.5%
02071421-29	<i>Offal</i>	43 016	10 207	23.7%	32 809	8.2%	30%	0%	238 052	281 068	15.3%
02071490-95	<i>Frozen Bone-in pieces</i>	233 045	57 092	24.5%	175 953	44.5%	37%	13.9%	980 707	1 213 752	19.2%
160231-39	Value added (fresh/frozen)	-	-	-	-	-	-	-	39 955	39 955	-



TOTAL		523 427	76 422	14.6%	447 005	100.0%			1 593 183	2 116 610	24.7%
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SOUTH AFRICAN TRADE IN BROILER PRODUCTS, 2018									SOUTH AFRICA PRODUCTION (TONS)	TOTAL SA PRODUCTION + IMPORTS	% IMPORTS
HS CODE	DESCRIPTION	TOTAL IMPORTS (TONS)	EU IMPORTS (TONS)	% IMPORTS FROM EU	NON-EU IMPORTS (TONS)	% TOTAL SA CHICKEN IMPORTS	MFN DUTY	EU DUTY			
020712	NOT CUT frozen										
02071210	Mechanically deboned meat	154 507	2 233	1.4%	152 274	28.7%	0%	0%	-	154 507	100.0%
02071220	Carcasses	13 009	650	5.0%	12 359	2.4%	31%	0%	116 521	129 530	10.0%
02071290	Other (including whole chicken)	10 252	4 851	47.3%	5 401	1.9%	82%	0%	42 391	52 643	19.5%
02071100	NOT CUT fresh or chilled										
02071100	Whole fresh	-	-	-	-	-	0%	0%	53 366	53 366	-
020713	CUT fresh or chilled										
02071300	Fresh cuts	-	-	-	-	-	0%	0%	117 701	117 701	-
-	Fresh soup pack/sundry	-	-	-	-	-	-	-	9 728	9 728	-
02071400	CUTS frozen										
02071411-15	Boneless cuts	24 025	25	0.1%	24 000	4.5%	12%	0%	55 605	79 630	30.2%
02071421-29	Offal	49 571	10 619	21.4%	38 952	9.2%	30%	0%	228 128	277 699	17.9%
02071490-95	Frozen Bone-in pieces	287 070	50 946	17.7%	236 124	53.3%	37%	13.9% -35.3% ²¹⁴	984 915	1 271 985	22.6%
160231-39	Value added (fresh/frozen)	-	-		-	-	-	-	71 799	71 799	-

²¹⁴ 13.9% applied January-August and 35.3% from September 2018.



SOUTH AFRICAN TRADE IN BROILER PRODUCTS, 2018									SOUTH AFRICA PRODUCTION (TONS)	TOTAL SA PRODUCTION + IMPORTS	% IMPORTS
HS CODE	DESCRIPTION	TOTAL IMPORTS (TONS)	EU IMPORTS (TONS)	% IMPORTS FROM EU	NON-EU IMPORTS (TONS)	% TOTAL SA CHICKEN IMPORTS	MFN DUTY	EU DUTY			
				-							
TOTAL		538 434	69 324	12.9%	469 110	100.0%			1 680 154	2 218 588	24.3%

