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Trade and Industry  
**REPUBLIC OF SOUTH AFRICA**

**AVI AFRICA 2018**

**SA POULTRY SECTOR**

Agroprocessing and Exports

**Emperors Palace, Gauteng**

**Date : 12 - 14 June 2018 ,**

# BACKGROUND

- The Agro-processing sector – Potential to become industrial impetus that can **create jobs** and address some of the country's macro-economic challenges;
- Among the sectors identified by the **IPAP** and **NDP** for its potential to spur growth and create jobs, due to its backward linkages with the primary agricultural sector;
- Among the sectors that has the highest **employment multipliers** in the economy;
- Sector remains largely **concentrated** - entry and active participation of SMEs is limited;
- **Ageing** production facilities, obsolete technology and non-compliance to regulatory prescripts;



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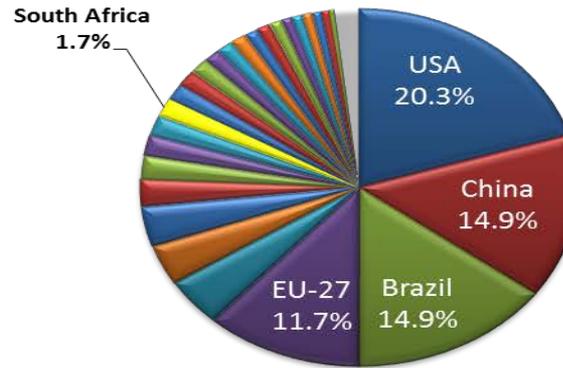
# Snapshot of the industry

- Poultry sub-sector key component of broader agro-processing sector with labour intensity across the value-chain.
- Direct Employment: 48,000. Indirect: 63,000
- Producers undertaking some retrenchments. e,g RCL – 1,300.)
- Industry is competitive but there are limited domestic capabilities in mechanically deboned meat (MDM) in SA
- High cost of inputs (maize and soya) exacerbated by the impact of the drought in previous growing season
- Surge in imports results from an increase mainly of ‘bone-in quarters’ which industry argues is a ‘waste product’ in European process and market structure.
- There are high levels of concentration in the industry with several anti-competitive fines and investigations in recent years.

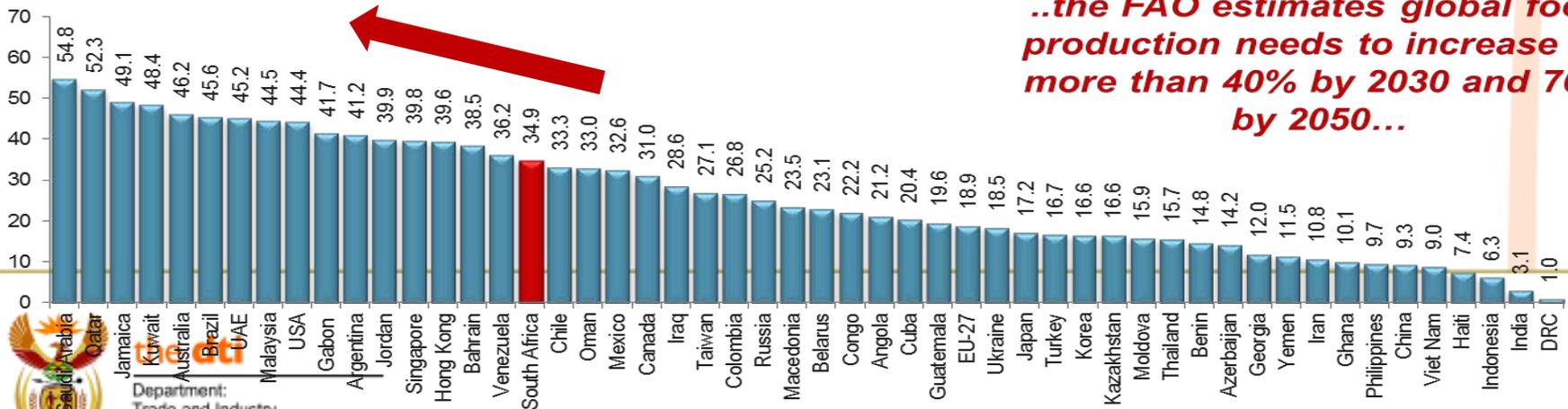
# Global Consumption of Poultry



Broiler Production - USDA 2014 Estimate



Per Capita Consumption in kg's - USDA 2014 Estimate



**..the FAO estimates global food production needs to increase by more than 40% by 2030 and 70% by 2050...**

# Global trade

## Major Exporters

- USA
- Brazil

## Global Trade

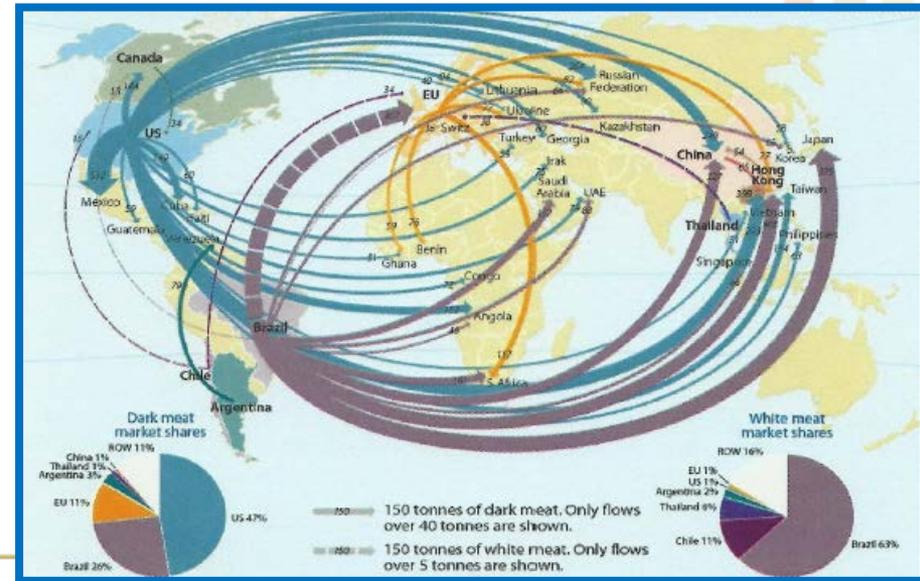
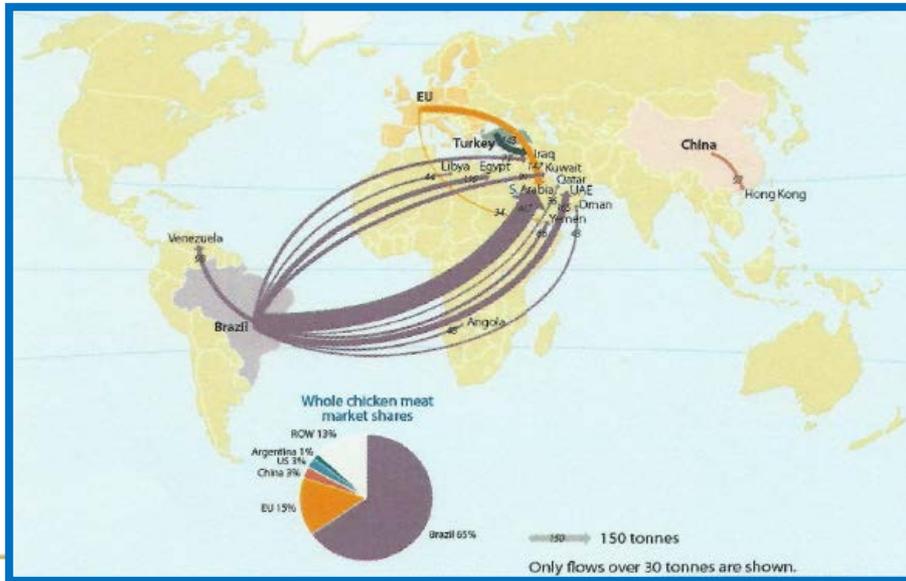
USD\$ 17,9 billion

## Products

- Whole bird frozen products
- Raw products (IQF cuts)
- Processed meat

## Major importers

- Asia
- Middle East
- Russia
- Africa
- European Union



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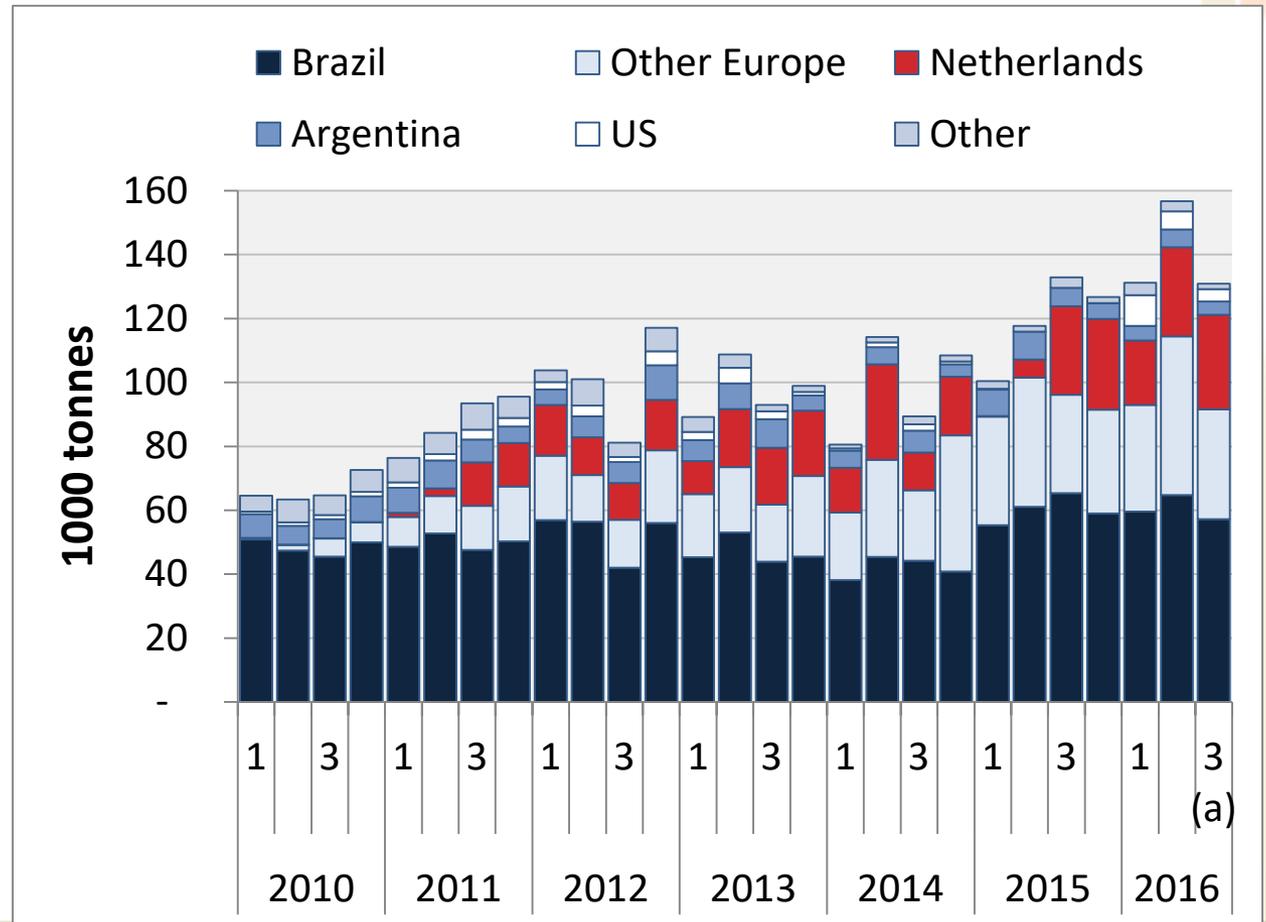
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# Why is there a domestic crisis in the poultry sector?

- Market dynamics - developed countries consume mainly white meat and export brown meat portions.
- Distortions in the global agriculture market – subsidies - including ‘hidden’ subsidies upstream in the value chain - feedstocks.
- Increase in key domestic input costs in the recent period:
  - Feedstocks (maize and soya.)
  - Electricity (especially where municipalities add significant sometimes triple digit premiums) and
  - Labour
- Increase in imports, mainly of brown meat portions, which industry argues constitutes an unfair trade practice.
- Increasing use of SPS measures in other jurisdictions as barriers to trade – limiting access of domestic poultry exporters. With SA not always securing ‘equivalence’ with similar measures.

# Poultry sector - data

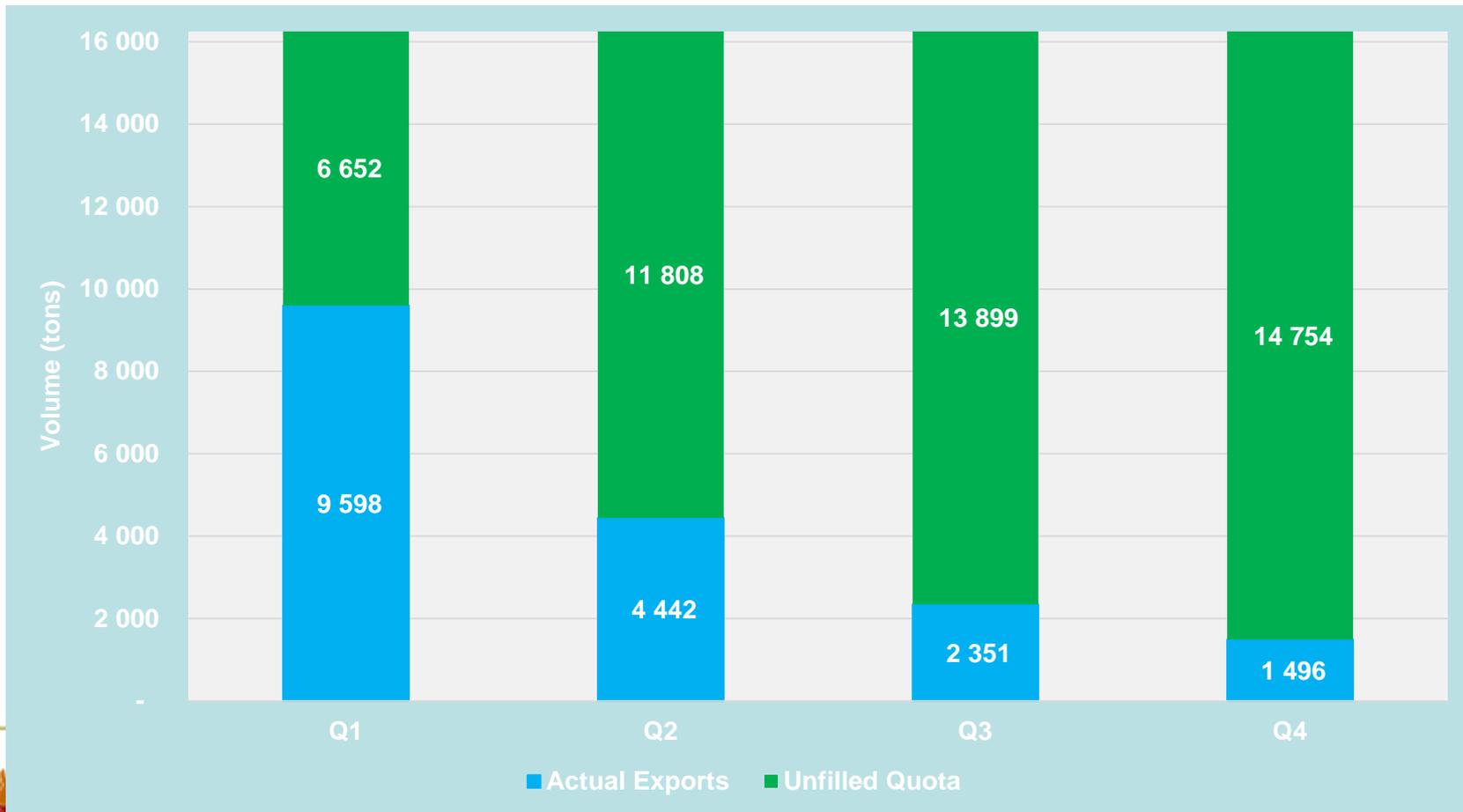
- Poultry companies point to surge in imports in 2015 and first half of 2016
- Spike in Q2 2016
- Growth almost entirely due to imports from Europe



Source: SARS

# While there are US imports, these are not the source of the crisis

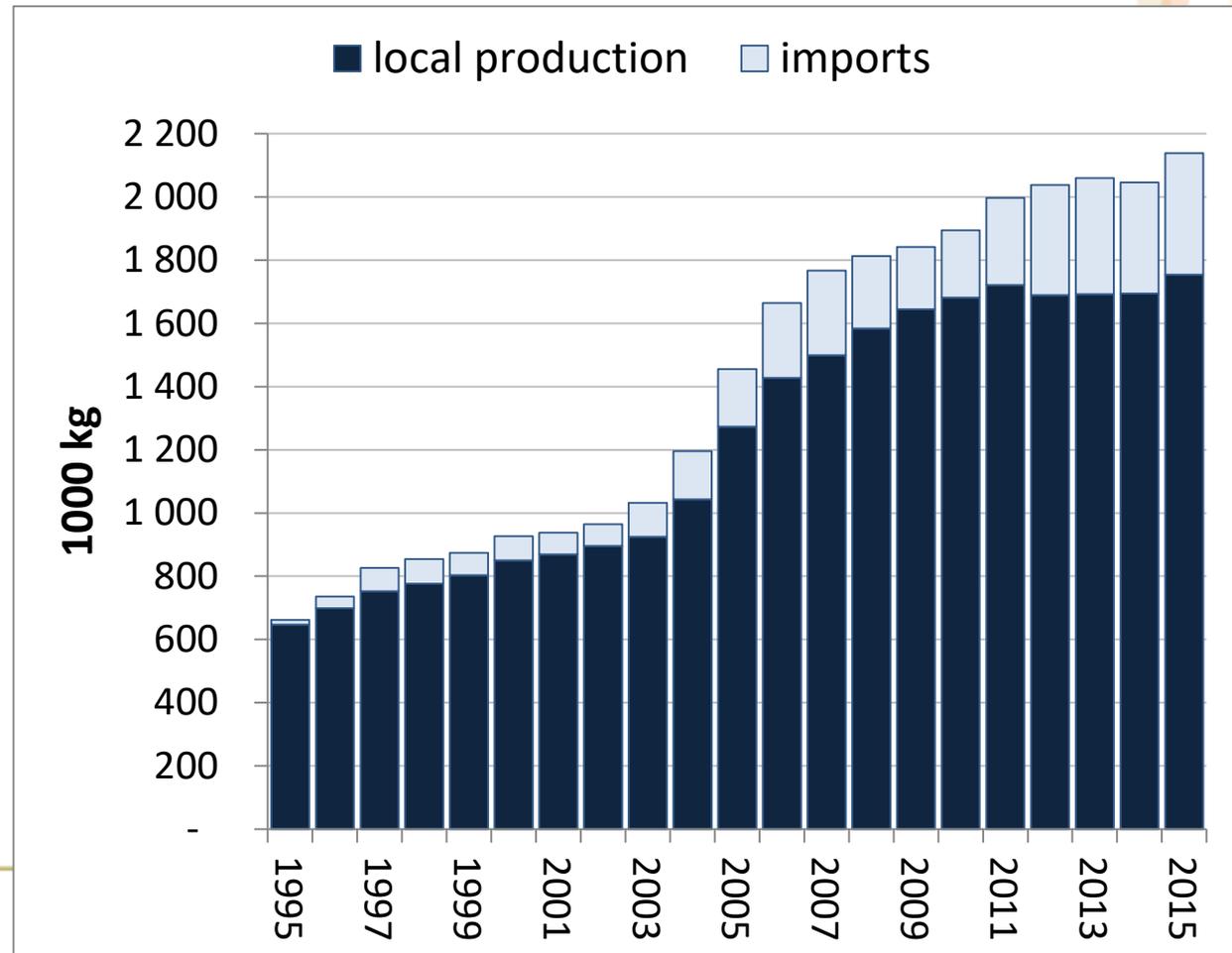
December unaccounted for. Not yet reported.



Source: AGBIZ using SARS data

# Domestic demand and production has increased alongside significant import penetration

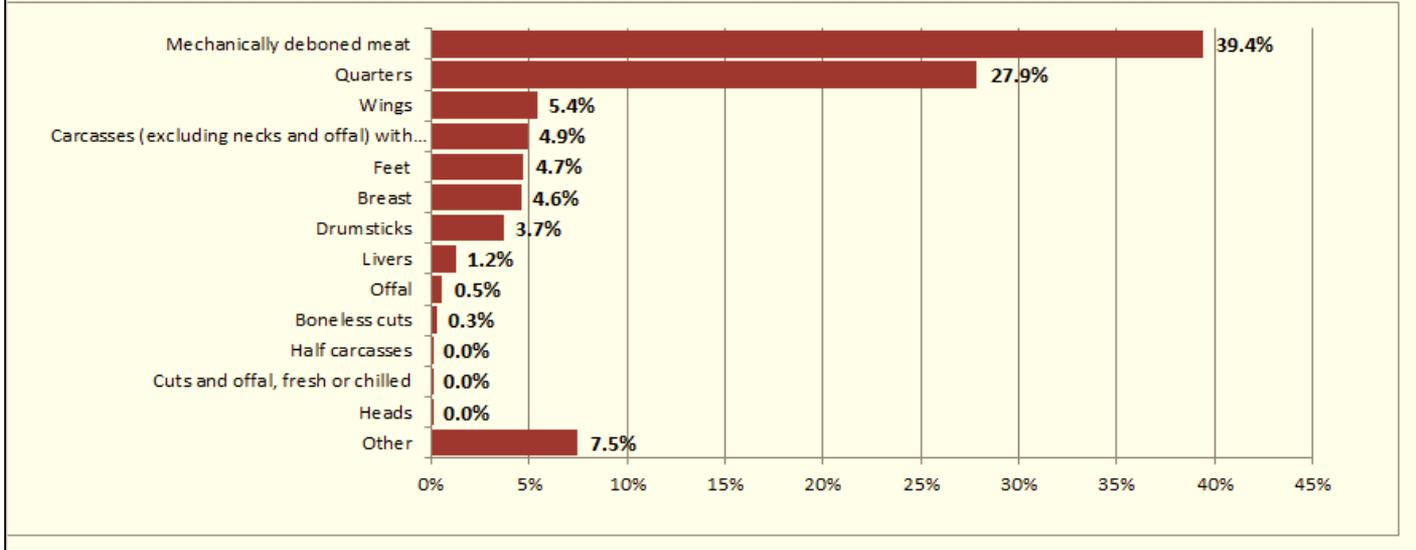
- Poultry consumption soared in period up to 2010 (roughly coinciding with commodity boom) but levelled out from 2010
- Imports climbed from 8% of total consumption in 2003 to over 20% from 2010 to 2013
- From 2003 to 2010, imports rose 11% and local production 7% a year



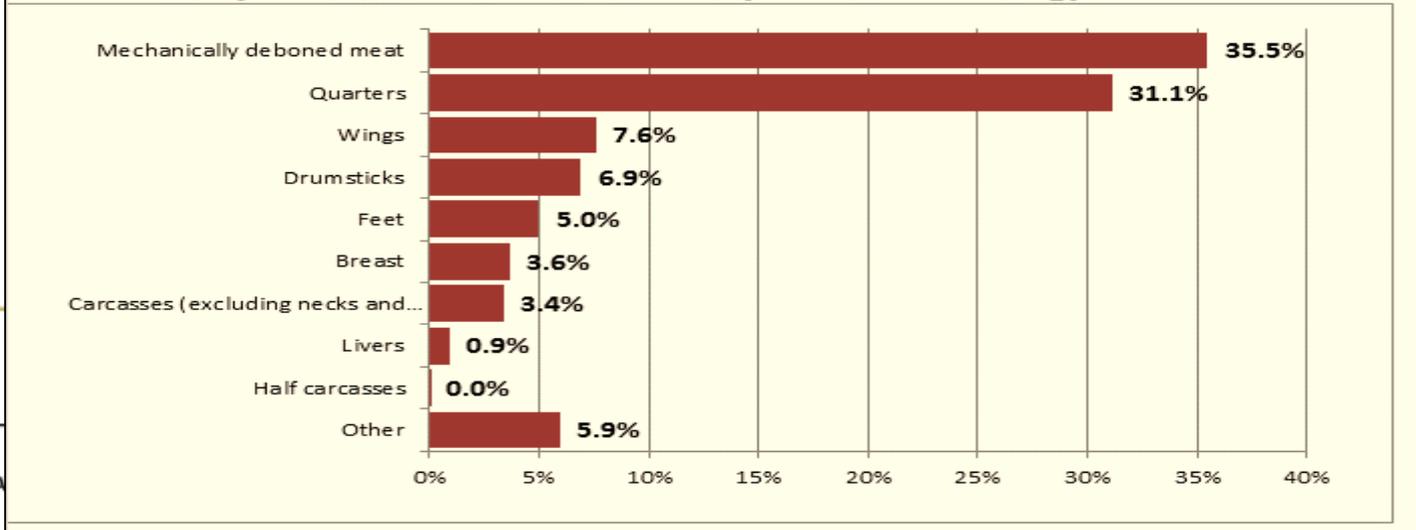
Source: DAFF  
9

# Imports: Of what?

**Chicken imports in 2015 (456.8 million kg)**



**Chicken imports in first half of 2016 (273.6 million kg)**



- High levels of imports in mechanically deboned meat / MDM (mainly from Brazil )
- Quarters (EU and now USA)
- SA can produce whole chickens cheaper than most EU countries & USA
- SA more expensive than Brazil
- Core issue is the MDM & Quarters – significant export penetration.

# Factors behind the trends

## Demand factors

Slowdown in domestic demand in adverse economic conditions

1

Slower global growth and demand in other markets which leads to aggressive market penetration in developing countries.

2

Market demand dynamics facilitate exports of brown meat into domestic market where SA producers are less competitive.

3



- Developed markets – consumption mainly of breasts – export the ‘by-product’ .
- Developing countries - mainly leg & thigh demand (bone-in quarter) and boneless (processing) – aggressive market penetration.



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# Factors behind the trends

## Supply

### Estimated unit price in 2015\*

- SA: R20/kg (up from R15/kg in 2011)
- US and European imports of bone-in quarters: R14/kg
- Brazilian imports (mainly of mechanised deboned meat, used in polonies and patties): R4.10/kg

### Average agricultural

### subsidies as % of output:‡

(Mainly of feed and other inputs)

- SA: 2%
- Brazil: 4%
- US: 10%
- EU: 18%

VAT: chicken is not zero rated

Main cost driver is feed  
(between 65% & 70% of cost)

- Drought has increased maize and soy price. (SA soya bean production is increasing and should be encouraged.)
- Soy at import parity is largely imported (although local production almost quadrupled from 2003 to 2014), with rising prices especially given currency depreciation

Retail mark-up on chicken is over 50%  
(Cold chain and packaging add to overheads)

‡ Source: OECD

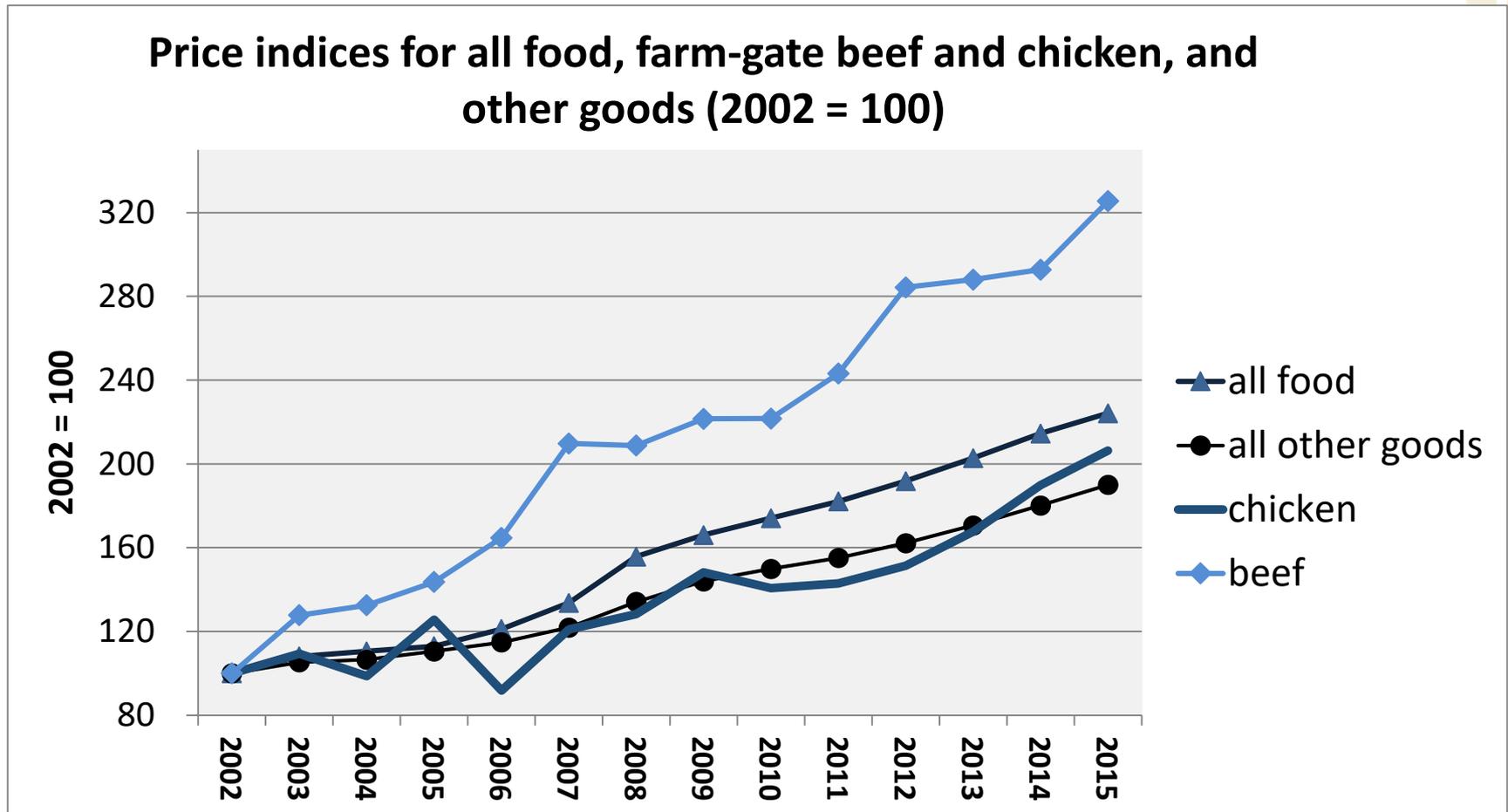
\* Based on DAFF and SARS data)



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# Comparative price increases 2002 -2015



# Selected socio-economic considerations

## ❑ Implications for poor households

- Chicken is a wage good and the main source of protein for poor households
- Price has risen at 15% above the overall inflation rate, while other food prices increased around 30% faster. Chicken price increases have remained below the all food index.
- Trade measures required to protect the industry (job losses and plant closures) from unfair competition but important that these do not lead to high consumer price increases and price ‘gouging’ along the value chain.

## ❑ Industry is highly concentrated and vertically integrated

- Two production companies control around half of production with limited transformation and high barriers to entry
- Approximately 2% of formal production from emerging farmers

# Selected socio-economic considerations

- ❑ Poultry industry: sophisticated industry across the value-chain, critical to domestic industrial capacity
  - SA can ill-afford to lose industrial capacity in the poultry sector
  - And, dependence on poultry imports constitutes a level of risk to national food security, especially given volatile rand
- ❑ Chicken is a major source of protein for poor and working households
- ❑ Employment creation:
  - About 48,000 workers in broiler production, processing and distribution
  - Major source of demand for maize and soy – upstream economic and employment multipliers
  - Downstream – logistics and retail (but value-addition and exports limited)

# Trade Policy

- Tariffs are instruments of industrial policy. Respect the integrity of the International Trade Administration Commission. An evidence-based, case-by-case assessment will inform changes to tariffs (not *a priority* position).
- Strategic approach to tariffs to support industrial and employment objectives. Use of anti-dumping, countervailing and safeguard measures to address unfair competition and surge of imports.
- Concurrently build and deepen production capabilities with support for investment in capital equipment, new production systems and human resources to build efficiencies and competitiveness along the entire value chain.
- Build a collaborative effort between the producers, retailers and the private sector to raise aggregate demand for domestic producers and export promotion effort in traditional and new markets.

# Trade Remedy Measures

- ❑ Several rounds of tariff increases over the past decade
- ❑ Bone-in portions: tariff was increased but still below the WTO bound rate
- ❑ Tariff on whole chicken already at the WTO bound rate
- ❑ Tariff increases/trade measures on chicken products from trade partners with whom a preferential trade agreement is in place requires negotiations with those partners (should be kept in mind that those partners have also provided market access to SA products)
- ❑ Provisional safeguard duty (13.9%) in place on EU imports and under further consideration by ITAC
- ❑ Distortions in the global agriculture market – subsidies.
- ❑ Premium prices for breast meat in EU & US;
- ❑ Tariff increases have short term potential to raise prices for bone-in portions but can negatively effect consumers



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# Avian Influenza Outbreaks

- A number of countries are currently experiencing Highly Pathogenic Avian Influenza outbreaks and consequently, in line with the guidelines of the World Organisation for Animal Health, South Africa has placed a ban on imports of poultry from these countries.
- Currently no poultry products can be imported from, France, Germany, Hungary, Israel, the Netherlands, Poland, Spain and the UK. DAFF recently lifted the prohibition of imports from Denmark and informed importers accordingly.
- 7 of the 10 EU countries authorised to export poultry to South Africa cannot currently export due to avian influenza outbreaks in those countries.

# Conclusion

- Improved disease management is critical for sustainable development of the poultry industry.
- Effective disease control is captured in Operation Phakisa, Agricultural Policy Action Plan (APAP), Revitalisation of the Agricultural Value Chain (RAAVC) and the Veterinary Strategy. This includes pre-border, border and post border interventions in disease control



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