Key Market Signals in the Broiler Industry

For the

first quarter of 2017

1Q 2017
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Total poultry imports (including turkey, ducks and geese):

In December 2016, poultry imports decreased dramatically by 32.2 % on a monthly basis because of a raft of avian influenza-related trade bans against EU nations. In January and February 2017, poultry imports recovered somewhat as markets adjusted to the bans and, in March, imports rocketed to a record high of 65 658 t. Poultry imports were valued at R694.8 million (FOB) in March. Chicken products accounted for 94.6 % of these imports.

In March 2017, the US accounted for 38.2 % or 25 103 t of total imports (cf 2.8 % in November); taking advantage of spare quota left at the end of the 2016/2017 AGOA cycle and of the EU nations’ restricted access to the market. Brazil imported 24 906 t in March, and the EU accounted for 9 370 t (14.3 %) of total poultry imports (cf 63.1 % in November 2016). EU imports were down 59.7 % on March 2016 levels (- 13 859 t).

On a quarterly basis, 142 245 tonnes of poultry meat were imported at an FOB value of R1.46 billion. During the 1Q 2017, imports from Brazil made up 46.3 % (65 860 t) of total poultry imports (142 245 t) into South Africa. Of these Brazilian imports, 65.1 % were mechanically deboned meat (MDM). The EU contribution to total poultry imports in 1Q 2017 was 27 913 t (19.6 %). Of the EU imports, 68.7 % were frozen bone-in chicken portions.

During 2016, a total of 560 155 t of mixed poultry products were imported at an FOB value of R5.48 billion; a 17.1 % increase over 2015 imports (479 477 t), in tonnage terms. If it had not been for the effect of AI-related trade bans on December imports, 2016 imports would have been 20 % higher than last year.

Broiler production:

An average of 148 500 day-old parent pullets was placed per week in March 2017. This was a decrease of 5.3 % on February 2017 placements, and a decrease of 22 % compared to March 2016. On a quarterly basis, an average of 159 500 day-old parent pullets was placed per week during 1Q 2017; down 6.4 % compared to 4Q 2016 and down 15.3 % compared to 1Q 2016. The total number placed for the quarter was 2 076 500 birds. A total of 9.436 million day-old parent pullets were placed in 2016; 4.2 % less than 2015.

The average number of breeder hens for March 2017 was 6.950 million. The average size of the breeder flock during 1Q 2017 was 7.015 million birds. The average flock size for 2016 was 7.126 million; 126 100 (+ 1.8 %) more breeder hens than in 2015. The forecast for June 2017 is a flock of 6.732 million hens.

Broiler hatcheries produced 17.897 million day-old chicks per week in March 2017. The average weekly placement of 18.64 million day-old chicks in 1Q 2017 was 0.3 % up on placements in 4Q 2016 but down 3.2 % on 1Q 2016 levels. Potential production of 279.33 million broiler chicks was projected for 1Q 2017. Actual production was 13.4 % less than the potential. In total, 991.1 million broiler chicks were hatched during 2016; 23.2 million (- 2.3 %) less than 2015.
The total production of broilers for 1Q 2017 was 226.5 million birds; 5.7 % less than 4Q 2016 and 1.0 % less than 1Q 2016. Based on the forecasting model, 266.0 million broilers were predicted for slaughter during 1Q 2017. Actual production for the quarter was 14.3 % less than potential. The average production of broilers per week for 1Q 2017 was 17.62 million; being a 3.6 % decrease from 4Q 2016 levels but a 1.0 % increase on 1Q 2016. A total of 935.6 million broilers were produced for slaughter in 2016; 29.4 million (-3.1 %) less than in 2015.

Total broiler meat produced for 1Q 2017 was 421 800 tonnes; 7.6 % less than 4Q 2016 and 6.6 % less than 1Q 2016. The prediction of broiler tonnes by the forecasting model for 1Q 2017 was 495 400 t; 14.9 % more than actual. Further predicted by the forecasting model was 9 100 tonnes of meat resulting from the culling of breeder hens and cocks in 1Q 2017. Based on the predicted breeder tonnes, and actual broiler production, a combined output of 430 900 tonnes of meat resulted from the broiler industry for 1Q 2017. The combined total in 2016 was 2.108 million tonnes; 19 150 tonnes (+0.9 %) more than in 2015.

**Broiler meat imports:**

In March 2017: 62 102 t of broiler products were imported into South Africa at an FOB value of R654.3 million.

1Q 2017: 133 330 t broiler meat imports were imported into South Africa at an FOB value of R1.36 billion. On a volume basis, this is an increase of 6.0 % on fourth quarter levels.

2016: 528 506 t of broiler products were imported, accounting for 94.3 % of the total poultry products imported through 2016. The broiler imports for 2016 had an FOB value of R5.021 billion. Broiler imports for 2016 were 15.6 % higher than in 2015, despite outbreaks of avian influenza in some European exporting countries.

In 2016, frozen broiler meat accounted for 99.9 % of total broiler imports. In 2016, frozen broiler imports hit 528 108 t and 49.7 % of frozen broiler imports came from the EU, 41.3 % from Brazil and 4.7 % from the US.

**Broiler meat exports:**

During 1Q 2017, 15 378 tonnes of poultry products were exported at an FOB value of R 326.9 million; down 20.3 % on fourth quarter levels and down 16 % compared to exports of poultry meat during the first quarter of 2016. Annually, a total of 74 021 tonnes of poultry products were exported during 2016 at an FOB value of R1.36 billion; up 2.2 % on 2015 tonnages.

**Broiler prices:**

In the 1st quarter of 2017, the average broiler producer price (realisation/NSV) was R20.86, an increase of 6.4 % over 4Q 2016 levels and a 15.1 % increase compared to 1Q 2016 levels. The average producer price for broilers for 2016 was R18.65; up 1.2 % on 2015 average pricing. In real terms, adjusted for inflation, the broiler producer price decreased by 4.6 % through 2016; and still remains below the R13.55 average price realised in 2008.
The average retail price for fresh chicken portions in 1Q 2017 was R55.91 per kg; a mark-up of 76% on the producer price of R31.72 per kg. In 2016, the average retail price of fresh chicken portions was R53.71 per kg, compared to an average producer price of R29.99 per kg.

The average retail price for frozen chicken portions (using Stats SA’s historical calculation) in 2016 was R28.75 per kg; compared to a producer price of R20.33 (a mark-up of 41.4%). In 1Q 2017, the average retail price (R/kg) for 2 kg IQF bags was R31.10; a mark-up of 48% on the average producer price of R21.00 per kg for mixed IQF portions.

Feed price indicators:

The feed price indicator for 1Q 2017 was R5 560 per tonne, a decrease of 2.3% over the average price in the 4Q 2016 (R5 688). The average broiler feed price in the first quarter of 2017 was 1.0% lower than in the 1Q 2016 (R5 505).

The average broiler feed price for 2016 was R5 602 per tonne. This is 13.5% more than the average feed price for 2015 (R4 934). The higher prices experienced in the second half of 2015 (R4 987) and through 2016 (R5 602 average) are a result of the severe drought experienced through the 2015/2016 season.

The average breeder feed price for 1Q 2017 was R5 148 per tonne, a decrease of 1.9% in comparison with 4Q 2016 (R5 244) and a decrease of 1.1% in comparison with the same quarter in the previous year. The average broiler breeder feed price for 2016 was R5 255 per tonne. This is an increase of 22.6% in comparison with 2015 (R 4 286).

World poultry outlook 2016:

The global poultry industry continues to experience trade disruptions and challenges from HPAI outbreaks. Highly pathogenic avian influenza (H5N8) was diagnosed in commercial poultry in Zimbabwe in mid-May and, in late June, two outbreaks were reported on farms near Villiers (border of Free State and Mpumulanga) and near Standerton in Mpumulanga. The outbreak on an Irvine’s site outside Harare necessitated the culling of 166 000 birds from a susceptible population of two million broilers and layers. High mortality in broiler breeders on an Astral site near Villiers was confirmed as caused by HPAI H5N8. A second outbreak has since been reported in laying hens near Standerton. Migrating waterfowl are thought to be spreading the virus south from Europe into Africa, since the H5N8 strain is the same one that has been identified in European outbreaks. The affected sites will be depleted of all birds; estimated at around 260 000. The Department of Agriculture, Forestry and Fisheries is set to test widely for the presence of avian influenza in all parts of South Africa and announced a ban on live bird sales from Monday 26 June. By the 29th, in response to concern about livelihoods being affected in the informal sector, this policy had been adjusted to allow the sale of live birds by traders registered with the Poultry Disease Management Agency (PDMA).

At the farm level, producers are urged to keep poultry away from wild birds (use of housing/netting, etc.); to reduce any factors which might attract wild birds on to a site; to control and reduce movement of people and equipment into and between poultry houses and sites; to
maintain/upgrade sanitation of housing/personnel/equipment; to avoid introducing birds of unknown health status into existing flocks; to report any illness/death of birds to State Veterinary services; and to dispose of manure/dead birds appropriately.

Several neighbouring countries have already closed their borders to imports of South African poultry products and live birds. Namibia, Mozambique, Botswana, Zambia and Zimbabwe all announced trade bans on Tues 27 June. The European Union and Switzerland have also imposed a ban on imports of poultry meat and products, including ostrich meat, from South Africa.

In 2017 to date, there have also been reported cases of highly pathogenic avian influenza (H5N8) in Bulgaria, Bosnia and Herzegovina, Cameroon, China, Chinese Taipei, Croatia, Czech Republic, Democratic Republic of Congo, Egypt, Finland, India, Iran, Israel, Italy, Kazakhstan, Kuwait, Lithuania, Luxembourg, Macedonia, Nepal, Niger, Nigeria, Portugal, Romania, Republic of Korea, Russia, Serbia, Slovakia, Slovenia, South Africa, Switzerland, Sweden, Uganda, the Ukraine and Zimbabwe. In addition, the following countries have reported the H5N1 strain: Bangladesh, Cameroon, Cambodia, Côte d’Ivoire, India, Malaysia, Nepal, Niger, Nigeria, Vietnam and Zimbabwe. China has also reported H5N6, H5N2 and H7N9. Chinese Taipei lays claim to H5N6, along with Greece, Japan and Myanmar; with the Greek outbreak being the only European occurrence of this strain. The H5N5 strain has been reported in Italy, Germany, Serbia and the Czech Republic in 2017. Mexico reported H7N3 in May.

Global broiler production in 2017 is estimated to be 0.4 % higher than in 2016, at 117.7 million tonnes (FAO Food Outlook June 2017); with serious cuts in production in China masking average growth of perhaps 2 % in other countries. Trade in poultry products is set to be 2.9 % higher than 2016 levels, at 13.2 million tonnes. Steady or reducing feed prices continue to support the global increase in broiler production.

Brazil pulled out of the longest recession in history this autumn, recording 1 % GDP growth in 1Q 2017. After a 1.8 % contraction in broiler production in 2016 (related to spiralling animal feed costs), a 3 - 4 % growth in broiler production and exports had been forecast for 2017 (Rabobank/FAO). While the bumper soybean and maize harvests and the politically-buffeted real should be combining to boost Brazilian poultry exports, quality scandals and corruption allegations have reduced exports by 4 % in the 1Q 2017 (ABPA) and local consumption remains constrained. In March 2017, federal police charged a number of meat and poultry processing plants with bribing meat inspectors to turn a blind eye to unsavoury practices and the reputational damage to Brazil’s meat export industry has been huge. The EU has now introduced stringent requirements for the importation of Brazilian meat products. The approval process for accreditation has been tightened and Brazilian poultry imports will subject to mandatory pre-export microbiological tests; and consignments sampled to be certified salmonella-free. Despite the sanitary concerns, the USDA predicts that Brazilian exports will grow by 10 % to 4.3 million tonnes in 2017; especially to Asian markets. Brazilian imports to South Africa totalled 233 787 t in 2016.

The USDA estimates 2016 US production at 18.5 million tonnes (+ 1.6 % compared with 2015) and predicts broiler production will increase by 1.87 % in 2017 (to 18.84 million tonnes).
exports rebounded by 5.2% to 3.02 million tonnes in 2016 and the USDA predicts a 4.9% growth in US broiler exports in 2017, to 3.17 million tonnes. The price of leg quarters dropped by 33.8% in 2015, during the US avian influenza epidemic. US leg quarters in May 2017 remain 27% below May 2014 prices – but have climbed to +6% over May 2016 prices.

The Russian economy contracted by approximately 1.2% in 2016 but the World Bank expects it to grow by 1.3% in 2017. Having averaged 13% annual growth in broiler production over more than a decade, growth in 2016 was around 4% and the Russian industry will grow by less than 1% in 2017. Growth is largely dependent on cultivating export markets. The industry may struggle to remain competitive as 2017 progresses, as the rouble has strengthened by as much as 20% between 1 August 2016 and the end of June 2017. In addition, Russia is still experiencing outbreaks of HPAI and the 2016 bumper wheat and maize harvests are unlikely to be repeated this season. The EU have recently extended sanctions against Russia for a further 6 months, and this will undoubtedly result in a tit-for-tat extension of the Russian trade embargo against the European nations and their allies. Poultry imports will thus decrease further in 2017, to 220 000 t (USDA).

Domestic consumption of poultry products within the EU increased by 4% in 2016, because of ample supplies, but is not likely to grow by more than 1% in 2017 (EU Commission). In 2015, favourable feed prices supported a 3.7% increase in EU poultry production. This growth continued in 1H 2016 (+6%) before slowing in 2H 2016. Growth averaged 4.4% in 2016 (EU Short Term Outlook Winter 2017). The EU Commission is currently predicting growth in poultry production of 3% for 2017, to 15.1 million tonnes (EU Short Term Outlook); and of 4.3% for broilers, to 12.2 million tonnes. However, the FAO pegs 2017 EU growth in poultry production at less than 1%. EU broiler prices have been firming since April; reaching almost €185/100 kg carcass weight in Week 25 as local summertime demand strengthens. Prices remain lower than in 2014 and 2015. Exports increased by over 9% in 2016 but are expected to stabilise in 2017, with perhaps only 1% growth (FAO). Avian influenza outbreaks and competition from South American and US exporters are seen as the major constraints to EU exports. Rising domestic prices will also make the EU less competitive. EU exports were down 2.8% in 1Q 2017 compared to 1Q 2016 (EU Commission) but are likely to improve as AI-related trade bans are lifted. Imports into the EU, mainly from Brazil and Thailand, increased by 2.8% in 2016. Imports into the EU were down 5.3% in 1Q 2017. Brazil remains the biggest exporter to the EU in the 1Q 2017, but exports are down 4% compared to 1Q 2016 because of sanitary issues.

The FAO predicts poultry production in China will drop by as much as 10% in 2017; a second year of decline. The USDA currently forecasts Chinese production at 11 million tonnes in 2017, considerably down on earlier forecasts. This decline stems from on-going problems with HPAI: production is reduced because of the disease; customers are avoiding chicken because of fear of transmission to humans; and the Chinese have a shortage of breeder stock because of AI-related trade bans against supplying countries. There has been a surge in human bird 'flu cases in 2017; attributed to the H7N9 strain rather than the more usual H5N1. In the first five months of the year, there were 268 human fatalities. The Chinese will be vaccinating birds against avian influenza in its worst affected southern provinces from July. The USDA predicts China will import 600 000 t of broiler products in 2017 (USDA FAS) to satisfy the market’s preference for
wings and legs. In their June 2017 *Food Outlook*, the FAO predicts that as much as 40% of its forecast 2.9% growth in global poultry exports could be products shipped to China. The USDA underestimated Chinese imports in 2016; revising a forecast of 400 000 t upwards to 550 000 t by year-end. The US has taken steps to allow the importation of cooked Chinese chicken products in order to regain access for US beef producers to the huge Chinese market. This access has been denied since cases of mad-cow disease were detected in US cattle in 2003.

**The South African economic outlook and poultry market:**

It’s really still too early to say whether 2017 will be a better year for broiler producers than the horror that was 2016. Good rains in the maize-growing regions of the country will support a bumper harvest this season and with global soybean prices also under pressure, animal feed costs should drop gradually from last year’s highs. However, highly pathogenic avian influenza has been reported from commercial poultry farms in Harare, Villiers and Standerton and trading partners are already closing borders. There remains no relief from the flood of dumped imports arriving from the EU and the US, and consumer spending is unlikely to improve after credit rating downgrades from all three agencies. Redundancies and plant closures in 2016 have finally alerted government and the public to the plight of the broiler industry. In a rare show of solidarity, union members and company managers have staged mass action protests across the country and a task team has been constituted to look for a solution that will safeguard jobs and food security without alienating major trading partners. As a country, South Africa has experienced a dramatic start to 2017, with a catastrophic cabinet reshuffle, credit rating downgrades, heightening political tensions, hundreds of thousands of leaked emails, landmark court rulings and the ever-present stench of state capture and corruption. It seems likely that 2017 will be another year of sluggish growth and high unemployment; an environment in which populist rhetoric can be expected to reverberate in the run up to the ruling party’s elective conference in December.

The South African broiler industry ended 2016 under catastrophic pressure from record levels of dumped broiler imports and a barrage of drought-related and political challenges. The industry still has plenty on its plate, including:

**Lingering drought**

In its May 2017 *Seasonal Climate Watch* briefing, SAWS indicated the possibility of higher than average rainfall in the south west of the country through the winter months, but attached a low confidence level to this forecast. In addition, it warned of the possibility of a new El Niño event developing in the spring/summer months but, again, the accuracy of the summer forecast is still low and, by the end of May, SAWS reported that the risk was diminishing. It is, however, a forecast the whole country should be watching carefully, so that appropriate plans are put in place to deal with the possibility of another season of below-average rainfall which might result if El Niño returns. Towns in the Free State and Eastern Cape are still being warned to use water sparingly and the situation in the Western Cape remains dire. Officials have warned that three winters of above-average rainfall will be needed to alleviate the current water shortage.
A total of 646,882 t of white maize and 1,592,671 t of yellow maize were imported for use in South Africa between 30 April 2016 and 27 April 2017 (SAGIS); the total exceeding 2.2 million tonnes. On June 19, maize futures for July delivery of white and yellow maize were set at R1 743/t and R1 871/t, respectively. Soybean futures, for July and September delivery, had moderated to R4 585 and R 4 665/tonne respectively, as of 19 June.

**Dumping of frozen broiler meat**

In 2016, almost 240,000 tonnes of bone-in imports arrived in South Africa from the EU. Imports as a percentage of domestic broiler consumption increased to 24.9% in 2016. Had the AI-related trade bans not taken effect in December, this figure would have been 25.6% (if December tonnages are estimated on a six month average). If mechanically deboned meat (MDM) is excluded from the imports, imports still account for 15.7% of local broiler consumption (16.4%, had December’s imports not been reduced by the trade bans). At the FOB-value that these products are being imported, this percentage is enough to seriously disrupt the market and the 195,000 tonnes of MDM, imported at R4.22/kilogramme, just makes matters worse. The EU AI-crisis has been a very brief and rather over-stated hiatus from imports. ‘Relief’ is too strong a word for the reduction in imports from November 2016: December still saw over 34,000 tonnes of poultry imports into South Africa and January and February imports rebounded to 37,375 and 39,212 tonnes, respectively. In March, the US jumped into the trading space created by the bans against EU countries and flooded the market with almost 24,500 tonnes of frozen bone-in chicken portions in a single month. Total imports in March exceed 65,000 tonnes.

The Department of Trade and Industry (dti) announced the establishment of a task team to address the challenges facing the poultry industry. In its analysis of the industry’s woes, the Department has accepted that there is a crisis in the industry and that there are serious distortions in the market place, including the level of subsidies received by South African and European farmers. The task team will look into solutions which include trade measures, tariffs, industrial finance (for example, investment in machinery to mechanically debone chicken), incentive schemes, export support and state procurement procedures.

The EU continues to deny what it does is “dumping”. This despite the final anti-dumping duties of between 3.86% and 73.33% imposed in 1Q 2015 against imports from certain companies in the UK, Netherlands and Germany. The International Trade Administration Commission (ITAC) has imposed an interim safeguard tariff of 13.9% to correct the imbalances, which will be in place until 3 July 2017 while they complete their investigation. This tariff is widely regarded as being too low to be effective and SAPA are working with ITAC in an attempt to have it raised to the MFN (most favoured nation) tariff of 37%.

Hearings in front of the Portfolio Committee on Trade and Industry began on 23 March and were continued on 2 and 9 May. At these meetings, the Deputy Directors of the dti, Garth Strachan and Xolelwa Mlumbi, and the National Agricultural Marketing Council (NAMC) dispelled the notion that the South African industry is less efficient than its competitors, making it clear that South African producers are able to produce chicken more cost-effectively than the European exporting nations. Brazil can produce chicken more cheaply
than South Africa but is a net exporter of both maize and soybeans. The most recent iteration (2015) of the University of Wageningen’s research into the competitiveness of global poultry producers gives updated support to South Africa’s claim to be more competitive than all the EU nations; even in a terrible drought year. The EU has used the parliamentary meetings as a forum to deny that the imports are dumped product, superfluous to European needs and sold below cost of production; to put the blame on “structural” issues in the domestic industry; and (disingenuously) to suggest that South African producers feed growth hormone to their birds. The EU have also used the parliamentary meetings to highlight the importance of the EU-SA trade relationship – and this, of course, as with AGOA, is where the poultry industry is so vulnerable. The South African market for dumped poultry products is so important to the Americans and Europeans that they will almost certainly use the threat of reciprocal actions against other South African industries if barriers are put in place to stop the dumping. The South African poultry industry continues to make its point that it has no issue with fair trade in poultry products – only with illegal dumping.

The US is currently subject to a 940 c/kg anti-dumping duty on bone-in chicken portions. This duty has been in place for some time and was last renewed in April 2012. The duty is now subject to a sunset review, with its expiry date scheduled for 4 April 2017. It should be remembered that the AGOA deal allows a quota of 65 000 tonnes per annum to be imported free of the anti-dumping duty (although normal import tariffs apply). The decision-makers at ITAC will determine whether the US continues to sell bone-in portions substantially below the cost of production in South Africa. If they find this to be the case, the duty will be extended for a further 5 years.

The import tariffs agreed on in 2013, and applicable to product from all over the world (with the exception of the EU and SADC nations), are also up for review with ITAC. SAPA argues that the tariffs set in 2013 have failed to provide more than 5 % average protection to the industry and have had no effect because a) they are too low; b) they do not apply to the EU because of the TDCA between South Africa and the EU; and c) dumping of mechanically deboned meat in the South African market causes far-reaching distortion of the whole value chain (SAPA Poultry Bulletin).

Reduced consumer spending in a recessionary environment

Headline inflation averaged 6.4 % in 2016. Inflation peaked at 6.8 % in the 4Q 2016 but had reduced to 5.3 % in April and is expected to stay within the target range for the forecast period (SARB). Food price inflation rose from 5.9 % in December 2015 to 11.7 % in December 2016. In April 2017, food price inflation surprised at 6.7 % (NAMC). The unemployment rate in the 1Q 2017 increased to 27.7 % from 26.5 % in the previous quarter. The expanded unemployment rate, which includes discouraged work-seekers, is 36.4 %.

In May, the International Monetary Fund revised its growth forecast for the South African economy upwards to 1.0 % in 2017, in light of some recovery in the agriculture and mining sectors. It cautioned that policy uncertainty poses a downside risk and advised that reform
of the country’s state-owned enterprises and service and labour markets is needed to encourage investor confidence. The economy contracted by 0.3 % in 4Q 2016 and by a further 0.7 % in 1Q 2017, taking the country into the first recession since 2009. The mining sector recovered to grow by 12.8 % in the 1Q 2017. It was a happier story for agriculture too, which rebounded to grow by 22.2 % q-on-q, after eight consecutive quarters of contraction. Manufacturing contracted by 3.7 % and trade, catering and accommodation shrunk by 5.9 %. Construction shrunk by 1.3 %. The tertiary sector, which includes finance, transport and personal services, contracted for the first time since the 2009 recession in the first quarter of 2017.

A volatile South African rand

In late March 2017, Standard & Poor’s Ratings warned that political tensions, policy issues and weak growth could hamper economic reform and undermine investor confidence. The warning fell on deaf ears in the Presidency. On 31 March, South Africans woke up to find that the hugely respected Finance Minister, Pravin Gordhan, and his equally competent deputy, Jonas Mcebisi, had been replaced in a cabinet reshuffle. The rand and markets went into free-fall in the days and weeks that followed. Standard and Poor’s moved quickly to downgrade South Africa’s sovereign credit rating to below-investment level and Fitch Ratings announced a similar downgrade on both foreign and local debt at their scheduled meeting on 7 April. At their regular June meeting, Moody’s did as expected and cut South Africa’s credit rating by one notch to BAA3 and assigned a negative outlook – the BAA3 level is just one notch above junk status. A few days later, Moody’s downgraded the country’s top five banks to the same BAA3 level.

As June draws to a close, the markets are suffering jitters yet again – this time in response to the remedial action prescribed by the Public Protector in the matter of an apartheid-era bailout of a bank, later bought by ABSA. The rand’s value at the end of 2016 was still 22 % below its value on 1 January 2015 (R11.56 to the dollar). Through 1Q 2017, the rand has strengthened by 10.6 % over the December 31 2016 level; breaking the R13-level in mid-February and closing at R12.43 to the dollar on 26 March. Following Jacob Zuma’s decision to axe the Finance Minister, the rand depreciated by 11.7 % between March 26 (R12.43 : $1) and 10 April (R13.91 : $1). The rand regained 9.4 % between 10 April and mid-June, to close at R12.71 : $1 (still 2.2 % below the March 26 level). The currency continues to be buffeted by internal and external political and economic events, such as the credit rating agency downgrades; the US Federal Reserve policy announcement; the country’s slide into recession; Minister Zwane’s introduction of the new Mining Charter, etc. The rand had been riding these dramas thanks to recent favourable sentiment towards emerging markets and rising commodity markets - but following the Public Protector’s report on the Bankorp bailout, it depreciated by 2.05 % (SARB). The local currency is also expected to lose up to 5 % against the dollar in the lead up to the ANC’s elective conference in December (Moneyweb.co.za).
1. **TOTAL POULTRY IMPORTS (INCLUDING TURKEY, DUCKS, GEES)**

1.1 **MONTHLY: TOTAL POULTRY IMPORTS**

In December 2016, poultry imports decreased dramatically by 32.2 % on a monthly basis because of a raft of AI-related trade bans against EU nations. In January and February 2017, poultry imports recovered somewhat as markets adjusted, to 37 375 t and 39 212 t, respectively. March 2017 imports rocketed to record highs. A total of 65 658 t of poultry meat were imported; 26 446 t more than in the previous month (+ 67.4 %). Poultry imports were valued at R694.8 million (FOB); up R300.7 m on February 2017 levels (+ 76.3 %). During March 2017, poultry imports consisted of 94.6 % chicken meat and product, 5.4 % turkey meat and product; and only 0.0003 % ducks, geese and guinea fowl.

By late 2016, the Netherlands had overtaken Brazil as the main country of origin for South African poultry imports, but temporary trade bans against the European countries experiencing outbreaks of highly pathogenic avian influenza have taken effect since then. Brazil was restored as the main country of origin for South African poultry imports in December 2016 and the first two months of 2017 but, in March 2017, the US accounted for 38.2 % or 25 103 t of total import (cf 2.8 % in November). Brazil was beaten into second place with 24 906 t of poultry imports to South Africa (37.9 % of total). Belgium was responsible for 7.0 % (4 581 t) of the total imports in March; Spain 3.9 %; Canada 3.9 %; Argentina 3.8 %; Ireland 3.2 % and Thailand 1.5 %. Other countries contributed 0.5 % collectively.

![Figure 1: Poultry imports from the European Union as a percentage of total poultry imports](image-url)
Only 218 kilograms of poultry product arrived from France in March, because of AI-related restrictions on trade. The Germans recorded HPAI in wild birds, fattening turkeys and breeder hens in December 2016 and no German imports were received in March 2017. Canada, a regular exporter to South Africa until January 2015, resumed exports in January 2016. Canada exported 2 530 t to South Africa in March 2017.

Poland entered the South African market in August 2016, with 82 t of chicken drumsticks and chicken offal. Polish volumes had increased to 2 521 t by November but the country is now experiencing on-going outbreaks of HPAI and no poultry imports were received from Poland in March 2017.

*Figure 1*, above, shows the percentage of total imports originating from the European Union. Imports from the EU contributed 14.3 % (9 370 t) of total poultry imports into South Africa in March 2017 (cf 63.1 % in November 2016). EU tonnages were up 0.8 % (+ 72.8 t) on a monthly basis. Imports are down 59.7 % (- 13 859 t) on March 2016 EU imports because of AI-related trade bans.

### 1.2 QUARTERLY: TOTAL POULTRY IMPORTS

During 1Q 2017, 142 245 tonnes of poultry meat were imported at an FOB value of R1.46 billion. The distribution of imports according to tariff codes is listed below in Tables 1(a) and (b).

During the 1st quarter of 2017, imports from Brazil made up 46.3 % of total poultry imports into South Africa (*Figure 2*). The US and Spain accounted for 24.8 % and 7.8 % of total imports in the 1Q 2017, respectively. Belgium contributed 7.1 %; Argentina 4.1 %; Ireland 3.8 %; Canada 3.6 % and Thailand 1.0 %. If the European Union countries are considered as a single entity, the EU contribution to total poultry imports was 19.6 % in the first quarter of 2017 (*Figure 3*), down from 52.4 % in the 4Q 2016.

**Table 1a: Distribution of imports according to tariff (chicken)**

<table>
<thead>
<tr>
<th>Tariff code</th>
<th>Imports: 1Q 2017 (kg)</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0207.1210</td>
<td>44 927 764</td>
<td>31.6</td>
</tr>
<tr>
<td>0207.1220</td>
<td>3 085 105</td>
<td>2.2</td>
</tr>
<tr>
<td>0207.1290</td>
<td>5 997 980</td>
<td>4.2</td>
</tr>
<tr>
<td>0207.1300</td>
<td>28 005</td>
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<tr>
<td>0207.141*</td>
<td>5 761 500</td>
<td>4.1</td>
</tr>
<tr>
<td>0207.142*</td>
<td>7 337 645</td>
<td>5.2</td>
</tr>
<tr>
<td>0207.149*</td>
<td>65 984 041</td>
<td>46.4</td>
</tr>
<tr>
<td>1602.3290</td>
<td>207 865</td>
<td>0.15</td>
</tr>
</tbody>
</table>
Table 1b: Distribution of imports according to tariff (turkey, geese, ducks, guinea fowl)

<table>
<thead>
<tr>
<th>Tariff code</th>
<th>Imports: 1Q 2017 (kg)</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0207.2700</td>
<td>8 808 492</td>
<td>6.2</td>
</tr>
<tr>
<td>0207.4200</td>
<td>9 567</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>0207.4300</td>
<td>9 567</td>
<td>&lt;0.01</td>
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<tr>
<td>0207.4500</td>
<td>19 996</td>
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<tr>
<td>1601.0010</td>
<td>318</td>
<td>&lt;0.01</td>
</tr>
<tr>
<td>1602.3100</td>
<td>76 125</td>
<td>0.05</td>
</tr>
<tr>
<td>1602.3990</td>
<td>725</td>
<td>&lt;0.01</td>
</tr>
</tbody>
</table>

Figure 2: Country of origin of poultry imports into South Africa for 1st quarter of 2017
Key market signals in the Broiler Industry | 1Q 2017

Small footprint. Big impact.

Figure 3: Country of imports for 1st quarter, showing the EU countries as a single entity

Of the total poultry imports from Brazil during 1Q 2017 (65 860 tonnes; Figure 4), 65.1 % entered South Africa as mechanically deboned meat (0207.1210).

Figure 4: Quarterly imports of broiler meat originating from Brazil, according to tariff codes
Frozen bone-in portions (0207.149*) made up 14.4 % of Brazilian imports; 4.6 % was frozen chicken offal (0207.142*); 5.8 % frozen boneless portions; 2.4 % whole frozen chickens (0207.1290) and 7.4 % frozen turkey portions and MDM (0207.2700). The remainder of Brazilian imports comprised frozen chicken carcasses and value-added chicken, in small quantities; (Figure 4, above).

1.3 ANNUAL: TOTAL POULTRY IMPORTS (2016)

Poultry imports for the year 2016 totalled 560 155 t; which is an increase of 81 708 t, or 17.1 %, in comparison with 2015 (478 447 t). If it had not been for the effect of AI-related trade bans on December imports, 2016 imports would have been 20 % higher than in 2015. On an FOB basis, the total value of imports for 2016 amounted to R5.48 billion, a 17.2 % increase over the 2015 value.

Brazil remained the main country of origin in 2016, accounting for 41.7 %, or 233 787 t, of total poultry imports into South Africa. The Netherlands were the second largest importer into the country, with 19.7 % or 110 344 t. The UK also recovered from the effects of avian influenza-related trade bans in place in 2015, to account for 8.2 % of imports in 2016 (45 657 t). Spain held on to 4th position on the imports table with 39 620 t (7.1 %). The US re-entered the South African poultry market in January 2016 and exported a total of 26 573 t of poultry products to our shores in 2016 (4.7 %).

![Country of origin 2016 (EU countries grouped)](image)

*Figure 5: Origin of total broiler imports in 2016, with EU countries grouped together*

In 2015, Belgian poultry imports into South Africa increased by 198 % over 2014 levels to account for 7.4 % of total imports, but accounted for only 4.3 % in 2016 (24 256 t). Argentina
finished 2016 in seventh position with 3.3 % of total poultry imports (18 713 t). All other importing countries contributed less than 3 % each to imports of poultry into South Africa in 2016. If the EU countries are considered as a single entity, 48.1 % of poultry imports entered SA through the EU in 2016 (Figure 5), compared to 41.7 % in 2015 and 48.5 % in the 2014. The dip in 2015 reflects the impact of the bans on EU countries affected by avian influenza.

The percentage contribution of each of the member countries to the total poultry imports from the European Union in 2016 is shown in Figure 6. The 269 260 tonnes imported from the EU in 2016 is a 19.9 % increase over the tonnes imported from the EU in 2015 (+ 39 688 t). It should be remembered that imports from the EU were reduced by AI-related trade bans in the 1H 2015, but the 1H 2016 values still represent a 27 % increase over volumes imported in 1H 2014. It must also be remembered that EU imports crashed in December 2016 because of AI-related trade bans. Had normal levels been imported from the EU in December, 2016 volumes would have been over 27 % higher than in 2015.

**Figure 6: Percentage contribution of member countries to total EU poultry imports: 2016**
2. BROILER MEAT PRODUCTION AND TRADE

2.1 BROILER MEAT PRODUCTION

2.1.1 Broiler breeders

Day-old parent pullets placed

An average of 148 500 day-old parent pullets was placed per week in March 2017. This was a decrease of 8 300 parent pullets per week (-5.3 %) compared to the previous month and a decrease of 41 800 parent pullets per week (-22 %) compared to the same month in the previous year.

On a quarterly basis, an average of 159 500 day-old parent pullets was placed per week during the first quarter of 2017 (1Q 2017). This was a decrease of 10 900 per week (-6.4 %) compared to 4Q 2016 and a decrease of 28 700 per week (-15.3 %) compared to 1Q 2016.

The total number placed for the quarter was 2 076 500; a 6.1 % decrease compared to 4Q 2016 and a 15.2 % decrease compared to 1Q 2016.

A forecast total of 9.436 million day-old parent pullets were placed in 2016; 413 600 (-4.2 %) less than 2015 (9.849 million).

Broiler breeder flock

The average number of breeder hens for March 2017 was 6 950 000. The forecast for June 2017 is 6 732 000.

The average size of the breeder flock during 1Q 2017 was 7 015 000 birds. This was an increase of 2.5 % compared to 4Q 2016 and an increase of 0.16 % compared to 1Q 2016.

The average flock size for 2016 was 7 126 million; 126 100 (+1.8 %) more breeder hens than in 2015.

2.1.2 Broiler chick placements

Actual placement:

Broiler hatcheries produced 17.897 million day-old chicks per week in March 2017. Compared to February 2017, this was a decrease of 1.2 million chicks per week (-6.3 %). Compared to March 2016 this was a decrease of 1.463 million chicks (-7.6 %).

During 1Q 2017 broiler hatcheries produced 242.0 million day-old chicks. This was an increase of 0.2 % compared to 4Q 2016 but a decrease of 3.3 % compared to 1Q 2016. The average weekly placement of day-old chicks for 1Q 2017 was 18.64 million; a 0.3 % increase compared to 4Q 2016 but a 3.2 % decrease compared to 1Q 2016.
In total, 991.1 million broiler chicks were hatched during 2016; 23.2 million (-2.3%) less than 2015.

**Industry potential:**

Based on the forecasting model, potential production of 21.73 million broiler chicks per week was projected for 1Q 2017. The actual production was 14.2% less than the potential.

Potential production of 279.33 million broiler chicks was projected for 1Q 2017, based on the number of day-old parent females placed. The actual production was 13.4% less than the potential.

**2.1.3 Broiler production for slaughter (bird numbers)**

**Actual production:**

On average, 18 000 million broilers were produced per week in March 2017. This was 264 000 birds (+1.5%) more than the previous month but 211 400 million birds (-1.2%) less than the same month of the previous year.

The total production for 1Q 2017 was 226.5 million. This was 5.7% less than 4Q 2016 and 1.0% less than 1Q 2016.

The average production of broilers per week for 1Q 2017 was 17.62 million. This was a 3.6% decrease compared to 4Q 2016 but a 0.1% increase compared to 1Q 2016.

A total of 935.6 million broilers were produced for slaughter in 2016; 29.4 million (-3.1%) less than in 2015.

**Industry potential:**

Potentially 20.69 million broilers could have been produced per week in 1Q 2017. Actual production per week was 14.3% less.

Based on the forecasting model, 266 million broilers were slaughtered during 1Q 2017. Actual production for the quarter was 14.9% less than potential.
Table 2.  **Broiler industry bird numbers**

<table>
<thead>
<tr>
<th>Month on Month</th>
<th>Hatch</th>
<th>Calendar</th>
<th>Day-old Parent</th>
<th>Breeder</th>
<th>Actual Broiler Chicks</th>
<th>Broilers Slaughtered</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Month</td>
<td>Month</td>
<td>pullets placed</td>
<td>hens</td>
<td>placed</td>
<td>(based on actual chicks)</td>
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<td>31</td>
<td>667,416</td>
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<td>17,897,395</td>
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<td>17,999,850</td>
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<td>February 2017</td>
<td>16</td>
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<td>% Change</td>
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<td>6.51%</td>
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<td>Year on Year</td>
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<td>% Change</td>
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<td>-21.97%</td>
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<td>Full year forecast</td>
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<td>Year</td>
<td>Year</td>
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</tr>
<tr>
<td></td>
<td></td>
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<td>/Week</td>
<td>/Week</td>
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<td>Jan&gt;Dec 2016</td>
<td>209</td>
<td>366</td>
<td>9,435,872</td>
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<td>-7,664</td>
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<tr>
<td>% Change</td>
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<td>-4.07%</td>
</tr>
<tr>
<td>YTD forecast</td>
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<td>/Period</td>
<td>/Period</td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>/Week</td>
<td>/Week</td>
<td>/Week</td>
<td>/Week</td>
</tr>
<tr>
<td>Jan&gt;Mar 2017</td>
<td>52</td>
<td>90</td>
<td>2,076,585</td>
<td>159,623</td>
<td>7,015,382</td>
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<td>% Change</td>
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<td></td>
<td>-15.21%</td>
<td>-15.25%</td>
</tr>
</tbody>
</table>

**NOTE:**

- **Month or Period:** Refers to a calendar month or period
- **Week:** Refers to an average 7 day week of which all 7 days fall within the specified month or period

### 2.1.4  **Broiler and breeder meat production (tonnes)**

**Actual production:**

Broiler meat produced in March 2017 was 148 400 tonnes. This was 16 300 tonnes (+12.4 %) more than February 2017 but 10 600 tonnes (-6.7 %) less than March 2016.
Total broiler meat produced for 1Q 2017 was 421 800 tonnes. This was 7.6 % less than the previous quarter and 6.6 % less than the same quarter of the previous year.

A total of 1.832 million tonnes of broiler meat was produced in 2016; 70 890 t (-3.7 %) tonnes less than in 2015.

**Industry potential:**

The forecasting model predicted the production of 169 300 broiler tonnes for March 2017. Actual production was 12.3 % less than potential. The prediction of broiler tonnes for 1Q 2017 was 495 400 t, 14.9 % more than actual.

A further prediction by the forecasting model was 3 169 tonnes from the culling of breeder hens and cocks in March 2017. The 1Q 2017 prediction was 9 100 breeder tonnes.

Based on the breeder tonnes predicted, and actual broiler production, a combined output of 151 600 tonnes resulted from the broiler industry for March 2017. The total for 1Q 2017 was 430 900 tonnes. All breeder sales are assumed to be live, whilst a broiler slaughter weight of 1.8 kg, revised from 1.85 kg in July 2015, was used. Total broiler production includes all saleable offal.

The combined predicted total of broiler and breeder meat production was 2.108 million tonnes in 2016; 19 150 tonnes (+0.9%) more than in 2015.

The current predicament of the broiler industry leaves the forecasting model's potential data consistently higher than the actual figures. These discrepancies are caused by cutbacks in production as the industry wrestles with the challenges it is facing.

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**2.2 BROILER MEAT IMPORTS**

**2.2.1 Monthly: total broiler imports**

Of the 65 658 t of total poultry products imported into South Africa in March 2017, broiler meat imports accounted for 62 102 t (94.6 %; + 25 213 t; + 68.3 % on a monthly basis). The FOB value of broiler meat imports (R654.3 million) represents 92.4 % of the FOB value for total poultry imports in March 2017 (R 694.8 million). Broiler imports during March 2017 comprised 26.9 % mechanically deboned meat (tariff code 0207.1210); 60.4 % bone-in (leg) portions (0207.1491 - 1499) and 4.6 % frozen offal (0207.1421 - 1429). The remainder was carcasses, boneless portions, whole frozen chickens and value-added products.
2.2.2 Quarterly: total broiler imports

Of the 145 245 t of total poultry products imported into South Africa in 1Q 2017, broiler meat imports accounted for 133 330 t (93.7 %; + 7 516 t; + 6.0 % on a quarterly basis). The FOB value of broiler meat imports in the 1st quarter (R1.36 billion) represents 92.8 % of the FOB value for total poultry imports during this quarter (R1.46 billion).

2.2.3 Annual: total broiler imports

According to the audited figures of SARS (verified), the annual broiler imports for 2016 totalled 528 506 tonnes. This figure represents 94.3 % of the total poultry products imported (560 155 t). The broiler imports for 2016 had an FOB value of R5.021 billion. Broiler imports for 2016 were 15.6 % higher than in 2015, despite new outbreaks of avian influenza in some European exporting countries late in the year.

2.2.4 Frozen broiler imports

Of the total broiler meat imported through 2016, 99.9 % was declared as frozen (528 108 t). Frozen broiler meat imports increased by 15.6 % in 2016 over levels imported during 2015 (456 954 t). Frozen broiler imports totalled 125 626 t in 4Q 2016; down 2.5 % on 3Q 2016 levels.

The Brazilian contribution to total annual frozen broiler imports decreased from 77 % in 2009 to 41.9 % in 2014. In contrast, the proportion of frozen meat imports from the EU has increased dramatically over a five year period, reaching 51 % of total frozen imports by December 2014, from 2.2 % in 2009. Trading restrictions on countries affected by avian influenza reduced EU imports through 2015 and the EU proportion of total frozen broiler imports averaged 42.6 %. In 2016, 49.7 % of frozen broiler imports came from the EU, 41.3 % from Brazil and 4.7 % from the US.

In tonnage terms, a total of 262 352 t of frozen broiler meat was imported from the EU in 2016, compared to 194 685 t in 2015 as a whole, 188 079 t in 2014 and only 4 139 t in 2009. Frozen broiler imports from the EU totalled 27 122 t in the 1Q 2017. During the 1Q 2017, EU imports accounted for 20.4 % of total frozen broiler imports into South Africa; compared to 57.9 % in 1Q 2014 (before the 2014/2015 avian influenza bans on several EU countries) and 54.8 % in 4Q 2016.

Imports of Brazilian frozen broiler products totalled 225 850 t in 2015 and dropped to 218 036 t in 2016. The annual tonnages of frozen broiler imports for the EU bloc, Brazil and other nations since 2010 are shown in Figure 7.

Figure 8 shows the monthly contribution of the EU to frozen bone-in imports into South Africa over time. The penetration of the EU into this market from 2010 to 2016 is clearly demonstrated in these two figures, along with the effect of trade restrictions (resulting from AI outbreaks) on EU penetration in 1H 2015 and November 2016 to February 2017; and the return of the US to the South African market in March 2016.

Small footprint. Big impact.
Key market signals in the Broiler Industry

Small footprint. Big impact.
The contribution of individual EU member countries in terms of frozen broiler imports is shown in Figure 9 for 2014, 2015 and 2016.

Of the total frozen broiler imported in 2016 (528 108 t), 37.0 % was mechanically deboned meat (195 253 t) and 45.4 % was bone-in broiler portions (239 589 t). Whole broilers contributed 1.8 %; carcasses 4.1 %; boneless portions 2.4 % and offal 9.4 %.

In terms of product mix from the EU, the main product imported in 2016 was bone-in portions, accounting for 74.1 % of the total EU frozen broiler imports. Mechanically deboned meat accounted for only 8.1 % of frozen broiler imports from the EU; with 4.4 % carcasses, 3.3 % whole frozen birds and 9.8 % offal.

Brazilian imports of frozen broiler meat comprised 81.9 % mechanically deboned meat in 2014 and 72.2 % in 2015. In 2016, Brazilian imports of frozen broiler meat included 78 % mechanically deboned meat and 8.6 % bone-in portions (bone-in portions: 11.8 % in 2015 and 4.6 % in 2014).

In tonnage terms, Brazil exported 127 251 t of MDM to South Africa in 2014; 166 122 t in 2015 and 170 045 t in 2016. Brazil exported 7 091 t of frozen bone-in portions to South Africa in 2014; 26 591 t in 2015 and 18 799 t in 2016.

![Figure 9: Annual frozen broiler meat imports from EU countries: 2015, 2016 and 2017 YTD](image-url)
2.3 BROILER MEAT EXPORTS

2.3.1 Quarter

A total of 15 378 tonnes of poultry products were exported at an FOB value of R326.9 million during the 1Q 2017. Broiler exports represented 92.8 % of total poultry exports in the 1Q 2017 (14 269 t), and 90.0 % of the rand value (FOB) of total poultry exports (R2.942 million). Broiler exports decreased 20.3 % compared to fourth quarter levels, and decreased 16.0 % compared to exports of broiler meat during the first quarter of 2016.

The main destination countries for broiler exports were Mozambique at 4 159 t, Lesotho at 3 598 t, Namibia at 2 893 t, Botswana at 887 t, Zimbabwe at 692 t, Zambia at 644 t, Swaziland at 327 t, the Democratic Republic of the Congo at 205 t, UAE at 163 t and Angola at 158 t of the 14 269 total tonnes exported.

2.3.2 Annual: 2015 and 2016 YTD

A total of 74 021 tonnes of poultry products (Figure 10) were exported at an FOB value of R 1.36 billion during 2016. This was an increase of 2.2 % over 2015 tonnages (72 444 t), compared to a 9.2 % increase between 2014 and 2015.
Broiler exports accounted for 93.2 % of total poultry exports in 2016 (68 958 t), and 87 % of the rand value (FOB) of total poultry exports (FOB R1.18 m). The main destination countries for broiler exports were Mozambique at 18 070 t, Namibia at 16 338 t, Lesotho at 14 883 t, Zambia at 5 205 t, Zimbabwe at 4 576 t, Botswana at 3 703 t and Swaziland at 1 561 t of the 68 958 total tonnes exported.

In 2016, 25.2 % of broiler exports were frozen bone-in portions, 24.4 % frozen mechanically deboned meat, 16.9 % whole frozen chicken and 16.7 % fresh chicken cuts and offal. The remainder comprised a mix of boneless chicken portions, frozen chicken portions, whole fresh chickens, frozen chicken carcasses and offal, value-added chicken and chicken pastes.

### 3 PRICE TRENDS

#### 3.1 PRODUCER PRICES

The average total realisation price for the quarter (1Q 2017) was R20.86 per kg, an increase of 6.4 % in comparison with the previous quarter (R19.61) and an increase of 15.1 % in comparison with the first quarter in 2016. Depicted in the following two graphs respectively are the quarterly (Figure 11) and annual producer price for total realisation of broiler meat (Figure 12).
Figure 11: Quarterly weighted average producer price for total broiler sales realisation

Figure 12: Average annual weighted producer price for total broiler sales realisation
The following figure (*Figure 13*) depicts the quarterly (1Q 2017) product mix in terms of volume of broiler meat produced:

**Broiler product mix according to volume, 1Q 2017**

![Broiler product mix chart]

*Figure 13: Quarterly broiler meat product mix: 1Q 2017*

### 3.1.1 Producer prices in real terms

The weighted average producer price for broilers (less all discounts, rebates, advertising spent, secondary distribution, VAT, etc.) is adjusted for CPI (meat) in *Figure 14* to estimate the annual producer price in real terms. The CPI adjustment takes 2008 as the base year (index = 100; base price = R13.55).

In real terms, with 2008 chosen as the base year and producer inflation (CPI meat) corrected for, the average broiler producer price decreased by 4.6% in 2016 compared to 2015 prices. In real terms, the broiler price for 2016 was R11.52; and the broiler price from 2010 to 2016 has remained below the 2008 average producer price of R13.55 per kg. This situation persists in 2017 YTD.

In real terms, the broiler producer price for the 1Q 2017 (R11.88) is 1.6% less than the 2015 average (R12.07) but 3.1% higher than the 2016 average (R11.52). In March 2016, the broiler price in real terms was R11.20, compared to 12.01 in March 2017; a year-on-year increase of 7.2%. The monthly figures for broiler producer prices (nominal and real) are given in *Figure 15*. 
**Figure 14**: Broiler producer price in nominal and real terms: annual averages.

**Figure 15**: Broiler producer price in nominal and real terms: monthly values
The broiler producer price index presented in Figure 16 is compared to the SA food and non-alcoholic beverages (NAB) price index. The indices are compared using two base years on the same graph; base 2008 = 100 and base 2012=100.

**Figure 16:** *Broiler producer price index vs food inflation index (bases 2008 and 2012).*

Using 2008 as the base year, the broiler price index has remained below the food inflation index from 2009 to the end of 1Q 2017 (Figure 16). From early 2013, the difference between the two indices gradually decreased. By December 2014, there were only 8 points between the two indices. What this means is that broiler producer price inflation was running above the food and NAB inflation rate in this period (thus closing the gap between the two indices). So, when we use 2012 as the base year, it can be seen that the broiler producer price index is greater than the food price index for two and a half years from February 2013 to May 2015; not accelerating away from the general food index, but at least above and parallel with it.

From May 2015 to July 2016 (with the exception of a short-lived recovery in the last quarter of 2015), the broiler producer price index began to decline noticeably relative to the food price index. Using 2008 as the base year, the broiler price index can be seen dropping down, away from the food price index. With 2012 as the base year, the food index continues to steadily climb, while the broiler price index drops below it for the first time in several years. This is a measure of the strain producers found themselves under in terms of producer price, at a time when other food items were increasing in price and the price of raw materials was escalating.
From July 2016, the broiler price index has increased at a faster rate than the food price index, as prices have had to rise to compensate for animal feed costs. If 2008 is the base year, the broiler price index still lies below the food price index at the end of 2016, but is approaching it sharply. With 2012 as the base year, the broiler price index leapt back up above the food price index in November 2016 and has remained there since.

In 2015, the quarterly difference between the two indices (producer price and food and NAB inflation; base = 2008) was always less than 18 points. In the 1Q, 2Q, 3Q and 4Q 2016 and 1Q 2017, the difference was recorded at 26.6, 29.4, 33.5, 26.7 and 22.4 points, respectively.

3.1.2 Broiler prices in comparison with pork, beef and eggs

Broiler meat and eggs remain the most affordable of all protein sources described in the graph below (Figure 17).

Beef prices, for classes A2/A3, are considerably higher than pork and broiler prices. The average beef producer price at the abattoir (carcass price, excluding the fifth quarter) for 2015 was R34.17 per kg and for 2016 was R37.79.

![Producer prices for protein sources: annual averages](image)

**Figure 17**: Annual producer prices of protein sources: 2015, 2016 and 2017 YTD.

In March 2016, beef classes A2/A3 fetched R44.39 per kg; a year-on-year increase of 13.8% (cf March 2016; Figure 18). The average producer price of class C2/C3 beef
was R27.27 per kg in 2015 and R31.11 in 2016. In March 2017, class C2/C3 beef fetched R36.86 per kg (Figure 18); a year-on-year increase of 19.6 % (Source: Stats SA).

The average pork price (all classes) was R22.83 per kg in 2015 and R24.36 in 2016. During March 2017, the pork producer price was R26.80 per kg. The March producer price has increased by 11.7 % in comparison with the same month in the previous year.

The average producer price for broilers (total realisation) for 2015 was R18.43 per kg and for 2016 was R18.65. During March 2017, the broiler producer price was R21.37 per kg. The March producer price has increased by 18.4 % in comparison with the same month in the previous year.

The average egg producer price for 2015 was R16.65 per kg and for 2016 was R18.29. Please note that the mean egg weight used to calculate egg prices per kilogramme has been increased in SAPA models from 55 g to 58.2 g for 2014, 58.3 g for 2015 and 58.5 g for 2016, so average egg producer prices for 2014 have changed since the 3Q 2015 report. In March 2017, the egg producer price was R19.20 per kg; an increase of 13.0 % on a yearly basis.

3.1.3 In comparison with pork, beef and egg during the 1Q 2017:

In the 1st quarter of 2017, the beef price for classes A2/A3 was considerably higher than pork and broiler prices. The average beef producer price at the abattoir (carcass price excluding the fifth quarter) for 1Q 2017 was R42.36 per kg; a 12.60 % increase on a quarterly basis and an 13.5 % increase on a year-on-year basis. The average producer price of class C2/C3 beef was R35.86 per kg for 1Q 2017; a 6.4 % increase on a quarterly basis and a 18.8 % increase on a year-on-year basis (source: SA Stats; SAPA).

The average price of pork (all classes) was R27.17 per kg in the 1st quarter of 2017; a quarterly increase of 4.1 %, and a year-on-year increase of 15.8 %. The average egg producer price for 1Q 2017 was R18.91 per kg; a quarterly increase of 2.2 %, and an increase of 7.8 % on a year-on-year basis.

The average producer price for broilers (total realisation) for 1Q 2017 was R20.86 per kg; an increase of 6.4 % on a quarterly basis and a 15.1 % increase on a year-on-year basis.
3.1.4 **SA prices in comparison with the USA**

The price of US leg quarters in c/pound is contrasted with the US price for deboned and skinless breast meat cuts in *Figure 19*. A severe drop in the price of US leg quarters was experienced through 2015, because of export bans imposed in reaction to AI outbreaks in the US. Some recovery in leg quarter prices is evident through 2016 and, especially early 2017, as export volumes improve. March 2017 prices remain 9.2% below those realised two years ago in March 2015.

The USA broiler prices for region North East are presented in SA rand per kg in the graph below (*Figure 20*) and compared to the South African price for total realisation (IQF) and whole frozen birds.

The disparity between US prices for skinless, boneless breast meat and leg quarters, in the same market, is clearly evident.

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**Figure 18:** Monthly producer prices of protein sources.
**Figure 19:** USA leg quarter and deboned skinless breast prices (cents per pound; source USDA).

**Figure 20:** USA broiler prices in comparison with the local IQF and whole bird producer price (NSV).
3.2 RETAIL PRICES

The source of the broiler *producer* prices for the different portions presented in this document is SAPA (see definition at the end of this document).

Retail poultry prices are collected and disseminated by Statistics SA. From January 2013 onwards, Statistics South Africa removed whole frozen chicken from their reporting basket. The retail price of fresh whole chicken, fresh chicken portions and frozen chicken portions were by Stats SA tracked until December 2016.

In January 2016, Stats SA changed their methodology for reporting chicken prices. This change, which was not shared with users, resulted in what appeared to be substantial, unrealistic changes to the retail price of frozen chicken portions in relation to 2015 data. The figures for January to March 2016 were R38.85, R40.21 and R45.06/kg, compared to R28.50, R28.22 and R28.55 under the old methodology - and not grounded in reality. The issue was raised with Stats SA and 2016 figures under the old methodology were secured and used in all 2016 SAPA reports. Unfortunately, the higher figures from the new methodology were released to the public, National Agricultural Marketing Council (NAMC), etc. in early 2016 and were subsequently included in further calculations (e.g. % inflation of meat products by NAMC) and disseminated in the media. The huge increases gave the impression (to a readership which might also not make the distinction between retail prices and producer revenues) that chicken prices were soaring. Retail prices clearly did not increase by almost 50 % from one month to the next and producer prices were, in fact, dropping at the time.

Now, at the beginning of 2017, Stats SA have continued with their changes to the way in which they present frozen chicken prices. Historically, Stats SA have arrived at a per kilogramme price for frozen chicken portions by taking all the prices available to them on all packaging sizes (2 kg bags, 1.5 kg bags, individually-priced packs, etc.) and then averaging these prices. From January, Stats SA have split their reporting on frozen chicken portions into 8 codes: six for IQF portions (bag sizes: 1 kg, 1.5 kg, 1.8 kg, 2 kg, 4 kg, 5 kg); one for the remainder of the frozen portions (excluding IQF; for portions where the R/kg price is given on the packet); and one for frozen portions where the “real price per kilogramme” has to be calculated from pack weight and price. Removing the popular and economical IQF bags from the last two codes has obviously had the effect of pushing up the average price of these “remainder” categories. NAMC are currently reporting on 2 kg IQF packs, along with an additional table in which the 1 kg IQF packs and the “real price/kg” packs are reported. Until January 2018, we will be unable to compute and report year-on-year increases in frozen chicken portions because Stats SA have not overlapped their data collection periods.

From January 2017, for the purposes of this report, frozen chicken prices will be given in terms of 2 kg IQF bags, and an average of the two “remainder” categories – that is, frozen portions excluding all IQF bags.
The annual retail price of broiler chicken meat from 2012 to 2016 (source: Stats SA) is shown in Figure 21. Note that the historical calculation of the price of frozen chicken portions falls away at the end of 2016 and is replaced with two new measures: 2 kg IQF bags and frozen chicken portions (excluding IQF; average of both Stats SA calculations).

![Retail price of broiler meat graph](image)

**Figure 21:** Retail price of chicken meat (R/kg): annual averages (Source: Stats SA)

### 3.2.1 Retail Price of Whole Fresh Chickens

Whole chickens (fresh): The average retail price for 2015 was R39.56 per kg and for 2016 was R41.83 per kg (+ 5.7 %); and for the first quarter of 2017, R44.16 per kg (compared to R42.36 in 4Q 2016). A lack of monthly data from broiler producers has affected estimates of the producer price of whole fresh chicken through 2015, 2016 and 2017 YTD, making calculation of the retail mark-up unreliable.

### 3.2.2 Fresh Chicken Portions

Chicken portions (fresh): The average retail price for 2016 was R53.71 per kg. The average producer price through 2016 was R29.99 per kg. The mark-up from producer to retailer through 2016 was + 79.1 %. The retail and producer prices of fresh chicken portions from March 2012 to March 2017 are presented in Figure 22.
The average retail price for 1Q 2017 was R55.91 (4Q 2016: R54.05 per kg); an increase of 3.4% on a quarterly basis. The average producer price for the 1Q 2017 was R31.72/kg. The mark-up from producer to retail was + 76%.

![Graph of Retail and producer price of fresh chicken portions](source: Statistics SA; SAPA)

**Figure 22:** Retail and producer price of fresh chicken portions (source: Statistics SA).

### 3.2.3 Frozen chicken portions

The retail and producer price of frozen chicken portions on a monthly basis from January 2012 are shown below (Figure 23).

Chicken portions (frozen): The average retail price for 2016, under the old methodology, was R28.75 per kg (compared to R28.98 in 2015). The producer price was R20.33 per kg. The mark-up from producer to retailer was 41.4%.

The average producer price for Individually Quick Frozen (IQF) mixed portions was R17.00 per kg in 2016 (compared to R16.97 in 2015) and the mark-up was 69.1%. In the product mix for 2016, frozen chicken portions made up 5.5% and IQF 60.1%.

Going into 2017, with the new Stats SA methodology: The average retail price for 2 kg IQF bags in 1Q 2017 was R31.10/kg. A year-on-year comparison with 1Q 2016 and a quarterly comparison with 4Q 2016 is not available from Stats SA. The producer price for mixed IQF portions was R21.00 per kg in 1Q 2017, compared to R20.28 in 4Q 2016. The mark-up from producer to retail was 48%; higher than the 25.8% mark-up in the 1Q 2016 (y-on-y) and the 43.6% mark-up in 4Q 2016 (q-on-q).
The average retail price for frozen chicken portions, excluding IQF bags, in 1Q 2017 was R42.44/kg. As with the IQF portions, a year-on-year comparison with 1Q 2016 and a quarterly comparison with 4Q 2016 is not available. It is also not possible to calculate a mark-up on producer prices for this category, without knowing what cuts have been recorded. However, the most a producer could earn in 1Q 2017 on non-IQF portions was R36.43 on frozen breast fillets. The mark-up here would be 16.5%. The average producer price for frozen (not IQF) braai-packs in the 1Q 2017 was R24.01 per kg; so the mark-up here would be 77%. The average producer price for frozen (not IQF) drumsticks in the 1Q 2017 was R30.50 per kg; so the mark-up here would be 39%.

![Retail and producer price of frozen chicken portions](image)

*Figure 23: Retail and producer price of frozen chicken portions to Dec 2016 and 2 kg IQF bags from January 2017 (R/kg; source Statistics SA)*

### 3.3 FEED PRICES

#### 3.3.1 Broiler feed price indicator

The average feed price for 1Q 2017 was R5 560 per tonne, a decrease of 2.3% over the average price in the 4Q 2016 (R5 688). The average broiler feed price in the first quarter of 2017 was 1.0% lower than in the 1Q 2016 (R5 505). In March 2017, the feed price had dropped to R5 469/tonne.
The graph below depicts the monthly broiler feed indicator from January 2012 onwards (Figure 24).

The average feed price for 2016 was R5 602 per tonne. This is 13.5 % more than the average feed price for 2014 (R4 934). The average feed price from January to June 2016 was R5 517 and for July to December 2016, R5 686, compared to R 4 882 in the 1H 2015. The higher prices experienced in the second half of 2015 and through 2016 are a result of the severe drought experienced through the 2015/2016 and first half of 2016/2017 maize seasons.

![Broiler feed price indicator](image)

**Figure 24:** Broiler feed price indicator, monthly from January 2012 (source: SAPA)

### 3.3.2 Broiler breeder feed price indicator

The average breeder feed price indicator for 1Q 2017 was R5 148 per tonne, a decrease of 1.9 % in comparison with Q4 2016 (R5 244) and a decrease of 1.1 % in comparison with the same quarter in the previous year (R5 203). The feed price indicator for March 2017 was R5 146.

The average broiler breeder feed price for 2016 was R5 255 per tonne. This was an increase of 22.6 % in comparison with 2015 (R 4 286). The average price for 1H 2016 was R5 213 and the average price for 2H 2016 was R5 297.
The graph below depicts the monthly broiler breeder feed price indicator from January 2012 onwards (Figure 25).

![Broiler breeder feed price indicator](image)

**Figure 25:** Broiler breeder feed price indicator, monthly from January 2012 (source: SAPA)

### 3.3.3 Feed price index vs broiler price

Year-on-year percentage changes in the feed price index and the broiler producer price are presented in Figure 26. For almost two years, from the 2Q 2009 until January 2011, broiler producers were forced to accept monthly broiler prices lower than achieved in the same month of the previous year, although lower feed prices in this period would have supported.

Then, from January 2011 to July 2013, feed prices escalated year-on-year, with particularly high increases during most of 2012. The graph shows clearly that percentage year-on-year increases in broiler producer prices during this period were not as high as the year-on-year feed price increases, which impacted negatively on profit levels in the industry. Only from January 2013 were producers able to maintain some level of year-on-year increase in the broiler producer price, even when feed prices were rising (e.g. March to August 2014).
From August 2014 to end July 2015, broiler producers enjoyed higher year-on-year percentage increases in the producer price than the year-on-year changes in the feed price. With the drought biting, the situation deteriorated again for broiler producers from August 2015, with annual increases in feed prices outstripping annual increases in broiler revenues. Year-on-year percentage increases in broiler producer price moved into negative territory between March and July 2016 but returned to positive territory in August 2016 and have remained there to the end of 2016; exceeding feed price increases from December 2016. Year-on-year increases in feed prices have moved into negative territory from February 2017.
4. ECONOMIC OVERVIEW

4.1 GLOBAL POULTRY OUTLOOK

The Southern African poultry industry has made global headlines this winter. Highly pathogenic avian influenza (H5N8) was diagnosed in commercial poultry in Zimbabwe in mid-May and, in late June, two outbreaks were reported on farms near Villiers (border of Free State and Mpumulanga) and near Standerton in Mpumulanga.

The outbreak on an Irvine’s site outside Harare necessitated the culling of 166 000 birds from a susceptible population of two million broilers and layers. The disease was limited to three houses and had not, as at 19 June, spread to five other houses on the same site. For the past few years, there have been zero imports from Zimbabwe on meat and egg tariff lines but South Africa has nevertheless suspended all trade in live birds, poultry meat, table eggs and other non-processed poultry products from its northern neighbour.

Checks on vehicles at borders were to be tightened and producers, especially in the Limpopo region, were asked to be vigilant and to reduce contact between commercial poultry and wild birds. South African poultry farmers in all areas were urged to step up their biosecurity measures. Despite these precautions, high mortality in broiler breeders on the Astral site near Villiers was confirmed as caused by HPAI H5N8. A second outbreak in laying hens has since been reported from Standerton. Migrating waterfowl are thought to be spreading the virus south from Europe, since the H5N8 strain is the same one that has been identified in European outbreaks. The Villiers site is close to the Vaal River. The affected sites will be depleted of all birds; estimated at around 260 000.

The Department of Agriculture, Forestry and Fisheries is set to test widely for the presence of avian influenza in all parts of South Africa and announced a ban on live bird sales from Monday 26 June. By the 29th, in response to concern about livelihoods being affected in the informal sector, this policy had been adjusted to allow the sale of live birds by traders registered with the Poultry Disease Management Agency (PDMA). Traders of any more than five live birds (for any purpose other than slaughter at a licensed abattoir) must be registered to sell birds; and may only trade in birds certified as healthy by a veterinarian or animal health technician. This includes commercial producers. Traders must keep records as required and sign an undertaking to agree to the terms of the registration. Registration forms are available from DAFF and the PDMA. Vaccination will not be used as a control measure at this stage, as it compromises surveillance measures and affects export status.

At the farm level, producers are urged to keep poultry away from wild birds (use of housing/netting, etc.); to reduce any factors which might attract wild birds on to a site; to control and reduce movement of people and equipment into and between poultry houses and sites; to maintain/upgrade sanitation of housing/personnel/equipment; to avoid introducing birds of unknown health status into existing flocks; to report any illness/death of birds to State Veterinary services; and to dispose of manure/dead birds appropriately.
Several neighbouring countries have already closed their borders to imports of South African poultry products and live birds. Namibia, Mozambique, Botswana, Zambia and Zimbabwe all announced trade bans on Tues 27 June. The European Union and Switzerland have also imposed a ban on imports of poultry meat and products, including ostrich meat, from South Africa.

The French suffered repeated outbreaks of highly pathogenic avian influenza through 2016 and did not export to South Africa for much of the year. The French were due to regain HPAI-free status on 3 December 2016. On 17 November 2016, a fourth HPAI event was reported to the OIE, in which 25 cases of H5N8 HPAI were recorded in wild call-ducks in the region of Pas de Calais. This event expanded to 55 outbreaks in all four corners of the country (105 deaths in wild birds); with the last positive case being reported on March 10 (follow-up report dated 3 April). Since 25 November 2016, the French have had to report a further 484 outbreaks of H5N8 HPAI, totalling 15 900 cases, which have resulted in the culling of over 1.29 million birds (OIE) in the districts of Landes, Hautes-Pyrenees, Gers, Deux-Sevres, Pyrenees-Atlantiq, Lot-et-Garonne, Aveyron and Tarn. The last positive outbreak reported was on 21 March 2017 (follow-up report dated 19 April 2017). Local producers estimate that some 3.2 million birds have been lost to the disease or in the pre-emptive culls. No recent reports had been filed with the OIE – but on June 30, the French suffered yet another outbreak of H5N8 on the Franco-Belgian border, close to where outbreaks have been occurring in Belgium.

On November 8 2016, the Netherlands reported H5N8 HPAI in wild birds in Noord- and Zuid-Holland, Flevoland, Overijssel, Noord-Brabant, Utrecht, Friesland, Groningen, Zeeland and Gelderland. This event totalled 56 outbreaks (351 cases); the last outbreak was reported on 22 March 2017. On 28 November 2016, a second report confirmed H5N8 HPAI in fattening ducks in Flevoland. This outbreak increased to nine farms, totalling 3 658 cases, in Flevoland, Friesland, Overijssel, Gelderland and Zuid-Holland. Over 210 000 birds were culled. A trade ban on Dutch imports into South Africa has been in place. Final reports on both these events were submitted to the OIE on 17 May 2017 and the Dutch have officially declared that their avian-influenza free-status has been regained, under the terms of Article 10.4.3 of the OIE Terrestrial Animal Health Code (2016).

Since 7 December 2016, Germany has notified the OIE of 286 outbreaks of H5N8 HPAI in wild birds and commercial poultry. The outbreaks have occurred over much of Germany and over 340 000 birds have been destroyed as part of control measures. The affected commercial poultry include breeding chickens, geese and ducks; fattening turkeys and ducks; and backyard mixed flocks. Germany has also reported three outbreaks of H5N5 HPAI in breeding and fattening turkeys in the Schleswig-Holstein district, beginning on 22 January 2017. Over 1 950 birds died and a further 30 750 were destroyed. The last confirmed outbreak was as recent as 9 May 2017.

Since 1 December 2016, Hungary has reported 294 outbreaks (206 045 cases) of H5N8 HPAI in poultry operations housing fattening turkeys, geese and ducks. Only 135 of the cases have been in wild birds. There have been 95 772 deaths amongst the birds and almost 2 million birds
have been culled. The latest case reported to the OIE was dated 18 April 2017. The event has not yet been closed officially.

On December 11 2016, an outbreak of H5N8 HPAI was reported in housed turkeys in Lincolnshire. In Wales, the disease has been confirmed in a dead wild Eurasian wigeon (14 December, Llanelli) and, on the 30 December 2016, in a backyard flock of chickens and ducks (Carmarthenshire). Throughout the UK, wild birds have tested positive for HPAI in natural parks in Exminster (Devon), Dumfries and Galloway, Abbotsbury (Dorset), Gloucestershire, Merseyside, Lincolnshire, Tyne and Wear, Lancashire, Conwy (Wales), Norfolk, Londonderry, and North Yorks. On December 28 2016, there was an outbreak in a backyard flock near Settle, North Yorkshire, followed by three January outbreaks, totalling 77,000 birds, in breeding pheasants and mixed game birds, in the Wyre area (Lancashire). On 15 January, there was an outbreak in fattening turkeys in Louth (Lincolnshire) in which 400 birds died and 6,240 were culled. On 25 January, 19,500 rearing turkeys died or were culled in Boston, Lincolnshire. On 12 February, 20,276 broiler breeder hens were culled in Redgrave, Suffolk after 2,941 birds died on the same farm. On 17 February, H5N8 was reported in a backyard chicken flock in Northumberland. There were no further outbreaks from 17 February and the UK submitted a final report on this event to the OIE on 9 March 2017. However, a separate report was submitted on 3 March 2017 confirming H5N8 HPAI in a wild European wigeon in Pembrokeshire in Wales. On 3 May 2017, the UK experienced a new outbreak of H5N8 in a backyard flock in the Wyre district of Lancashire and, within days, a second outbreak was reported nearby. All susceptible birds were destroyed. In early June, H5N8 HPAI was recorded in a backyard flock in Diss, Norfolk. A 3 km protection zone and a 10 km surveillance zone are in place around this property. Before these latest cases, the UK had reported 27 outbreaks, consisting of 5,880 cases in commercial birds and 178 in wild birds. The Department for the Environment, Farming and Rural Affairs (DEFRA) revised its nationwide AI preventative measures at the end of February. Poultry keepers in high-risk areas, as defined on the DEFRA website, had to continue to keep birds housed until further notice. In low-risk areas, poultry could be released, provided biosecurity steps had been taken to keep wild birds away from domestic poultry (such as netting over ponds, and restricted access to stored feed). The regulations were expected to be relaxed from May 15. However, with the May outbreaks, prevention zones remain in place in Lancashire, Cumbria and Merseyside.

On 28 December 2016, a wild wigeon suffering from HPAI was found in County Wexford, in the Republic of Ireland. Eight further cases in wild birds had been reported under this event by 21 February, in Galway, Tipperary, Roscommon, Leitrim and Cork. No commercial were reported, allowing the Irish to continue exporting to South Africa.

Since November 8, Danish veterinary authorities have reported 36 outbreaks of H5N8 HPAI in wild birds (including tufted ducks, gulls, swans and goshawks) and in one small backyard poultry flock (58 birds destroyed). The 3 km protection zone around the affected farm was lifted on December 13 and Denmark reclaimed its HPAI-free status on 22 February 2017.

On 3 January 2017, Spain reported a single case of H5N8 HPAI in a wild greylag goose to the OIE; found in the central north of the country. On 18 February, highly pathogenic H5N8 was
found on a commercial duck farm in the province of Cataluna. A pre-emptive cull of 17,077 birds followed the death of 723 ducks.

Poland reported a total of 133 outbreaks of HPAI (56,227 cases) in wild birds, backyard flocks and commercial poultry. On 27 January, Poland added 2 cases of H5N5 in wild swans, reported from the west of the country. Over 1 million birds were culled in response to these outbreaks but the last case was recorded on 15 March 2017 and Poland submitted a final report to the OIE on 20 April. The species of domestic bird affected in the outbreaks is not specified in the OIE report.

When the big European exporters are hit by avian influenza, imports always increase out of Belgium. Since late January, the country has been reporting H5N8 HPAI in wild birds in the central provinces of the country: Oost-Vlaanderen, Vlaams Brabant and Wallon Brabant; and in Limburg province, neighbouring the Netherlands. Between 22 May and 20 June, the country reported 7 outbreaks of HPAI in domestic poultry in the provinces of Luxembourg, Hainut, West Vlaanderen and Namur (the southern provinces of Belgium, bordering France). There have been 127 cases out of 305 susceptible birds; with the remaining 178 birds culled. The Belgians have been very vague in describing the type of unit affected by the virus in their reporting to the OIE (describing the units as “other” and the species as “birds”), but one commentator referred to several of the units as “hobbyists” – i.e. backyard poultry keepers. This is the first HPAI event in domestic poultry in Belgium in seven years.

The US recorded H7N9 HPAI in two commercial broiler breeder flocks in Lincoln County, Tennessee on 1 March 2017. A preventive cull of 130,000 birds was carried out. In 2017 to date, there have also been reported cases of highly pathogenic avian influenza (H5N8) in Bulgaria, Bosnia and Herzegovina, Cameroon, China, Chinese Taipei, Croatia, Czech Republic, Democratic Republic of Congo, Egypt, Finland, India, Iran, Israel, Italy, Kazakhstan, Kuwait, Lithuania, Luxembourg, Macedonia, Nepal, Niger, Nigeria, Portugal, Romania, Republic of Korea, Russia, Serbia, Slovakia, Slovenia, South Africa, Switzerland, Sweden, Uganda, the Ukraine and Zimbabwe. In addition, the following countries have reported the H5N1 strain: Bangladesh, Cameroon, Cambodia, Côte d’Ivoire, India, Malaysia, Nepal, Niger, Nigeria, Vietnam and Zimbabwe. China has also reported H5N6, H5N2 and H7N9. Chinese Taipei lays claim to H5N6, along with Greece, Japan and Myanmar; with the Greek outbreak being the only European occurrence of this strain. The H5N5 strain has been reported in Italy, Germany, Serbia and the Czech Republic in 2017. Mexico reported H7N3 in May. It looks certain that avian influenza will once again play a huge role in world poultry markets through much of this year.

In May, the FAO Global Food Price Index rebounded from three consecutive declines to +2.2% over April levels and 10% higher than prices in May 2016. Between 2015 and 2016, the global poultry price index dropped by 7%. However, the index average for 2017 YTD is 6.2% higher than the annual average for 2016. Firm demand from Asian markets has underpinned poultry meat prices in the FAO basket. The FAO expects poultry meat to account for two-thirds of the projected increase in global meat consumption through to 2025.
Global broiler production in 2016 is estimated to be 0.3 % higher than in 2015, at 117.2 million tonnes (FAO Food Outlook June 2017); up from earlier estimates of 115.8 million tonnes. Global broiler production in 2017 is forecast to increase by 0.4 % over 2016 levels to 117.7 million tonnes. Excluding the Chinese from the projection increases growth in production to 2 %. Brazil, the US, the EU, India and Thailand are expected to enjoy substantial growth in 2017 because of rising consumer demand and a favourable price differential with other meat sources (FAO). Trade in poultry products in 2016 was 4.9 % higher than in 2015, at 12.8 million tonnes. Trade in poultry products is forecast to increase by 2.9 % in 2017 to 13.2 million tonnes; with China offering the bulk of this increased market for exports. Thailand has seen an average of 9.2 % growth in poultry over the past three years and should see a further 6 % growth in 2017.

Steady or reducing feed prices continue to support the global increase in broiler production. The global maize crop is expected to reach 1 054 million tonnes in 2017 (FAO), and the harvest, which will be 1.4 % higher than in 2016, continues to drive down world prices. The benchmark US yellow maize price in 2016/2017 (11 months of season) averages some 6.2 % lower than in the 2015/2016 season (FAO), at $156/tonne. The 2015/2016 US yellow maize price was down 4.1 % on 2014/2015 prices. The current price balances strong demand against big harvests in most regions, including Brazil, Argentina and South Africa.

Soya oilseed prices are also likely to drop further in 2017 as strong demand is met with bumper harvests and plantings around the world. In May 2016, global futures for soybeans were above $390/tonne. In May 2017, soybean futures had dropped to below $340/tonne. With strong international demand for soya oilseeds for crushing, global stocks of the by-product will increase; and price competition from coarse grains will also help to lower prices for soybean meals through 2017.

Broiler producers in the US are currently experiencing a 1 % reduction in hatchability in hatching eggs. This 1 % has been attributed by some to new antibiotic-free management practices, and it will take most of the year to offset these numbers by increasing production. Such is the size of the industry in the States that this 1 % reduction in hatchability translates to a $121 million loss in revenues over the five months to May 2017. Average broiler weights are also down 1 % in 2016, as the market expresses its preference for a smaller bird. The US industry is enjoying stable feed prices and an improved export outlook, especially for dark meat portions, with dozens of countries worldwide suffering the effects of avian influenza (meatpoultry.com). In its June 2017 Livestock, Dairy and Poultry Outlook, the USDA estimates 2016 US production at 18.5 million tonnes (+ 1.6 % compared with 2015) and predicts broiler production will increase by 1.87 % in 2017 (to 18.84 million tonnes). Broiler exports, which reduced by 14 % between 2014 and 2015 because of the avian influenza outbreak, rebounded by 5.2 % to 3.02 million tonnes in 2016; closing the gap on the 3.3 million tonnes exported in 2014 before the outbreak. The USDA predicts a 4.9 % growth in US broiler exports in 2017, to 3.17 million tonnes. The price of leg quarters dropped by 33.8 % in 2015, during the US avian influenza epidemic. Prices dropped by a further 1.8 % in 2016, but have increased by 8.2 % in 2017 YTD (May), averaging R32.91 c/lb (USDA; 74 c/kg; R9.60/kg). Leg quarters in May 2017 cost 6.2 % more than in May 2016 but are still 27 % below May 2014 prices before the Al
outbreak. Producer margins have improved recently in the US but remain under pressure because of pork and beef supplies and pricing.

Brazil pulled out of the longest recession in history this autumn, recording 1% GDP growth in 1Q 2017. The Brazilian economy had shrunk almost 8% through 2015 and 2016 (BBC.com). Economists warn that the recovery remains fragile, with 14 million people unemployed and the unpopular president embroiled in a widespread corruption scandal, involving a meat-packing company. Corruption charges against the president have been sent by the Supreme Court to Congress, where a vote will determine the president’s departure from office. After a 1.8% contraction in broiler production in 2016 (related to spiralling animal feed costs), a 3 - 4% growth in broiler production and exports had been forecast for 2017 (Rabobank/FAO). While the bumper soybean and maize harvests and the politically-buffeted real should be combining to boost Brazilian poultry exports, quality scandals and corruption allegations have reduced exports by 4% in the 1Q 2017 (ABPA) and local consumption remains constrained. In March 2017, federal police charged a number of meat and poultry processing plants with bribing meat inspectors to turn a blind eye to unsavoury practices and the reputational damage to Brazil’s meat export industry has been huge. Although the charges affected only 21 processing plants out of a total of over 4,800 country-wide, the EU conducted an audit of Brazilian meat plants in May and has now introduced stringent requirements for the importation of Brazilian meat products. The approval process for accreditation has been tightened and Brazilian poultry imports will subject to mandatory pre-export microbiological tests; and consignments sampled to be certified salmonella-free. Processing issues, many of which had been flagged in previous EU audits, included: failure of official veterinary supervision before and after slaughter; outdated records of EU-accredited plants; inadequate traceability of production inputs such as animal feeds; and a lack of procedures to prevent rejected consignments being resent to the EU (independent.ie). The US Food and Safety Inspection Service (FSIS) has rejected 11% of Brazilian shipments inspected since the March scandal broke, compared to an average of 1% amongst other suppliers. Canada and Ireland have also rejected consignments; so Brazil has much work to do in restoring its image as a leading meat exporter. Despite the sanitary concerns, the USDA predicted, as recently as April, that Brazilian exports would grow by 10% to 4.3 million tonnes in 2017; especially to Asian markets. Brazilian imports to South Africa totalled 233,787 t in 2016.

The Russian economy contracted by approximately 1.2% in 2016 but the World Bank expects it to grow by 1.3% in 2017. Having averaged 13% annual growth in broiler production over more than a decade, growth in 2016 was around 4% (3.70 million tonnes); realised almost totally in the first half of the year. The FAO predicts the Russian poultry industry will grow by less than 1% in 2017. Other commentators are slightly more optimistic. The country is virtually self-sufficient for chicken products and so growth is largely dependent on cultivating export markets. The Russian government has been working hard to open export markets in Asia, the Ukraine, the EU and Middle East; such that Russians producers now export to 40 markets (Rabobank). However, the industry may struggle to remain competitive as 2017 progresses, as the rouble has strengthened by as much as 20% between 1 August 2016 and the end of June 2017. In addition, Russia is still experiencing outbreaks of HPAI and the 2016 bumper wheat and maize harvests are unlikely to be repeated this season (wheat harvest - 5.2%; maize - 5.9
Key market signals in the Broiler Industry

1Q 2017

Small footprint. Big impact.

%. The EU have recently extended sanctions against Russia for a further 6 months, and this will undoubtedly result in a tit-for-tat extension of the Russian trade embargo against the European nations and their allies. Poultry imports will thus decrease further in 2017, to 220 000 t (USDA).

Domestic consumption of poultry products within the EU increased by 4 % in 2016, because of ample supplies, but is not likely to grow by more than 1 % in 2017 (EU Commission). In 2015, favourable feed prices supported a 3.7 % increase in EU poultry production. This growth continued in 1H 2016 (+ 6 %) before slowing in 2H 2016. Growth averaged 4.4 % in 2016 (EU Short Term Outlook Winter 2017); ranging from 13 % in Poland to - 3 % in France. The EU Commission is currently predicting growth in poultry production of 3 % for 2017, to 15.1 million tonnes (EU Short Term Outlook); and of 4.3 % for broilers, to 12.2 million tonnes. Broiler production has been less seriously affected by the HPAI outbreaks than production of ducks and geese. However, the FAO pegs 2017 EU growth in poultry production at less than 1 %. EU poultry production breaks down into 82 % broiler meat; 15 % turkey and 3 % ducks.

EU broiler prices have been firming since April; reaching almost €185/100 kg carcass weight in Week 25 as local summertime demand strengthens. Prices remain lower than in 2014 and 2015. Exports increased by over 9 % in 2016 but are expected to stabilise in 2017, with perhaps only 1 % growth (FAO). Avian influenza outbreaks and competition from South American and US exporters are seen as the major constraints to EU exports. Rising domestic prices will also make the EU less competitive. Of the 23 countries included in the EU Commission’s EU Market Situation for Poultry (May 2017), 17 have experienced outbreaks of HPAI in commercial poultry since October 2016. Since Week 13, there has been a dramatic reduction and levelling off in the number of new cases. Some trading partners, such as the US, Canada, Hong Kong, Saudi Arabia and the Ukraine have accepted regionalisation in the imposition of trade restrictions; whereas others, including South Africa and many of the Asian nations, have implemented countrywide bans. Angola has simply banned all EU imports. EU exports were down 2.8 % in 1Q 2017 compared to 1Q 2016 (EU Commission) but are likely to improve as AI-related trade bans are lifted.

In 2016, the EU was a net exporter of poultry meat: exports were 80 % higher than imports. However, in value terms, the value of imports was 10 % higher than the value of exports. This paints an interesting picture of EU poultry trade – the bloc is exporting large quantities of lower value products and importing much smaller quantities of higher-value products. A quick spreadsheet model of this scenario tells us that the value of imported goods is almost exactly twice that of exported goods, on a per kilogramme basis. South Africa was the most important export market for EU poultry goods in the last four years; accounting for 16.7 % of total EU poultry exports in 2016. Three other African countries (Ghana, Gabon and the Democratic Republic of Congo) accounted for 15 % of EU imports in the 1Q 2017; with a reduced level of 7.1 % heading to South Africa (AI-related trade bans still in place against several EU exporters).

Imports into the EU, mainly from Brazil and Thailand, increased by 2.8 % in 2016. Brazil exported 502 985 tonnes of poultry products to the EU in 2016; compared to 290 072 tonnes from Thailand. Imports into the EU were down 5.3 % in 1Q 2017. Brazil remains the biggest exporter to the EU in the 1Q 2017, but exports are down 4 % compared to 1Q 2016 because of
sanitary issues. The Ukraine is the only country in the top four exporters to the EU in the 1Q 2017 that is increasing market share (+ 43 % compared to 1Q 2016); Brazil, Thailand and Chile have all struggled to retain the market share they enjoyed in 1Q 2016. Thai imports into the EU totalled only 56 % of the volume imported from Brazil in 1Q 2107; but the value of the Thai imports was 84 % of the value of the Brazilian imports.

Plasticsnews.com has reported on a European collaborative research project aimed at developing the biotechnology to utilise the keratin in poultry feathers. The EU has to dispose of 3 million metric tonnes of feathers annually; either in landfill or by incineration. However, keratin is a tough, fibrous structural protein which might be used in fertilisers, bioplastics, biodegradable packaging, fabric coatings, etc.

The FAO predicts poultry production in China will drop by as much as 10 % in 2017; a second year of decline. The USDA currently forecasts Chinese production at 11 million tonnes in 2017, considerably down on earlier forecasts. It also estimates that the number of grandparent birds will reduce to 500 000 in 2017 (from a high of 1.7 million units in 2014). This decline stems from on-going problems with HPAI: production is reduced because of the disease; customers are avoiding chicken because of fear of transmission to humans; and the Chinese have a shortage of breeder stock because of AI-related trade bans against supplying countries. There has been a surge in human bird ‘flu cases in 2017; attributed to the H7N9 strain rather than the more usual H5N1. The strain is hard to detect in poultry and China’s “wet” live poultry markets are blamed for the spread of the virus. In the first five months of the year, there were 268 human fatalities. The death toll normally starts to drop towards the end of winter, but fatalities continue to be reported this year and fears of a northern hemisphere pandemic are rising. So desperate has the situation become that, besides closing live bird markets, the Chinese will be vaccinating birds against avian influenza in its worst affected southern provinces from July.

The USDA predicts China will import 600 000 t of broiler products in 2017 (USDA FAS) to satisfy the market’s preference for wings and legs. In their June 2017 Food Outlook, the FAO predicts that as much as 40 % of its forecast 2.9 % growth in global poultry exports could be products shipped to China. The USDA under-estimated Chinese imports in 2016; revising a forecast of 400 000 t upwards to 550 000 t by year-end. Brazil accounted for 85 % of what has become the second biggest poultry-importing market in the world. The US has taken steps to allow the importation of cooked Chinese chicken products in order to regain access for US beef producers to the huge Chinese market. This access has been denied since cases of mad-cow disease were detected in US cattle in 2003. The Chinese have a history of food safety scandals and many commentators are raising their eyebrows at this latest trade deal, which also doesn’t address the exclusion of US poultry producers from the Chinese market. China has recently lifted a ban on Canadian products, in place since a 2014 outbreak of HPAI.
4.2 THE SOUTH AFRICAN ECONOMIC OUTLOOK AND POULTRY MARKET

It’s really still too early to say whether 2017 will be a better year for broiler producers than the horror that was 2016. Good rains in the maize-growing regions of the country will support a bumper harvest this season and with global soybean prices also under pressure, animal feed costs should drop gradually from last year’s highs. However, highly pathogenic avian influenza has been reported from commercial poultry farms in Harare, Villiers and Standerton and trading partners are already closing borders. There remains no relief from the flood of dumped imports arriving from the EU and the US, and consumer spending is unlikely to improve after credit rating downgrades from all three agencies. Redundancies and plant closures in 2016 have finally alerted government and the public to the plight of the broiler industry. In a rare show of solidarity, union members and company managers have staged mass action protests across the country and a task team has been constituted to look for a solution that will safeguard jobs and food security without alienating major trading partners. As a country, South Africa has experienced a dramatic start to 2017, with a catastrophic cabinet reshuffle, credit rating downgrades, heightening political tensions, hundreds of thousands of leaked emails, landmark court rulings and the ever-present stench of state capture and corruption. It seems likely that 2017 will be another year of sluggish growth and high unemployment; an environment in which populist rhetoric can be expected to reverberate in the run up to the ruling party’s elective conference in December.

In January 2016, South Africa’s credit rating sat one notch above “junk status” (BBB-; below-investment grade) after a December 2015 downgrade by the rating agencies Standard & Poor’s Global Ratings and Fitch Ratings. A third agency, Moody’s, put South Africa, albeit precariously, one notch above the other two agencies. South Africa narrowly avoided downgrades by all three agencies in mid- and late 2016, although the attached negative outlooks effectively put South Africa on warning. Standard and Poor’s retained its negative outlook on the BBB- rating but warned again, in late March 2017, that political tensions, policy issues and weak growth could hamper economic reform and undermine investor confidence. The warning fell on deaf ears in the Presidency. On 31 March, South Africans woke up to find that the hugely respected Finance Minister, Pravin Gordhan, and his equally competent deputy, Jonas Mcebisi, had been replaced in a cabinet reshuffle. The rand and markets went into free-fall in the days and weeks that followed. Unlike other credit rating agencies, Standard and Poor’s are not constrained to six-monthly reviews and moved quickly to downgrade South Africa’s sovereign credit rating to below-investment level (“junk status”) at an emergency review meeting on 3 April. Fitch Ratings announced a similar downgrade on both foreign and local debt at their scheduled meeting on 7 April. At their regular June meeting, Moody’s did as expected and cut South Africa’s credit rating by one notch to BAA3 and assigned a negative outlook – the BAA3 level is just one notch above junk status. A few days later, Moody’s downgraded the country’s top five banks to the same BAA3 level. The downgrades will almost certainly increase South Africa’s debt-servicing costs, and cause international funds, which may be prohibited from holding sub-investment grade securities, to sell South African bonds. The increase in cost of servicing foreign debt will channel government funds from service delivery,
hitting the poorest of the poor hardest. Tax increases may be inevitable to refill coffers but will serve to drive skilled professionals out of the country.

As June draws to a close, the markets are suffering jitters yet again – this time in response to the remedial action prescribed by the Public Protector in the matter of an apartheid-era bailout of a bank, later bought by ABSA. The remedial action seeks to change the mandate of the Reserve Bank, to do away with inflation-targeting, and the Governor of the Reserve Bank, Lesetja Kganyago, has filed papers in the North Gauteng High Court, taking the report on review, and highlighting the catastrophic effects of further credit downgrades if the report is allowed to stand. In the Reserve Bank affidavit, the Governor warns that if either Moody’s or S&P Global were to downgrade the country’s local currency rating further, it would no longer meet the inclusion criteria for the Barclays Group Index. The disinvestment impact of expulsion from this index would amount to R39 billion. If both agencies were to downgrade the currency rating, exclusion from further global indices would cause additional disinvestment in South Africa to the tune of R100 billion. It’s the stuff of nightmares.

The rand’s performance through 2016 was a series of peaks and troughs (caused by internal and external political events), the severity of which reduced as the year progressed. Between January 1 and December 15 2016, the rand appreciated by 9 % from post-Nenagate levels of over R16 to the dollar. However, the rand’s value at the end of 2016 was still 22 % below its value on 1 January 2015 (R11.56 to the dollar). Through the first three months of 2017, the rand has strengthened by 10.6 % over the December 31 2016 level; breaking the R13-level in mid-February and closing at R12.43 to the dollar on 26 March. Following Jacob Zuma’s unilateral decision to axe the Finance Minister, the rand depreciated by 11.7 % between March 26 (R12.43 : $1) and 10 April (R13.91 : $1). The rand regained 9.4 % between 10 April and mid-June, to close at R12.71 : $1 (still 2.2 % below the March 26 level) but the recovery in the rand in recent weeks has been anything but steady. The currency has regularly been hit by internal and external political and economic events, such as the credit rating agency downgrades; the US Federal Reserve policy announcement; the country’s slide into recession; Minister Zwane’s introduction of the new Mining Charter, etc. The rand had been riding these dramas thanks to recent favourable sentiment towards emerging markets and rising commodity markets - but following the Public Protector’s report on the Bankorp bailout, it depreciated by 2.05 % (SARB). The local currency is also expected to lose up to 5 % against the dollar in the lead up to the ANC’s elective conference in December (Moneyweb.co.za).

On 14 June, the US Federal Reserve raised interest rates for the second time in 2017 (following a 0.25 % increase in March) and only the fourth time in ten years. The 0.25 % increase was widely expected and will not be the last this year. The US Reserve Bank Governor has signalled one further hike ahead in 2017. Emerging markets with high dollar-delimited debt now face increased costs in servicing this borrowing but, as with the March increase in the US lending rate, South African markets had largely factored in the increase and the rand held steady after the announcement.

In mid-May, the International Monetary Fund revised its growth estimate for the South African economy upwards to 1.0 % for 2017, in light of some recovery in the agriculture and mining...
sectors. It cautioned that policy uncertainty poses a downside risk and advised that reform of the country’s state-owned enterprises and service and labour markets is needed to encourage investor confidence. The Treasury had been more optimistic in its forecast for 2017, but has now revised its estimate of 1.3 % down to 1.0 %, in line with IMF predictions. Growth in 2018 is expected to be 1.5 % (SARB; down from earlier 1.8 %). Both institutions may be proved overly optimistic as South Africa crashed into recession in the first quarter of the year; the first period of recession since 2009. In the 4Q 2016, the economy contracted by 0.3 %, followed by a further q-on-q contraction of 0.7 % in the 1Q 2017. The mining sector shrank by 11.5 % in the 4Q but recovered to grow by 12.8 % in the 1Q 2017. It was a happier story for agriculture too, which rebounded to grow by 22.2 % q-on-q, after eight consecutive quarters of contraction. In the secondary sector, manufacturing contracted by 3.7 % and was one of the largest contributors to the overall contraction, along with trade, catering and accommodation which shrunk by 5.9 %. Construction shrank by 1.3 %. The tertiary sector, which includes finance, transport and personal services, contracted for the first time since the 2009 recession in the first quarter of 2017.

In May, the IMF again adjusted its 2016 estimate for weighted average growth in sub-Saharan countries to 1.4 %, down from 5 % in 2014 and 3.4 % in 2015. Two-thirds of the countries in the region experienced slower growth. Growth in sub-Saharan Africa is forecast to average 2.6 % in 2017; supported by recovery from drought in South Africa, resumption of oil production in Nigeria and higher public spending in Angola ahead of its election; all of which are one-off occurrences. The Fund continues to paint a picture of multispeed growth in the region, and it is clear that non-resource economies are experiencing higher growth rates than those dependent on the commodity markets. Five countries experienced growth in excess of 6 % in 2016: Tanzania, Kenya, Côte d’Ivoire, Ethiopia and Senegal. Many sub-Saharan African countries have been slow or indecisive in adapting fiscal policy to cope with lower prices for exported resources. The IMF has advised the bloc that improved growth can be achieved with careful changes to monetary policy. Ethiopia is expected to record growth in excess of 8 % in 2017 and even Zimbabwe will grow by 2.3 %. The 2017 IMF forecast for sub-Saharan Africa has been revised downwards to 3.2 %; from 3.8 %. Globally, the IMF forecasts growth of 3.5. % for 2017 and 3.6 % for 2018.

After hitting an historic 23-year low in September 2016 (90.3 rebased index points), the South African Chamber of Commerce and Industry (SACCI) Business Confidence Index had shown steady recovery since October (93.0), reaching 97.7 in January 2017. Since then, the confidence index has slipped back, reaching 94.9 in April and crashing further to 93.2 in May. Business confidence has been impacted by heightened political tensions, credit rating downgrades and economic policy uncertainty sparked by the March 2017 cabinet reshuffle. The index is however higher than the 91.8 recorded in May 2016, because of lower consumer inflation rates and a stronger currency.

The Merchantec CEO Confidence Index, which had climbed steadily to the 50-index point neutral level through the 2Q and 3Q 2016, declined again in the 4Q to 47.9 points. In the 1Q 2017, the index rose by 7.2 % to 51.4, slightly above the neutral level of 50. All six sectors
measured shared this positive sentiment, especially CEOs in the basic resources and industrials sector but, of course, this survey was conducted before the events of March 27.

The FNB/BER Consumer Confidence Index dropped back to -10 in 4Q 2016, from -3 in the 3Q; pounded by soaring food prices and constrained consumer spending. The 1Q 2017 index was due for release in April 2017, but this has been delayed to the end of June. The index will undoubtedly remain below the long term average of +4; despite an easing in food inflation in the first quarter. A delay in publishing confidence indexes also seems to be affecting the Nielsen Consumer Confidence, with no data available yet for 1Q 2017. In 4Q 2016, this index recorded a big downswing in confidence, decreasing from 87 to 77 index points. Globally, consumer confidence increased by 2 index points between 3Q and 4Q 2016 and, at 101, is now above the optimistic baseline of 100 (Nielsen CCI Report). Five of the top ten world economies posted optimistic scores, exceeding 100: the US, Germany, the UK, China and India. Other markets reaching or exceeding the optimistic benchmark of 100 basis points in the 4Q 2016 are the Philippines, Ireland, New Zealand, Indonesia, Denmark, Thailand, Czechoslovakia, Pakistan, Switzerland, Vietnam and the United Arab Emirates. Going into 2017, all regions except for Africa/Middle East were reporting a general upswing in consumer confidence.

The unemployment rate in the 1Q 2017 increased from 26.5 % in the previous quarter to 27.7 %, The 1Q rate is the highest since 2003. The expanded unemployment rate, which includes discouraged work-seekers, was slightly lower, q-on-q, at 36.4 %. The unemployment rate has not dropped below 21.5 % in the last 15 years.

Inflation averaged 4.6 % in 2015 and 6.4 % in 2016 (Stats SA). Inflation is expected to average 5.7 % in 2017 (from earlier 6.2 %) and 5.3 % in 2018 (SARB). South Africa’s headline inflation breached the upper end of the Reserve Bank’s target range (6 %) in January 2016 and did not return to the target range until August (5.9 %). This return was short-lived, with the inflation rate increasing to 6.8 % in December. In January, February, March and April, inflation was recorded at 6.6, 6.3, 6.1 and 5.3 %, respectively. It is now expected to remain within the target range (below 6 %) for the forecast period (SARB).

Food price inflation rose from 5.9 % in December 2015 to 11.7 % in December 2016 (SARB). In April 2017, food price inflation surprised at 6.7 %, compared to 11.4 % in January, 9.9 % in February and 8.7 % in March (NAMC). In April, year-on-year price inflation for bread was 6.4 %; maize meal 2.6 %; fats and oils 3.3 %; milk 6 %; eggs 4.7 % and rice 4.9 %. Inflation in the price of vegetables and fruit moderated to -21.3 % and -0.9 % in April, respectively. Price inflation in animal protein (as measured in the NAMC basket of frozen and fresh chicken portions, chicken IQF portions, beef chuck and tinned fish) cannot be compared to April 2016 because of changes to the measured basket (NAMC), but it is clear that price inflation in IQF portions is -0.2 % year-on-year.

Global food prices increased steadily through 2016. The FAO Food Price Index began the year at 149.3 and closed at 170.3 (+ 14.1%); with an annual average of 161.5. This is 1.5 % lower than the 164 recorded in 2015. The Index rose again to 174.6 in January and 175.5 in February 2017, before moderating through March and April to 172.6 in May. The meat price index has risen from 145.2 in January 2016 to 171.7 in May 2017; compared to 168.1 in 2015. In this
index, poultry prices have remained stable. Cereal prices averaged 162.4 in 2015, dropped to 146.9 in 2016, and reached 148.1 in May 2017. The FAO forecasts broadly stable food prices through the next decade.

With both the food inflation and exchange rate outlooks deteriorating badly in early 2016, the Reserve Bank increased the repurchase rate by 50 basis points in January 2016, to 6.75 %, and by a further 0.25 % to 7.0 % in March 2016. The Reserve Bank steered away from increasing interest rates through the rest of 2016 and in January, March and May 2017, because the domestic growth outlook is constrained and consumers are under pressure. At the Monetary Policy Committee meetings in May 2017, the Committee affirmed that the current hiking cycle is at an end and suggested that interest rates could be reduced if a sustained improvement in the inflation rate is witnessed. At the March meeting, SARB governor Lesetja Kganyago warned that domestic political developments are affecting exchange rate uncertainty and, in turn, increasing risks to the inflation outlook. Interest rate cuts may be taken off the table if the political turmoil continues.

In a November 2016 deal, OPEC and non-OPEC oil producing nations pledged to reduce output by 1.2 million barrels per day from January 2017, to bring down the glut of 300 million barrels of oil currently in global supply. Despite this agreement, and its recent nine month extension, the oil price is once again pulled down by persistent concerns over oversupply; hitting six-month lows in mid-June. In January, the World Bank offered a forecast for the 2017 crude oil price of $55 a barrel, which would have represented a 28 % increase on the 2016 average of $43 a barrel. However, surging supplies and exports from US shale oil producers have forced prices down around the $45 a barrel level. Producers from the US, Canada, Mexico, Nigeria, Libya and Kazakhstan have all upped production this year - and tensions between Qatar and its neighbours in the Middle East (which might threaten the self-imposed quotas agreed to in November 2016) have also contributed to the glut in supply. As recently as April, the World Bank held steady on an average crude oil forecast price of $55 a barrel for 2017, despite the 1Q 2017 price averaging $52.9/barrel. Some commentators now feel that prices are unlikely to exceed $50/barrel in the foreseeable future.

In South Africa, the unleaded petrol price in December 2016 was 4 % higher than in January 2016 and the diesel price averaged 9.5 % higher. Motorists were hit with a 30c/litre increase in the fuel levy on April 1 but, the Central Energy fund announced an average decrease of 23 c a litre in the price of diesel in early June and an average decrease of 25 c in petrol prices. By June 7, petrol prices were on average 1.8 % higher than in January 2017, but 10 % higher than in January 2016. Diesel prices in June are, on average, 1.5 % higher than in January 2017, but 15 % higher than in January 2016. Prices are expected to drop again in July, by up to 60 c a litre on diesel and 68 c a litre on petrol.

The average wage increase was 2.2 and 1.0 % in 2015 and 2016 %, respectively and in real terms (adjusted for inflation). South Africans are expected to realise wage increases between 0 and 1.5 % in 2017 (in real terms; ECA International). The global average, in real terms, is forecast at 1.5 %. The national minimum wage for farm labourers in 2017 is 8 % higher than in 2016; but inflation ran at 6.4 % in 2016 and is expected to run at 5.7 % in 2017; eroding this
increase significantly if considered in real terms. The national minimum wage will be R20/hour from May 2018.

A more reliable electrical supply has been experienced over the past two years, reducing the need for producers to install expensive alternatives in their operations. Eskom was granted a 2.2 % increase for the 2017/2018 year by the regulatory body, NERSA; effective 1 April 2017. This is lower than the 9.4 % tariff increase granted in 2016/2017. Eskom is seeking a 19.9 % tariff increase from NERSA for the 2018/2019 year, effective April 2018.

The South African broiler industry ended 2016 under catastrophic pressure from record levels of dumped broiler imports and a barrage of drought-related and political challenges. While the drought has eased and feed costs look set to drop, the industry still has plenty on its plate, including:

Continued drought in some regions of the country and an uncertain rainy season ahead
Imports of frozen broiler meat
Highly pathogenic avian influenza in Zimbabwe and South Africa, as discussed above
Reduced consumer spending and high food prices in a recessionary environment, as discussed above
An embattled South African rand, as discussed above

Wetter and cooler conditions were experienced over much of the summer rainfall areas of the country as the drought finally began to break. By the beginning of March, several dams had overflowed: the Vaal (103 %); Grootdraai (103 %) and Spitskop (126 %). The Gariep Dam also overflowed in early April, but was at 88.6 % in late May. Towns in the Free State and Eastern Cape are still being warned to use water sparingly and the situation in the Western Cape remains dire. An unusually warm autumn took Cape Town’s dams down to 11 % in mid-May, and the Premier declared the Western Cape a disaster area. The huge storm experienced at the beginning of June raised dams by no more than 2 % and officials have warned that three winters of above-average rainfall will be needed to alleviate the current water shortage. Dams in Mpumulanga and Swaziland received good rains, but many are still not full and some remain below last year’s levels. The uMngeni catchment area in KwaZulu-Natal is clearly under pressure and restrictions still apply in Durban and surrounding urban areas. On 2 June, Midmar Dam stood at 81 %, Albert Falls at 34 % and Inanda at 68 %. In its May 2017 Seasonal Climate Watch briefing, SAWS indicated the possibility of higher than average rainfall in the south west of the country through the winter months, but attached a low confidence level to this forecast. In addition, it warned of the possibility of a new El Niño event developing in the spring/summer months but, again, the accuracy of the summer forecast is still low and, by the end of May, SAWS reported that the risk was diminishing. It is, however, a forecast the whole country should be watching carefully, so that appropriate plans are put in place to deal with the possibility of another season of below-average rainfall which might result if El Niño returns.

The South African maize crop for the 2015/2016 season was revised upwards to 7.778 million tonnes (Crop Estimate Committee); 22 % down on the 2014/2015 season’s crop (9.942 million tonnes) which was already 30 % lower than the 2014 harvest. South Africa is forecast to
consume R10.47 million tonnes in the 2016/2017 season (AgBiz), whilst the harvest is currently expected to be 15.63 million tonnes (Crops Estimate Committee). South Africa will regain its status as a net exporter of maize this year, and is expected to export in excess of 3 million tonnes; the largest volume in two decades. These volumes, however, are keeping maize prices low for local farmers and with good crops in Zambia and Malawi and restrictions on genetically modified crops in several East African economies, African export markets are scarce. Producers will be looking to Asian markets to take their maize and, with prices currently at or below the cost of production, plantings may well decrease in the coming season in favour of more lucrative crops such as soybean. The white maize crop has been estimated at 9.47 million tonnes (+ 178 % over 2016 crop: 3.41 million tonnes) and the yellow maize crop at 6.16 million tonnes (+ 41 % over 2016 crop: 4.37 million tonnes).

A total of 646 882 t of white maize and 1 592 671 t of yellow maize were imported for use in South Africa between 30 April 2016 and 27 April 2017 (SAGIS); the total exceeding 2.2 million tonnes. Exports totalled almost 928 000 tonnes, making South Africa a net importer of almost 1.33 million tonnes of maize.

On June 19, maize futures for July delivery of white and yellow maize were set at R1 743/t and R1 871/t, respectively. Maize futures for September delivery were set at R1 802/t and R1 922/t for white and yellow maize, respectively. Maize prices had peaked at around R5 300/t for white maize and R4 100/t for yellow maize in 2016. Soybean futures, for July and September delivery, had moderated to R4 585 and R 4 665/tonne respectively, as of 19 June. Soya prices had reached R 6 520/t in mid-January. Bumper US and South American harvests and the possibility of weakening demand in China are expected to put downward pressure on soybean prices in 2017.

In 2016, almost 240 000 tonnes of bone-in imports arrived in South Africa from the EU. Imports as a percentage of domestic broiler consumption increased to 24.9 % in 2016. Had the AI-related trade bans not taken effect in December, this figure would have been 25.6 % (if December tonnages are estimated on a six month average). If mechanically deboned meat (MDM) is excluded from the imports (as the Association of Meat Importers and Exporters (AMIE) keep insisting it should be), imports still account for 15.7 % of local broiler consumption (16.4 %, had December’s imports not been reduced by the trade bans). Of course, leaving MDM out of the calculation ignores the damaging effect that 195 000 tonnes of chicken entering the market at R4.22/kg (FOB) has on overall pricing.

From November 2016, the country experienced a few short months of relief from this onslaught of dumped chicken product when AI-related trade bans were imposed on a growing number of European countries battling the winter arrival of highly pathogenic avian influenza. ‘Relief’ is perhaps too strong a word for the reduction: December still saw over 34 000 tonnes of poultry imports into South Africa and, after this “dip”, the EU began to deflect imports through Belgium, Spain and Ireland. January and February imports rebounded to 37 375 and 39 212 tonnes, respectively. Then in March the US jumped into the trading space created by the bans against EU countries and took full advantage of a clause inserted into the quota allocation process by the Department of Trade and Industry. This clause effectively allowed the US to flood the market with almost 24 500 tonnes of frozen bone-in chicken portions in a single month, at the
end of the existing quota period (expired 31 March). This volatility in monthly import volumes does nothing to help an already beleaguered industry. By April, imports had climbed back up to 41,785 tonnes, even with US imports dropping right back - as Denmark and the Netherlands crept back into the market after trade bans were lifted. The EU AI-crisis has been a very brief and rather over-stated hiatus from imports.

At the end of January, RCL Foods announced the loss of 1,350 jobs at its Rainbow Chickens processing plant at Hammarsdale, where two shifts have been reduced to one because of the pressure from EU imports. At the beginning of March, Countrybird Holdings made clear its intention to close one of its three abattoirs if government does not move to protect the struggling industry; and Astral reduced workers’ hours and closed shifts to ward off retrenchments. In response, the Department of Trade and Industry (dti) announced the establishment of a task team to address the challenges facing the industry. In its analysis of the industry’s woes, the Department has accepted that there is a crisis in the industry and that there are serious distortions in the market place, including the level of subsidies received by South African and European farmers. The task team will look into solutions which include trade measures, tariffs, industrial finance (for example, investment in machinery to mechanically debone chicken), incentive schemes, export support and state procurement procedures. The task team has been meeting and has issued a set of desired instructions to various government ministers for their respective action. In May, Agriculture, Forestry and Fisheries Minister Solzeni Zokwana reported that his department has sent market-access requests to the EU, the Gulf countries, Kenya, Angola, Tanzania, Swaziland, Uganda, Hong Kong and Singapore. Favourable responses had been received from Qatar and Kuwait. Growing export markets may require local producers to adapt their systems and improve traceability to meet the import requirements of these nations. These requirements are currently being negotiated by DAFF. The current outbreak of HPAI in the Free State and Mpumulanga will not help the export cause.

The EU continues to deny what it does is “dumping”. This despite the final anti-dumping duties of between 3.86 % and 73.33 % imposed in 1Q 2015 against imports from certain companies in the UK, Netherlands and Germany. In response to a further safeguard application to the International Trade Administration Commission (ITAC) in July 2016, ITAC issued a second essential facts letter which states that the South African industry is suffering a threat of serious disturbance from imports; that the main cause of the disturbance is from EU imports; and that exceptional circumstances exist. They imposed an interim safeguard tariff of 13.9 % to correct the imbalances in December 2016, which will be in place until 3 July 2017 while they complete their investigation. This tariff is widely regarded as being too low to be effective and SAPA are working with ITAC in an attempt to have it raised to the MFN (most favoured nation) tariff of 37 %. An answer is expected soon. The long term effect of high volumes of dumped poultry products will be plant closures, job losses and a gradual drop in cost-effectiveness in comparison to better-supported poultry industries worldwide. An interesting read on this subject can be found at: www.businesslive.co.za/bd/opinion/2017-03-14-chicken-industries-survival-rests-on-a-level-playing-field-for-import-tariffs/.

The Association of Meat Importers and Exporters (AMIE) called for Parliament to investigate the South African poultry industry. Hearings in front of the Portfolio Committee on Trade and
Industry began on 23 March and were continued on 2 and 9 May. At these meetings, the Deputy Directors of the dti, Garth Strachan and Xolelw Mlumbi, and the National Agricultural Marketing Council (NAMC) dispelled the notion that the South African industry is less efficient than its competitors; making it clear that South African producers are able to produce chicken more cost-effectively than the European exporting nations. Brazil can produce chicken more cheaply than South Africa but is a net exporter of both maize and soybeans. Even the AMIE now seems to except that the industry is packed with farmers who know how to farm efficiently. The most recent iteration (2015) of the University of Wageningen’s research into the competitiveness of global poultry producers gives updated support to South Africa’s claim to be more competitive than all the EU nations; even in a terrible drought year. The big retailers eventually attended the 9 May hearing and it was clear from their presentations (if honest) that most of the chicken sold in the Pick ‘n Pay, Shoprite-Checkers, Woolworths and Spar supermarkets is locally sourced. The importers’ association acknowledged that most of the imported product was sold to independent supermarkets and butcheries and the catering industry.

The EU has used the parliamentary meetings as a forum to deny that the imports are dumped product, superfluous to European needs and sold below cost of production; to put the blame on “structural” issues in the domestic industry; and (disingenuously) to suggest that South African producers feed growth hormone to their birds. While exporting breast meat to Europe might be a partial solution to the current crisis, it is clear that access to EU markets will take a long time to realise and that the road will be littered with phyto-sanitary obstacles (a commonly used US and EU ploy to close import markets). Exportation of fair-trade breast meat to Europe will not render dumping of below-cost bone-in portions into South Africa legal or fair. The EU have also used the parliamentary meetings to highlight the importance of the EU-SA trade relationship – and this, of course, as with AGOA, is where the poultry industry is so vulnerable. The South African market for dumped poultry products is so important to the Americans and Europeans that they will almost certainly use the threat of reciprocal actions against other South African industries if barriers are put in place to stop the dumping. The South African poultry industry continues to make its point that it has no issue with fair trade in poultry products – only with illegal dumping. Read an interesting interview with Chris Schutte of Astral here: https://www.pressreader.com/south-africa/sunday-times/20170528/282308205054349.

Paul Dillon, of the Fair Play Movement, has explained how dumpers price their products just below those of local producers (way above the imported price), effectively preventing local producers from reacting (by raising prices) to input cost drivers, such as escalating feed costs. The role of the retailer in allowing this predatory behaviour is also outlined and emphasised. Unlike predatory pricing campaigns between brands, this undercutting can go on indefinitely because the cost of the imports is so low that the profits made by the retailers and dumpers will always be high and sustainable. Inevitably, smaller local operations will cease trading and employing; consolidation will occur; and, eventually, even highly efficient, large-scale operations will begin cutting production and retrenching labour. Dillon’s article can be found at: www.biznews.com/sponsored/2017/02/14/eu-dumping-sa-chicken-industry/
The US is currently subject to a 940 c/kg anti-dumping duty on bone-in chicken portions. This duty has been in place for some time and was last renewed in April 2012. The duty is now subject to a sunset review, with its expiry date scheduled for 4 April 2017. It should be remembered that the AGOA deal allows a quota of 65 000 tonnes per annum to be imported free of the anti-dumping duty (although normal import tariffs apply). The decision-makers at ITAC will determine whether the US continues to sell bone-in portions substantially below the cost of production in South Africa. If they find this to be the case, the duty will be extended for a further 5 years.

The import tariffs agreed on in 2013, and applicable to product from all over the world (with the exception of the EU and SADC nations), are also up for review with ITAC. SAPA argues that the tariffs set in 2013 have failed to provide more than 5% average protection to the industry and have had no effect because a) they are too low; b) they do not apply to the EU because of the TDCA between South Africa and the EU; and c) dumping of mechanically deboned meat in the South African market causes far-reaching distortion of the whole value chain (SAPA Poultry Bulletin).

DEFINITION:

Net Sales Value (NSV):
- invoiced price
- less volume discount.
- less settlement discount.
- less rebates (incl. advertising spent).
- less any other discounts i.e. direct distribution etc.
- less secondary distribution (i.e. from vector or cold chain to retail outlets e.g. Shoprite, PnP, etc.).
- excluding VAT
- The NSV amount must be net income to the business.

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