
Assessment of the potential price impact of anti-dumping duties on bone-in poultry products

Prepared for Webber Wentzel on behalf of SAPA

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1. INTRODUCTION AND SUMMARY OF FINDINGS

Our instructions

1. We have been requested by Webber Wentzel, on behalf of the South African Poultry Association (“**SAPA**”), to assess the potential retail price impact of the decision by the International Trade Administration Commission of South Africa (“**ITAC**”) to impose anti-dumping duties on certain poultry products from Brazil, Denmark, Poland Ireland, and Spain (“**the targeted countries**”). We have specifically been directed to investigate the likely impact of these anti-dumping duties (and their suspension) on the retail price of frozen bone-in chicken portions in South Africa.

Overview of the anti-dumping duties imposed by ITAC

2. The anti-dumping duties that were imposed in ITAC’s recent provisional and final determinations applied to several tariff subheadings of ‘*frozen bone-in portions of fowls of the species gallus domesticus*’ – under the tariff code 0207.14.9 (“**frozen bone-in chicken portions**”). The anti-dumping duties varied across countries as well as across exporters within these countries as displayed in the Table below (which also provides the average of these anti-dumping duty ranges).¹
 - 2.1. The provisional anti-dumping duties were imposed on these imports for a period of 6 months – effectively from January 2022 to June 2022 (“**the provisional period**”).²
 - 2.2. In August 2022, ITAC published its final determination on this matter and recommended that anti-dumping duties be imposed on imports of frozen bone-in chicken portions. For three of the targeted countries, the recommended final anti-dumping duties were lower than the provisional anti-dumping duties as evident from differences in the average of the provisional (**57%**) versus final anti-dumping duties (**31%**).

¹ The ITAC reports calculated and imposed specific duties on companies within each country who (i) participated in the investigation (and submitted sufficient information to ITAC) and (ii) exported bone-in portions to the SACU region during the period of the initial dumping investigation. A residual duty was then calculated and imposed on the remainder of companies for each the exporting countries (i.e. those companies who elected not to participate in the study).

² See ITAC report no.678, investigation into the alleged dumping of frozen bone-in portions of fowls of the species gallus domesticus originating in or imported from Brazil, Denmark, Ireland, Poland and Spain: preliminary determination.

Table 1. Summary of provisional and final anti-dumping duties imposed on imports of frozen bone-in chicken portions

Provisional anti-dumping duties (effectively running between January 2022 and June 2022)				Final anti-dumping duties (yet to be implemented)		
Country of origin	Number of companies with specific provisional anti-dumping duties	Provisional anti-dumping duty range	Average provisional anti-dumping duties ³	Number of companies with specific final anti-dumping duties	Final anti-dumping duty range	Average final anti-dumping duties
Brazil	10	6% - 48% ⁴	25%	8	3% - 39%	21%
Denmark	1	17% - 67%	42%	1	8% - 67%	38%
Ireland	0	158%	158%	1	2% - 38%	20%
Poland	2	2% - 97%	35%	1	2% - 97%	50%
Spain	4	3% - 86%	27%	4	8% - 86%	28%
Average across countries	<i>/</i>	37% - 91%	57%	<i>/</i>	5% - 65%	31%

Source: [1] ITAC Report No. 678 Investigation into the Alleged Dumping of Frozen Bone-in Portions of Fowls of the Species *Gallus Domesticus* Originating in or Imported from Brazil, Denmark, Ireland, Poland And Spain: Preliminary Determination; and Minute No M12/2021 Addendum to report No. 678; [2] ITAC report no. 695, investigation into the alleged dumping of frozen bone-in portions of fowls of the species *Gallus domesticus* originating in or imported from Brazil, Denmark, Ireland, Poland and Spain: final determination; and [3] Various SARS notices and amendments.

Notes: [1] The exact anti-dumping duty applied varies by company. Certain cuts within each country were also not dutiable given the negligible contribution of these cuts to imports. [2] The range for the EU countries accounts for the specific company anti-dumping duties and the residual anti-dumping duties. [3] Duties in the above table are rounded off to the nearest percent.

- The imposition of these tariffs followed ITAC's preliminary and final determination that frozen bone-in chicken portions were being imported by the targeted countries at dumped prices. It further concluded that there was a causal link between these

³ We note that some companies within the targeted countries were found not to be dumping in the ITAC investigation and hence are not subject to a provisional or final duty. Under the provisional duties we understand that this included one company from Poland. Under the final duties, we understand that this included two companies from Poland and two companies from Brazil.

Because the purpose of this report is to provide an upper bound estimation of the duties' impact, and because we do not have a precise line of sight of the extent of volumes exported from these exempt companies, we focus on estimating the impact of the average duties that were applied (hence our main results do not account for those who were exempt).

⁴ We note that there was also a 265.1% 'residual' duty which applied to companies in Brazil that did not cooperate during the ITAC investigation. The remaining duties applicable to Brazil, applied to between eight and ten cooperating companies and were much lower, ranging between 6% - 48% for the provisional duties, and 3% - 39% for the final duties. We have been instructed that it is likely that these cooperating companies were and still are the biggest Brazilian exporters as it would have been in their best interests to co-operate during the investigation. We have also been instructed it is unlikely that imports that were subject to the residual duty would have been able to compete against imports that were subject to the significantly lower company-specific duties. As a result, in our analysis, we exclude the residual duty applied to Brazil.

dumped chicken imports and material injury (and the threat of material injury) to the local chicken industry.⁵

4. On 1 August 2022 the South African Minister of Trade, Industry and Competition (“**the Minister**”) suspended the imposition of these final anti-dumping duties for a period of 12 months. It seems a key motivating factor was a concern that these additional anti-dumping duties would exacerbate rising retail food prices and the price of frozen bone-in portions in particular. The Minister noted that the suspension would be reviewed in 12 months, and consultations would be undertaken with affected parties on the way forward.⁶

Third-party comments on price impact

5. There has been a degree of public commentary regarding the question of the price impact of anti-dumping duties on poultry products in South Africa. For example, in November 2022, the South African Reserve Bank Working Paper Series published a paper assessing the consumer price effects of specific trade policy restrictions in South Africa.⁷ It should be noted, however, that this Reserve Bank paper only considered a broad assessment of trade protection measures on frozen poultry products between 2010 and 2021, and did not deal with the specific price impact of the recent anti-dumping duties recommended by ITAC (which is the focus of this report).⁸
6. More recently, the question of the impact of these specific anti-dumping duties on retail prices received some attention in the Competition Commission of South Africa’s (“**the Competition Commission**”) recent ‘*essential food price monitoring report*.⁹ Although no substantive analysis was undertaken, the Competition Commission suggests that the suspension of these anti-dumping duties appears to have caused a significant decrease in retail prices.
7. These studies heighten the importance of a more in-depth assessment of the likely impact of the provisional and final anti-dumping duties (and their removal) on the retail price of frozen-bone in portions as an affordable source of protein in South Africa.

⁵ See ITAC report no.678, investigation into the alleged dumping of frozen bone-in portions of fowls of the species gallus domesticus originating in or imported from Brazil, Denmark, Ireland, Poland and Spain: preliminary determination; and See ITAC report no. 695, investigation into the alleged dumping of frozen bone-in portions of fowls of the species gallus domesticus originating in or imported from Brazil, Denmark, Ireland, Poland and Spain: final determination.

⁶ Government Gazette No. 47201 dated 5 August 2022, Notice 1209 of 2022

⁷ See Edwards, Ismail, Kamutando, Mambara, Stern and Venter. 2022. The consumer price effects of specific trade policy restrictions in South Africa. South African Reserve Bank Working Paper Series WP/22/15. Available at: <https://www.resbank.co.za/en/home/publications/publication-detail-pages/working-papers/2022/the-consumer-price-effects-of-specific-trade-policy-restrictions> [Last accessed 17 April 2023]

⁸ This working paper seeks to estimate the effects of preceding levels of trade protection on chicken products over an earlier sample period of 2010 to 2021.

⁹ Competition Commission of South Africa. 2023. Essential Food Price Monitoring Report. Available at: https://www.compcom.co.za/wp-content/uploads/2022/08/EFPM-Report_Aug-2022.pdf [Last accessed 25 May 2023]

Main findings and structure of report

8. It is within this context that we have been requested by Webber Wentzel, on behalf of the SAPA, to assess the potential retail price impact of the additional anti-dumping duties. This report proceeds as follows:

8.1. **Chapter 2: Factors affecting the extent to which a duty change is passed on to consumers.** We begin by discussing the range of factors, which determine the extent to which a tariff change may be passed on to consumers. We also demonstrate how some of these factors have evolved considerably before and during the provisional period.

8.1.1. Importantly we find that recent high pathogenicity avian influenza (“HPAI”) related bans resulted in imports from the European Union (“EU”) declining to effectively zero over the period when the provisional anti-dumping duties were in place. This in and of itself would have significantly diluted the pass-through of the provisional anti-dumping duties onto average import prices. This suggests one should be very cautious about drawing any strong conclusions about the detrimental effects of these anti-dumping duties on consumers to date as, by in large, only one of the five targeted countries (Brazil) has been trading since the provisional anti-dumping duties were implemented (and since the final anti-dumping duties were suspended).

8.1.2. Other potential diluting factors we consider in this chapter include:

8.1.2.1. the fact that FOB prices make up a fraction of final retail prices;

8.1.2.2. the anti-dumping duties only apply to a limited number of companies in a limited number of countries;

8.1.2.3. the evolution in trade patterns as a response i.e. trade diversion to countries that do not face the higher anti-dumping duties;

8.1.2.4. the potential for a price response from targeted companies in order to remain competitive i.e. lower FOB export prices;

8.1.2.5. competition amongst producers in the domestic chicken market; and

8.1.2.6. competition amongst retailers and the countervailing power of larger buyers.

8.1.3. These factors mean that the pass-through impact on retail prices from selectively imposed anti-dumping duties can be complex to predict, and more diluted than is often assumed. Without properly identifying

and considering these factors, any view on the causal increase in the retail price is likely to be superficial and overstated.

- 8.2. **Chapter 3: Estimates of the impact of the provisional anti-dumping duties on retail prices.** Quantifying a duty's potential impact (and indeed its actual impact) on retail prices is complex given the range of factors that can influence the extent to which an increase in duties will be reflected in higher retail prices. For this reason, we provide a range of estimates for the impact that the anti-dumping duties may have on the retail prices of affected poultry products.
- 8.3. The range of estimates provided in this report considers the matrix of the factors that can influence the extent to which the anti-dumping duties may be passed through into higher retail prices. In doing so we focus on the average levels of the anti-dumping duties by country, given the variation in the anti-dumping duty levels within countries. We take two approaches.
- 8.3.1. Under the *first approach* we estimate the potential passthrough of i) the provisional anti-dumping duties and ii) the final anti-dumping duties based on the actual composition of trade when the provisional anti-dumping duties were in place (January 2022 – June 2022). This reflects the impact of the anti-dumping duties given the current trade patterns in which many of the European countries and certain US states face a ban due to HPAI concerns. It is unclear how long these trade restrictions may be in place.
- 8.3.2. Under the *second approach* we apply the final anti-dumping duties to the composition of trade over the whole of the 2020 period (i.e. January 2020 – December 2020).¹⁰ This assumes a resurgence of trade from the EU and to some extent the US in the event that import bans are lifted. This more forward-looking approach controls for the extent to which the results in the first approach are driven by trade bans on the target countries. In doing so we account for the fact that the final anti-dumping duties may well have a more significant impact on retail prices going forward (i.e. once the EU import bans are lifted) compared to the impact of the provisional anti-dumping duties.¹¹
- 8.4. A summary of the results for IQF and non-IQF retail prices follows below. Under both approaches, our estimates indicate that the pass-through to retail prices from the proposed anti-dumping duties is predicted to be significantly diluted. Our results across these two approaches suggest that the

¹⁰ Trade composition for 2020 is used as this was the most recent period where most of the HPAI trade bans were not in place. Imports from the EU were subject to a safeguard duty of 30% from 12 March 2019 up to and including 11 March 2020 and of 25% from 12 March 2020 up to and including 11 March 2021. The averages of the final anti-dumping duties for Denmark, Poland and Spain are higher than the safeguard duties that were applied during 2020, which may result in lower volumes of imports from these countries. This may further dilute the effect of the anti-dumping duties on retail prices.

¹¹ To the extent that bans on states in the US are lifted in the future, this could also impact (and dilute) the extent of the passthrough of the final duties. However, the exact impact of this is uncertain and will be dependent on when and how the various US bans are lifted.

implementation of the final anti-dumping duties (using the mean of the respective country ranges) could result in a potential increase in IQF retail prices of between roughly **2.5%** and **4.6%**. When the estimates are based on the retail prices of non-IQF frozen chicken portions, this passthrough ranges between approximately **1.8%** and **3.4%**.

- 8.5. It should be emphasised that these results do not account for the companies within the targeted countries which were exempt from paying the provisional and final anti-dumping duties. To the extent that significant volumes do come from these exempt companies, this would further reduce the potential passthrough of the *final* anti-dumping duties.¹² Furthermore, the below ranges of passthrough may well be even further reduced given resistance to increased domestic retail prices as a result of competitive pressure between domestic poultry producers; countervailing power from large supermarket chains and also competition between retailers. Affected importers themselves may also respond by lowering prices (and margins) even further to partly counteract the imposed anti-dumping duties or due to increased export competition. As such the estimates presented below reflect upper-bound estimates of the likely passthrough of the average anti-dumping duties.

Table 2. Summary of results from the passthrough assessment

Analysis	Description	Potential passthrough based on IQF retail prices	Potential passthrough based on non-IQF frozen retail prices
Passthrough approach 1	Estimating the potential impact of the <i>provisional</i> anti-dumping duties	3.0% passthrough	2.2% passthrough
	Estimating the potential impact of the <i>final</i> anti-dumping duties assuming current trade dynamics continue	2.5% passthrough	1.8% passthrough
Passthrough approach 2	Estimating the potential impact of the <i>final</i> anti-dumping duties based on trade composition in 2020	4.6% passthrough	3.4% passthrough

Source: Genesis construction based on (i) SARS trade data, (ii) the relevant ITAC reports, (iii) SARS tariff announcements and amendments, and (iv) retail price data for IQF and non-IQF frozen portions from Stats SA.

- 8.6. **Chapter 4: Assessment of producer and retail data.** We assess whether the suspension of the provisional anti-dumping duties coincided with the lowering of actual producer prices, and the lowering actual retail prices (as alleged by the Competition Commission). We also provide a high-level critique of the Competition Commission's findings. Finally, we assess the financial position of the 6 largest local chicken producers in South Africa (accounting for over 60% of production in the Southern African Customs Union "**SACU**")

¹² For example, if we include these exempt companies when calculating the average applicable duty per country, results suggests that the passthrough of the final duties assuming current trade dynamics remain the same (and based on IQF retail prices) is reduced to **2%** whilst the passthrough estimate based on the 2020 trade composition is reduced to **4.2%**. These figures drop to 1.5% and 3.1% respectively when based on non-IQF prices. As noted previously, these results should be treated with caution as we do not have a precise line of sight of company level export volumes.

region). This is with reference to monthly net and gross margins for frozen bone-in portions before, during and after the provisional period.

- 8.6.1. We find that average monthly retail (and producer) prices for frozen bone-in chicken portions are higher (not lower) in the suspension period (July 2022 to December 2022) when compared to the provisional period (January 2022 to June 2022). This is not consistent with the notion that these anti-dumping duties resulted in harmful pass-through for consumers; nor is it consistent with the notion that the suspension of the anti-dumping duties coincided with significant downward pressure on retail prices. It is correct that there was an initial decline in IQF retail prices in August 2022 but this was followed by consistent retail prices increases.
- 8.6.2. We also find that the Competition Commission's claims in its 'Essential Food Price Monitoring Report' are flawed for several reasons in relation to the impact of the anti-dumping duties on poultry prices. In the trade analysis, the Competition Commission has not sufficiently assessed the range of factors (such as trends in raw material costs, feed prices and local competition) that may be driving retail price changes. This is despite referring to these factors earlier in the report. Rather, the Competition Commission simply jumped to the conclusion that the suspension of the anti-dumping duties resulted in a drop in retail prices. Indeed, there is no observable pattern of consistent price decreases after the provisional period. In addition, the Competition Commission's analysis focuses on the residual (maximum) and provisional anti-dumping duties only. As indicated in Table 1 above, there is wide range of anti-dumping duties that applied across countries and companies. In this regard, the final anti-dumping duties, if reinstated, are significantly lower than the provisional anti-dumping duties for certain countries. This is not taken into account in the Competition Commission's assessment.
- 8.6.3. Finally, the results with respect to producer margins and profitability that we have taken instruction on, paint a stark picture of a local poultry industry under pressure. This is in the face of sharp production cost increases outstripping changes in revenues (and average prices) particularly after the provisional period. During the provisional period and relative to the 6-month period before (July 2021 - December 2021), the average gross margins related to bone-in portion across 6 of the largest producers almost halved. This decline in profitability continued throughout the second half of 2022. This evidence suggests that supra-competitive producer prices for frozen bone-in portions did not prevail when the provisional anti-dumping duties were in place.

2. WHAT AFFECTS THE EXTENT TO WHICH A TARIFF CHANGE IS PASSED ON TO CONSUMERS?

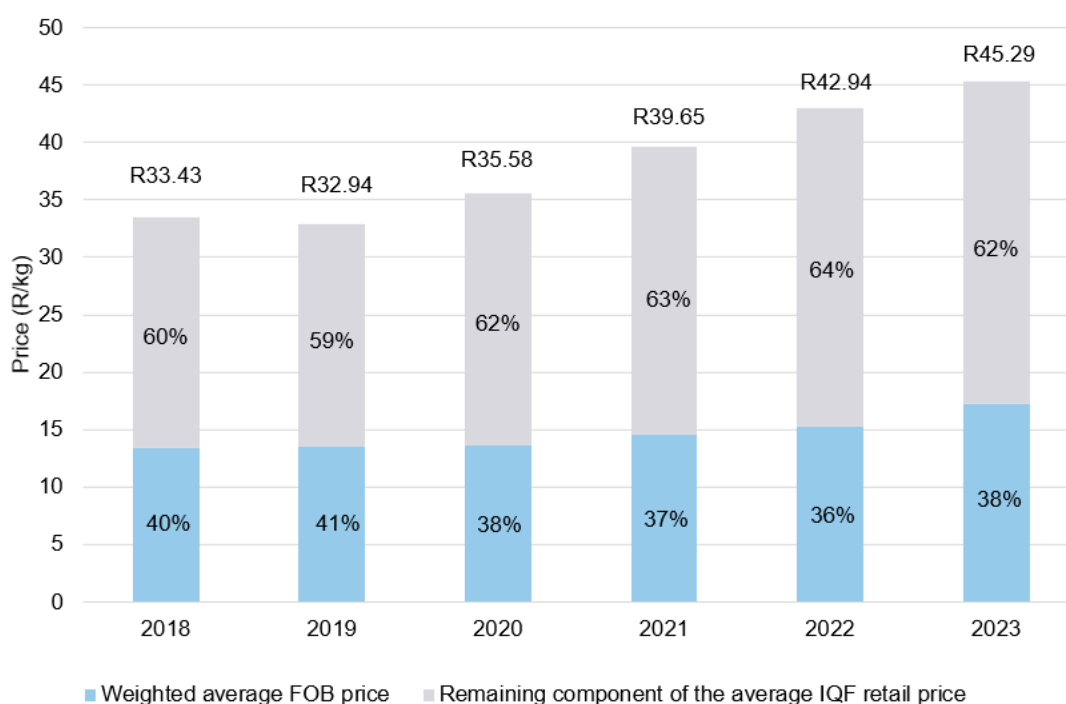
9. There seems to be an *a priori* concern that the provisional and final anti-dumping duties will necessarily be passed on to end-consumers. It is true that an additional duty will have an effect on the underlying cost structures of the affected categories of imported product. However, the extent to which retail prices will then ultimately change in response to this shift in costs for some importers, cannot simply be assumed. Instead, the impact on retail prices from the implementation of a duty will likely be diluted by the following factors:
 - 9.1. First, a duty is imposed on the free-on-board (“**FOB**”) price of imports and not on the final retail price. Because the FOB price is typically lower than the retail price, the implication is that any duty will be diluted in the final retail price. The smaller the proportion that the FOB price contributes to the retail price, the smaller the impact that any duty will have on the retail price.
 - 9.2. Second, the extent of pass through will be heavily impacted by the underlying country (and producer) composition of the imports, and the evolution of this composition over time. This is particularly important in matters such as this, where the duties being analysed are limited to specific companies in specific exporting countries.
 - 9.3. Third, the trade composition and the contribution of affected countries may shift over time away from targeted countries to non-targeted countries. This is known as trade diversion.
 - 9.4. Fourth, the extent to which the FOB import prices fluctuate, can impact the costs for local consumers. Hence if the sanctioned importer responds to a higher duty by lowering their FOB price to maintain their competitiveness, this would naturally dilute the impact of the duty.
 - 9.5. Fifth, domestic producers will continue to face competition from each other and from other imports in the domestic market. This could lower their incentive to increase prices in response to rising import prices.
 - 9.6. Sixth, the countervailing power of larger buyers in the retail sector can also limit the pass-through of costs.
 - 9.7. Seventh, competition also exists between the retailers themselves, which can limit the extent to which they choose to raise prices (even in the face of a cost increase from suppliers). Furthermore, our understanding is that bone-in portions, particularly when sold in the form of IQF mixed portions, are often used as a loss leader by retailers – this could further dilute the extent to which the duties are passed through to end consumers.

10. We consider each of these factors in more detail below, and where possible, we demonstrate how these factors evolved before and during the provisional period.

2.1. THE RELATIONSHIP BETWEEN FOB AND RETAIL PRICES MATTERS TO PASSTHROUGH

11. A duty is imposed on the FOB price of imports and not on the final retail price. The implication is that any duty is diluted in the final retail price. For instance, if the FOB price is 50% of the final retail price, then the introduction of a 30% duty can only, at the very most, increase the final retail price by a maximum of 15% (assuming that it is universally applied to all imports and that price of domestic producers rises line with import costs).
12. This is an important point in the current context. As suggested in the figure below, since 2018, the FOB price of bone-in portions (as demonstrated by the light blue area) has represented **less than half** of the total IQF retail price. In particular, the average FOB price of bone-in imports made up between **36% and 41%** of the prevailing retail price for IQF chicken products.

Figure 1. Comparison of the weighted average FOB unit values for bone-in imports and average IQF retail prices



Source: [1] FOB unit value based on SARS trade data for bone-in chicken imports; [2] IQF retail prices based on urban CPI retail price data from Statistics South Africa

Notes: [1] Weighted average FOB unit value is calculated as the total customs value for all bone-in imports per year divided by the total quantity of bone-in imports per year. [2] Average retail prices are based on a simple average of the Stats SA IQF retail prices.

2.2. COMPOSITION OF IMPORTS MATTERS TO PASSTHROUGH

13. The extent of the passthrough will be heavily impacted by the underlying country composition of the imports and its evolution over time. For example, the new anti-dumping duties do not apply to the key import regions, such as the US (50% total imports in 2022) or Argentina (17% of imports in 2022), both of which enter free of anti-dumping duties. Generally, the country composition of import volumes will impact the average of level the duties payable (and in turn, the potential increase in the cost of imports) in multiple ways.
- 13.1. The provisional (and final) anti-dumping duties, were only imposed on frozen bone-in imports sourced from five countries: Brazil, Denmark, Ireland, Poland, and Spain. To the extent that a significant portion of bone-in imports originated from countries not targeted by the duties (or “the non-targeted countries”) this would dilute the average level of the duties payable and the extent of pass through onto final retail prices.
- 13.2. The figure below highlights important insights in this regard. Between 2019 and 2020, the countries targeted by the provisional (and final) duties (as shown in shades of blue) represented between **46%** and **59%** of total bone-in imports into South Africa. More recently, and largely as a result of the multiple HPAI related trade bans¹³, imports from the EU declined to effectively zero when the provisional duties were in place¹⁴. Given that four of the five targeted countries were part of the EU, this in and of itself will significantly dilute the pass through of the provisional duties on average import prices. This suggests one must be very cautious about drawing strong conclusions about the detrimental effects of these duties on consumers to date as since 2022, only one of the five targeted countries have been trading.
- 13.3. Another reason why trade composition matters, is the fact that the provisional (and final) anti-dumping duties that applied to each of the targeted countries differed significantly across and within the target countries (see Table 1).
- 13.3.1. For example, the provisional duty on Ireland was approximately 158%, whilst the company specific provisional duties on Brazil ranged between 6% and 48%. During the implementation of the provisional duties (i.e. predominantly between January 2022 and June 2022) imports from Brazil comprised approximately a third of total bone-in imports into South Africa whilst imports from Ireland comprised 0%.
- 13.3.2. We also note that to the extent that a larger share of imports originate from companies which qualify for lower duties, this would have the effect of further reducing the level of the duty passed through to

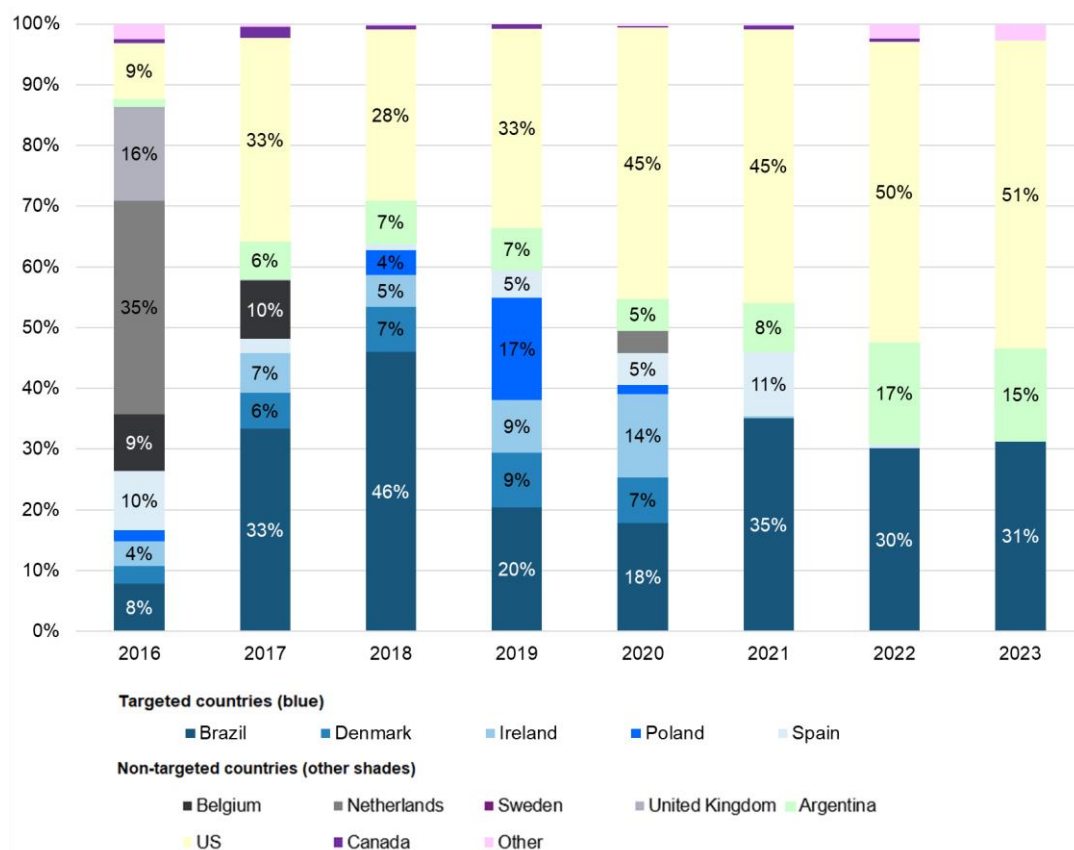
¹³ Highly Pathogenic Avian Influenza (HPAI) is highly contagious disease which is often fatal to chickens. Countries are often banned from trading during outbreaks as a protective health measure.

¹⁴ Whilst some there were some imports from Spain in January and February of 2022, these represented approximately 1% of total imports across the provisional period.

consumers. We do not have precise line of sight of this and hence provide results based on the of average duties that were applied.

- 13.4. Trade diversion over time (or during the provisional period) could further reduce the level of the total duties payable. For example, the imposition of the provisional duties would likely have raised the FOB prices (including duties) of poultry from targeted countries relative to the FOB prices (including duties) from non-targeted countries. This may have the impact of diverting current trade from the targeted countries, towards the non-targeted countries. This follows the economic logic that changes in relative prices will favour imports from cheaper countries. Similarly, it is likely that the imposition of anti-dumping duties will shift the composition of imports from producers with high anti-dumping duties to producers with low or no anti-dumping duties.

Figure 2. Annual volume share of imports of bone-in chicken portions into South Africa by country of origin



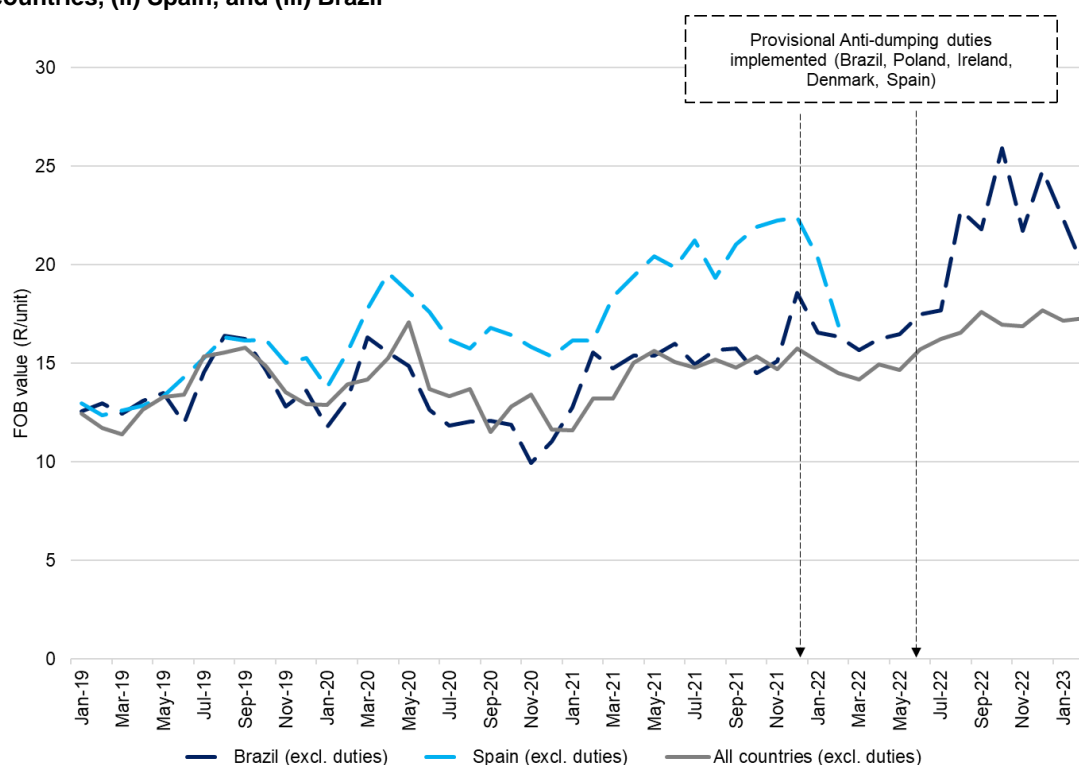
Source:[1] Import volumes based on SARS trade data.

2.3. FOREIGN PRODUCERS MAY RESPOND BY LOWERING FOB PRICES

14. Foreign producers may also be able to respond to higher tariffs by reducing their prices to compensate in some part for the new tariff which is imposed. This is particularly pertinent in the poultry industry where foreign countries are willing to export brown bone-in meat – which is typically seen as less desirable in higher income markets – at significantly discounted prices to clear excess supply.
15. Additional factors such as competition amongst foreign exporters, foreign cost pressures (or alleviations), government support (through subsidies for example), and global demand and supply balances may also impact the extent to which foreign producers may be able to respond to duties by lowering FOB import prices even more.
16. The figure below shows trends in (i) the weighted average FOB price of imports of bone-in chicken portions across all countries; and (ii) the weighted average FOB prices of bone-in chicken imports for the two countries on which the duty was imposed and which traded during the provisional period. (Spain was unable to trade from March 2022 as it too was banned).
 - 16.1. The figure suggests steep drops in the average FOB price of bone-in imports from Brazil and Spain relative to the month before the provisional duties were in place. On balance, there was a modest decline in the weighted average FOB price across all importing countries.¹⁵
 - 16.2. Interestingly, average FOB prices increased significantly post the suspension of the duties. This increase is most stark for Brazil. In fact, the level of the duty exclusive-FOB prices from Brazil after the provisional period exceeded the FOB price of imports from Brazil *plus the average provisional duties* during the provisional period. Although there are many factors that could impact international FOB prices, these movements are consistent with the ability of foreign producers to adjust prices to compensate for either the imposition or removal of the anti-dumping duty.

¹⁵ For example, the weighted average FOB price across all countries was an average of R15.10 between July 2021 and December 2021. This decreased by about 2% to an average of R14.85 between January 2022 and June 2022.

Figure 3. Weighted average FOB unit price (excl. duties) for bone-in portions for (i) all countries, (ii) Spain, and (iii) Brazil



Source: FOB prices calculated based on SARS trade data for bone-in imports.

Notes: FOB prices are calculated as the total customs value divided by the import quantity.

2.4. COMPETITION BETWEEN DOMESTIC PRODUCERS CAN FURTHER DILUTE ANY PASSTHROUGH

17. Domestic producers will continue to face competition from each other and other imports in the domestic market. As these domestic producers compete with each other (and other imports) for sale volumes this will restrain the incentive to increase prices as the price of affected imports rise.

2.5. COUNTERVAILING POWER OF RETAILERS CAN FURTHER DILUTE ANY PASSTHROUGH

18. The countervailing power of larger buyers in the retail sector can also limit the pass-through of costs. Economic literature considers this type of buyer power to be an important force for limiting the ability of suppliers to passthrough cost increases downstream. Put simply, *“strong buyer power constrains suppliers’ ability to raise prices, and in many cases obliges suppliers to lower prices...”*¹⁶ This is also a pertinent consideration in the current matter as South African retailers largely control access to

¹⁶ O’Donoghue, R. and Padilla, J. The Law and Economics of Article 102 TFEU, Hart Publishing, p. 167

the consumer, which provides the major retail groups with considerable countervailing power.

2.6. COMPETITION BETWEEN RETAILERS CAN FURTHER DILUTE ANY PASSTHROUGH

19. Competition also exists between the retailers themselves, which can limit the extent to which they choose to raise prices (even in the face of a cost increase from suppliers). From a retailer's perspective the price elasticity of demand for consumers can also affect the extent to which cost increases are passed through. Retailers will carefully weigh up the decision to passthrough cost increases for relatively elastic goods as the revenue gains from higher prices can be outweighed by lost revenue from lower sales volumes. Therefore, depending on the price elasticity of demand, it may not necessarily be profit maximising for a retailer to fully pass through a cost increase.
20. We are instructed by our client that frozen bone-in portions, particularly when sold in the form of IQF mixed portions, are often used as a loss leader by retailers in South Africa. This could further limit the extent to which retail prices are increased in response to increased import costs.

3. ESTIMATES OF THE POTENTIAL IMPACT OF THE DUTIES ON RETAIL PRICES

21. Whilst it is difficult to precisely calculate the likely retail price impact, a consideration of key influencing factors enables at least an upper-bound range to be estimated. In this Chapter, based on actual trade dynamics, we estimate the extent to which the average level of duties payable for imports of bone-in chicken portions would likely increase as a result of the provisional duties and final duties.
22. We then provide a range of estimates by which retail prices may be expected to increase if (i) the final duties are implemented and (ii) certain trade bans are lifted.
23. In the sections that follow we describe the methodology and data used, and results obtained from this analysis.

3.1. DATA

24. *Trade data.* We have been provided with monthly import volumes and FOB values for the period 2015 to 2022 originally sourced from the South African Revenue Service (“SARS”). This data has been categorised in various ways, including by country and region of origin, and according to whether the import source was subject to duties and tariffs. The data also indicates the range of duties and tariffs applicable to each transaction in the dataset.
25. *Retail price data.* We have access to aggregate urban retail price data collected by Statistics South Africa (“Stats SA”) for the purposes of forming their CPI basket.
 - 25.1. We note that this data appears to be the same retail price data used by the Competition Commission in its ‘Essential Food Price Monitoring report’.¹⁷
 - 25.2. The data disaggregates retail prices for frozen chicken portions into (i) IQF and (ii) non-IQF frozen chicken portions. The trade data from SARS on the other hand, disaggregates frozen bone-in imports by cut type (e.g. frozen leg quarters vs frozen wings).
 - 25.3. We understand that most of the frozen bone-in chicken consumed in South Africa comprises IQF mixed portions. On average, IQF chicken portions are also cheaper than non-IQF frozen chicken portions. As a result, retail prices of IQF are of particular relevance to understanding the impact of the duties on the most affordable sources of bone-in chicken.

¹⁷Using this data we are able to replicate the point-to-point calculations of changes in IQF prices in the Competition Commission’s report (in doing so, our data provides the same results as those presented by the Competition Commission). Furthermore, where the Competition Commission explicitly refers to prices in certain months, these prices match those in the Stats SA data used in our calculations. See Competition Commission of South Africa. 2023. Essential Food Price Monitoring Report. Available at: https://www.compcom.co.za/wp-content/uploads/2022/08/EFPM-Report_Aug-2022.pdf [Last accessed 25 May 2023]

- 25.4. The analysis presented in this chapter is hence based on average IQF retail prices.¹⁸ Results based on the retail prices for non-IQF frozen portions, are however, footnoted throughout the chapter where relevant.¹⁹

3.2. METHODOLOGY

26. We sum the total value of the provisional (and then final) duties payable across the targeted countries (for the period under assessment) and divide this by the total quantity of frozen bone-in imports (i.e. the total composition of trade).²⁰
27. This provides an estimate of the extent to which the weighted average level of the duties payable per kg would have increased as a result of the implementation of the provisional (and then final) duties. This approach accounts for:
- 27.1. the actual monthly product and country composition of imports and the level of FOB prices (this will hence also capture the impact of possible trade diversion during the provisional period as a result of the duty being imposed);
 - 27.2. the fact that imports from countries not targeted by the provisional duties may serve to dilute the pass through; and
 - 27.3. the fact that imports from the targeted EU countries collapsed to all but zero as result of trade bans (an effect we also try control for in our analysis).
28. We adopt two main approaches in assessing the impact on pass-through.

¹⁸ We note that in its essential foods price monitoring report, the Competition Commission also uses the *IQF* retail prices from Stats SA.

¹⁹ Because non-IQF chicken typically retails at a higher average price than IQF chicken, the use of IQF retail prices in our analyses also provides a more conservative estimate of the potential percentage passthrough of the anti-dumping duties.

²⁰ Where a range of duties, is applicable per country we estimate the total value of the duties by applying the average of the applicable duties to the total FOB value for the relevant transaction. Estimates of the maximum and minimum impacts are also provided in this report. As noted previously, some companies within the targeted countries were found not to be dumping in the ITAC investigation and hence are not subject to a provisional or final duty. To the extent that significant volumes come from these exempt companies, this would further reduce the potential passthrough of the *final* duties. We do not account for this in our main results but provide an indication of this potential impact in the footnotes of this section.

Approach 1: Estimating the maximum impact of the duties assuming current trade dynamics continue

29. In Approach 1, we calculate the increased average **provisional duty** payable between January 2022 and June 2022. We apply this to IQF and non-IQF retail prices over the same period to estimate the resulting potential retail price increase.
30. Under the assumption that trade dynamics remain the same when the final duties are implemented, we repeat this exercise based on the average of the **final duties**.

Approach 2: Estimating the maximum impact of the final duties based on the trade composition observed in 2020

31. In the event that trade bans on the likes of the EU and parts of the US are lifted in the near future; a possibility remains that the final duties on bone-in imports will be imposed on a much larger portion of total import volumes than covered Approach 1.
32. To explore this further, we apply the methodology outlined above on a forward-looking basis including the following amendments:
 - 32.1. we consider only the final duties; and
 - 32.2. we calculate the extent to which the final duties will impact the change in the total duties payable based on (i) the trade composition of imports of bone-in portions in 2020 (when most of the EU wide bans were not in place); and (ii) the 2020 FOB prices for the targeted countries escalated on a monthly basis in line with the weighted average FOB price of frozen bone-in imports up until December 2022.²¹
 - 32.3. Under this approach, imports originating from countries targeted by the final duties represented ~46% of total imports between January 2020 and December 2020.

3.3. RESULTS

3.3.1. Approach 1: Estimating the maximum impact of the duties assuming current trade dynamics continue

33. Brazil was effectively the only country subject to the provisional duties across the provisional period.²²

²¹ Trade composition for 2020 is used as this was the most recent period where most of the HPAI trade bans were not in place. Imports from the EU were subject to a safeguard duty of 30% from 12 March 2019 up to and including 11 March 2020 and of 25% from 12 March 2020 up to and including 11 March 2021. The averages of the final anti-dumping duties for Denmark, Poland and Spain are higher than the safeguard duties that were applied during 2020, which may result in lower volumes of imports from these countries. This may further dilute the effect of the anti-dumping duties on retail prices.

²² Whilst there were some imports from Spain in January and February of 2022, these represented approximately 1% of total frozen bone-in imports across the provisional period.

-
34. Because Brazil represented approximately only a third of bone-in imports between January 2022 and June 2022, the costs of around two thirds of bone-in imports would have been unaffected by the provisional duty – significantly diluting its potential effects.
35. This dilution is confirmed in the table below. After accounting for trade composition (by country and product) as well as FOB levels (and monthly fluctuations in these factors) results suggest that:
- 35.1. the average percentage by which retail prices could have increased as a result of the provisional duty is approximately **3%**^{23 24};
 - 35.2. assuming trade dynamics remain the same with the final duties in the place the potential passthrough is reduced to **2.5%**,^{25 26} and
 - 35.3. although overly conservative, when applying the maximum final duty applied to each country, the potential passthrough would be 4.9%²⁷. When applying the minimum of the final duty ranges, the potential passthrough drops to 0.4%.²⁸
36. These estimates are substantially lower than the average company specific provisional and final duties applied to Brazil (of **25%** and **21%** respectively).
37. As explored at the end of this chapter, this approach is conservative given that it does not account for the multiple factors which may serve to further dilute the duties' impact (such as the countervailing power of retailers, local producer competition and competition between retailers)²⁹.

²³ When this calculation is repeated based on non-IQF retail prices, the potential average passthrough of the provisional duties amounts to approximately 2.2%.

²⁴ In terms of companies within the targeted countries which were not subject to the provisional duties - we understand this included only one company in Poland. Because Poland was not trading during the provisional period this does not impact our results for the provisional duties' likely passthrough.

²⁵ When this calculation is repeated based on non-IQF retail prices, the potential average passthrough of the final duties amounts to approximately 1.8%.

²⁶ If we adjust this passthrough by including the exempt companies when calculating the average applicable final duty per targeted country - the potential average passthrough of the final duties is reduced to 2% based on IQF retail prices and to 1.5% when based on non-IQF retail prices.

²⁷ This estimate is conservative as the maximum duties did not apply to all companies within the targeted countries.

²⁸ More detailed results based on the minimum and maximum approach can be found in Appendix I.

²⁹ This approach implicitly assumes that other non-affected importers will not increase their price in response to the increased prices of the targeted countries. This is a reasonable assumption given these other importers are already facing competitive constraints from each other and domestic producers.

Table 3. Maximum potential price impact of the duties adjusted for (i) product mix, (ii) country mix, and (iii) FOB levels (R/kg)

	Average provisional duty payable	Average final duty payable ³⁰
Effective increase in average duties payable (R/kg)	1.28	1.06
Average retail price (R/kg, January 2022 - June 2022)	42.63	42.63
Potential retail price including the increased duty (R/kg)	43.91	43.69
Maximum % increase in the retail price as a result of the duty	3.0%	2.5%

Source: [1] Retail prices based on urban CPI data from Stats SA | [2] Effective increase in the duty is calculated based on the relevant ITAC decisions, SARS tariff announcements and amendments, and SARS trade data.

Notes: [1] The average duty applied for Brazil excludes Brazil's residual duty.

3.3.2. Approach 2: Estimating the maximum impact of the final duties based on trade composition in 2020

38. Under this approach, the table below suggests that the amount by which retail prices would likely increase as a result of the final duty is approximately **4.6%**³¹ ³². Although overly conservative, when applying the maximum of the final duty ranges, the potential passthrough amounts to 9.1%³³. When applying the minimum of the final duty ranges, the potential passthrough drops to 0.8%³⁴.
39. This scenario should be treated with caution, given there is no indication as to when these bans will be lifted; or the extent to which trade from the EU countries (or indeed from certain states in the US) will resume.
40. We note further that these estimates are conservative in that they do not account for the possibility that trade may be diverted away from the targeted countries toward the non-targeted countries – this would further reduce the passthrough estimate.

³⁰ If we repeat the above exercise based on (i) the implementation of the final duties; and (ii) the trade dynamics (i.e. country composition and FOB prices etc.) observed for the whole of 2022, the average passthrough would amount to approximately 2.3%.

³¹ The passthrough based on non-IQF retail prices would amount to approximately 3.4%.

³² If we adjust this passthrough by including the exempt companies when calculating the average applicable final duty per targeted country – the passthrough is reduced further to approximately 4.2% based on IQF retail prices and 3.1% based on non-IQF retail prices.

³³ This estimate is conservative as the maximum duties did not apply to all companies within the targeted countries.

³⁴ More detailed results based on the maximum and minimum approach can be found in Appendix I.

Table 4. Potential price impact of the final duties adjusted for (i) product mix in 2020, (ii) country mix in 2020 and (iii) escalated FOB levels (R/kg)

	Average final duty payable
Effective increase in average duties payable (R/kg)	2.00
Average retail price in 2022 (R/kg, Jan 22 - Dec 22)	42.94
Potential retail price including the increased in the duty (R/kg)	44.94
Maximum % increase in the retail price as a result of the duty	4.6%

Source: [1] Retail prices based on urban CPI data from Stats SA | [2] Effective increase in the duty is calculated based on the relevant ITAC decisions, SARS tariff announcements and amendments, and SARS trade data.

Notes: [1] The average duty applied for Brazil excludes Brazil's residual duty.

Response of domestic producers and retailers

41. Both of these approaches are premised on the conservative assumption that domestic producers will raise prices in response to higher duties (and that this will be by the same magnitude as the increase in import costs). In reality, competition between domestic producers and other imports, and the countervailing power of retailers will dampen this incentive. A dampening or even absence of price increases from domestic producers might occur due to one or more of the following reasons.

41.1. Domestic producers will continue to face competition from each other and other imports in the domestic market. The poultry industry contains a number of both large and smaller firms that compete for sales to retailers, wholesalers and food service providers. There are at least six large producers, and these account for over 60% of domestic production.³⁵ The remaining production is made up of scores of smaller players.³⁶ Additional volumes are sought by domestic producers given that they have invested in production capacity but are not currently filling it.³⁷ These larger volumes will positively impact the profitability and sustainability of these businesses. As these domestic producers compete for sales volumes, so this competition will restrain any incentive to raise prices.

41.2. In addition, underlying cost changes typically serve as an important driver of prices and should also be considered when assessing trends in producer prices.

41.3. The retail sector is also concentrated and large retailers have a tight control over access to consumers. This gives the major retail groups considerable countervailing power over local producers. More than half of all chicken sales

³⁵ ITAC Report No. 695.10 June 2022, Pg 45

³⁶ Davids, P. 2013. Playing chicken: The players, rules and future of South African broiler production. MSc dissertation, University of Pretoria, p. 35; USDA Foreign Agricultural Service. 2013. South Africa Poultry Update: the supply and demand for broiler meat in South Africa. GAIN Report, 29 January 2013, p. 4; Department of Agriculture, Forestry and Fisheries. 2017. A profile of the South African broiler market value chain: 2017, Pg. 7

³⁷ Capacity utilisation was 12% lower in 2018 than it was in 2015. See: Webber Wentzel/SAPA application to ITAC, Information Update, p. NC0002 (non-confidential version)

go through the retail channel, predominantly comprised of the four largest groups – Pick 'n Pay, Shoprite, Spar and Woolworths. These retailers all represent crucial channels for domestic producers' products and they therefore likely hold considerable sway over bidding down the prices paid to domestic producers. This countervailing power is further enhanced through the use of competitive bidding for monthly volumes used by retailers and wholesalers where they continually play off the different producers against each other in order to obtain the best price. Given the domestic producers' inability to change production in each month, this pushes poultry producers to be competitive or be left with unsold broiler stock.

- 41.4. Retailers themselves compete to sell volumes to consumers which could result in a further dilution of any impact on prices. South Africa's major retail groups have identified that they typically sell frozen chicken products at around cost, and they pay attention to rival retailers' prices.³⁸ As noted above, we also understand that bone-in portions, particularly when sold in the form of IQF mixed portions, are often used as a loss leader by retailers in South Africa. Retailers will be cognisant of, and responsive to, the demand elasticities of consumers. (The importance of demand elasticity means that even for a monopolist it might not make sense to pass through the full extent of a cost increase if faced with linear demand.)

³⁸ See National Assembly submissions of Pick 'n Pay and Shoprite.

4. ASSESSMENT OF PRODUCER AND RETAIL DATA

42. In this section, we assess (i) retail price trends, and (ii) producer prices, costs and profitability, before, during and after the provisional period.
43. It is difficult to disentangle the precise impact of the duties and other factors, such as competition and costs, on producer and retail price changes. Nevertheless, the assessment of pricing trends and cost pressures provides an indication as to whether the implementation of the provisional duties (and the suspension of the final duties) coincided with rapid increases (or decreases) in retail prices, producer prices, and producer profitability.

4.1. DATA

44. The data used for this analysis includes:
- 44.1. *Retail prices.* We use the retail price data from Stats SA discussed above to assess actual retail price changes leading up to, during and after the implementation of the provisional duties.
- 44.2. *Producer price and cost data.* We have received sales, cost and volume data from six poultry producers including Astral Operations Limited, RCL Foods Consumer Proprietary Limited, Afgri Poultry (Proprietary) Limited, t/a Daybreak Farms, Grain Field Chickens Proprietary Limited, Crown Chickens Proprietary Limited t/a Sovereign Foods, and Supreme Poultry Proprietary Limited for the period January 2020 to March 2023.
- 44.2.1. These six producers account for more than 60% of the Southern African Customs Union's ("SACU") production by volume³⁹.
- 44.2.2. The data received pertains to frozen, bone-in chicken portions and comprises ex-factory sales values, sales volumes, and a breakdown of costs (including variable, overhead and selling, general and administrative costs).
- 44.2.3. Based on this data, we have taken instruction on the calculation of weighted average prices, costs, and margins per kg per producer across all six producers. We have not independently verified the underlying prices, costs and margin data.

³⁹ ITAC Report No. 695.10 June 2022, Pg. 45

4.2. RETAIL PRICES BEFORE, DURING AND AFTER THE PROVISIONAL PERIOD

45. In terms of changes in the final retail prices paid by consumers, in the Table below we consider average monthly retail prices for (i) IQF and (ii) non-IQF frozen bone-in portions before, during and after the provisional period. We also calculate the change in the average retail prices across these periods. Results suggest the following:
 - 45.1. Average monthly retail prices for IQF and non-IQF portions increased by **3.5%** and **5.1%** respectively during the provisional period - that is compared to the average price for the 6 months prior (July 2021-December 2021).
 - 45.2. Average monthly retail prices for IQF and non-IQF portions were also higher post the expiration of the provisional duties. Despite a 5% drop in the retail price of IQF in August 2022, retail prices continued to increase for the remainder of the period following the duties' suspension such that prices were still higher on average. For non-IQF portions, retail prices actually increased to a greater extent following the removal of the duties.
 - 45.3. A comparison of retail prices before the provisional period and post the provisional period also suggests price increases – likely unrelated to the provisional duties - of 6.3% and 11.2% for IQF and non-IQF retail prices respectively. Factors that may be contributing to this general increase over time include, for example increasing production costs.
46. Importantly, these retail price trends are not consistent with the notion that the suspension of the duties coincided with downward pressure on retail prices.

Table 5. Average changes in chicken retail prices

	Average monthly retail price of IQF by period	Change in average IQF price during and after the provisional period	Average monthly retail price of non-IQF frozen portions by period	Change in average non-IQF frozen price during and after the provisional period
6 months before the implementation of the provisional duties (July 2021 – December 2021)	41.19	/	55.05	/
6 months during the implementation of the provisional duties (January 2022 – June 2022)	42.63	+ 3.5%	57.87	+5.1%
The period after the expiration of the provisional duties (July 2022 – February 2023)	43.77	+ 2.7%	61.24	+5.8%
Change in average prices between (i) the 6 months preceding the provisional period, and (ii) the remaining available months post the provisional period	/	+6.3%	/	+11.2%

Source: Retail prices based on data available from Stats SA

47. In contrast to these findings, the Competition Commission noted the following in their Essential Food Price Monitoring Report:

“The suspension of the tariff appears to have had an immediate impact on consumer prices which fell nearly 4.9% while the post-duty price fell by 26.5%. These simultaneous declines suggest that, as intended, the lower price of imports was passed through to consumers.”⁴⁰ (emphasis added)

48. The Competition Commission has not sufficiently assessed or tried to consider the range of factors that may be driving retail prices (such as costs and competition) and simply jumped to the conclusion that the suspension of duties resulted in a drop in retail prices. Indeed, a fuller analysis of the retail price trends demonstrates that the Competition Commission’s assumption that the anti-dumping duties significantly impacted retail prices is flawed.

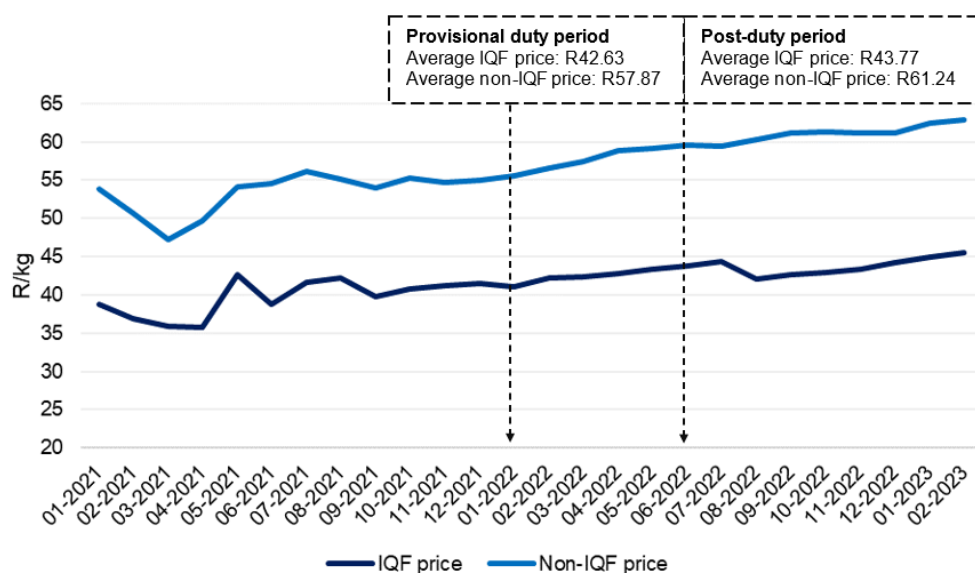
48.1. *This 4.9% decrease pointed to by the Competition Commission is selective. It is based only on the decrease in IQF prices observed between July 2022 and August 2022 – only one month.*

48.2. *There is no observable pattern of price decreases after the provisional period. As demonstrated in the figure below retail prices continued to increase post-August 2022, and were higher on average post the suspension of the duties.*

⁴⁰ Competition Commission. 2023. Essential Food Price Monitoring Report. Pg. 16

- 48.3. *There was a rapid rise in the FOB price from Brazil post the suspension of the duties (see Figure 3 above). It is not clear what caused this increase but it is plausible that this may be in response to the removal of the anti-dumping duties (just as the decline in the Brazil FOB price followed when the anti-dumping duties were implemented). These increasing import prices from Brazil (the only target country trading at the time) would have eroded the potential benefits from the removal of the duties. For example, we find that between July 2022 and December 2022 average Brazilian FOB prices (now with the anti-dumping duties removed) are higher than the average of Brazilian FOB prices plus the mean of the company specific anti-dumping duties (between January 2022 and June 2022). Under this scenario removing the antidumping duty on Brazil would simply not be able to result in lower retail prices between July 2022 and December 2022.*
- 48.4. *The Competition Commission's analysis focuses on the residual (maximum) and provisional duties only. As indicated in Table 1 above, there is wide range of duties that applied across countries and companies. Further, the final duties, if reinstated, are significantly lower than the provisional duties. This is not factored into the Competition Commission's assessment. The Competition Commission itself seems to recognise that only using the maximum duties is a potential reason that some of their results are 'counter-intuitive.'⁴¹*

Figure 4: Average retail prices for IQF and non-IQF chicken pieces



Source: Retail prices based on urban CPI data from Stats SA

⁴¹ Competition Commission. 2023. Essential Food Price Monitoring Report. Pg. 16, Footnote 30

4.3. PRODUCER PRICES AND MARGINS

49. Next, we consider the extent to which producer prices, costs and profitability changed before, during and after the provisional period.
50. For the purposes of confidentiality, we have been instructed to index the results. The value of the first data point of the time period is set to 100, and all other points are rescaled relative to this starting point.⁴² On this basis, we are still able to assess trends, before, during and after the provisional period.
51. The table below presents the change in the weighted average indexed price of frozen bone-in portions across all six producers.
52. The results indicate that:
- 52.1. weighted average prices increased by 7.5% during the provisional period; and
- 52.2. producer prices continued to increase (by approximately 3.73%⁴³ post the suspension of the provisional duties.

Table 6: Average producer price levels for frozen bone-in portions (R/kg)

Producer	Average monthly price index for frozen bone-in portions			Percentage change in average price	
	Jul - Dec 2021 (Pre-duty period)	Jan - Jun 2022 (Provisional period)	Jul 2022 – Dec 2022 (Post-duty period)	From Jul – Dec 2021 to Jan – Jun 2022	From Jan – Jun 2022 to Jul 2022 – Dec 2022
Average across producers	100	107	112	7.50%	3.73%

Source: Own calculations – producer data provided by legal team for monthly ex-factory sales value and sales volumes.

Notes: The prices reflected for 'average across producers' is a weighted average price taken for the 6 producers.

53. In Table 7 below, we assess the weighted average gross profit margins⁴⁴ for frozen bone-in portions⁴⁵ across all six producers. The results indicate:

⁴² For example, if the price per unit is R25 in January, R22 in February, and R27 in March, the indexed values would be 100, 88 and 108 respectively. From R25 to R22 there is a 12% decrease and from 100 to 88, there is a 12% decrease. From R22 to R27 there is a 23% increase; similarly, there is a 23% increase from 88 to 108. The index has preserved the underlying relationship between data points.

⁴³ If the post-duty period is extended to March 2023, the price increase is even higher at 4.6%

⁴⁴ Gross profit is calculated as: 'SACU Sales Net Ex-Factory Value' – 'SACU Production Costs'. 'SACU Production Costs' comprises three cost categories: 'direct variable costs' (ingredients, live bird costs and other), 'indirect variable costs' (labour, utilities and other), and 'fixed overheads' (plant depreciation, repairs and maintenance, and other). The gross profit margin is calculated as the gross profit divided by 'SACU Sales Net Ex-Factory Value'.

⁴⁵ We have access to cost data relating to each producer's operations; this data is not disaggregated by individual product categories or cut types. To estimate 'SACU Production Costs' for 'frozen bone-in portions' specifically, we apply an allocation rule to the cost data on the basis of volume. This involves firstly, dividing the SACU sales volume for 'frozen bone-in portions' by the total sales volume for the company (for all products). Each available cost category is then multiplied by this result, providing an approximation of the proportion of costs related 'frozen bone-in portions' only.

- 53.1. Despite an increase in average producer prices, there was a **decrease** in average gross margins across these producers during the provisional period.
- 53.2. Gross margins roughly halved from the six months preceding the provisional period (July 2021 – December 2021) to during the provisional period (January 2022 – June 2022).
- 53.3. Gross margins continued to decrease post the suspension of the duties. This was mostly driven by rising production costs and not falling producer prices.

Table 7: Average gross profit margins index for frozen bone-in portions

Producer	Jul - Dec 2021 (Pre-duty period)	Jan - Jun 2022 (Duty period)	Jul 2022 - Dec 2022 (Post-duty period)
Average across producers	100	54	-28

Source: Own calculations – producer data provided by legal team for monthly ex-factory sales value, sales volumes, and production costs.

Notes: Production costs include direct variable costs, indirect variable costs, and fixed overhead costs

54. Table 8 below presents the indexed weighted average net profit margins across all six producers for frozen bone-in portions.
- 54.1. Net margins were negative in the pre-duty period and remained below zero during the provisional period.
- 54.2. After the suspension of the duties, net profit margins continued to fall sharply. This seems to be largely driven by a significant increase in costs. These cost increases were particularly pronounced post the suspension of the duties, (especially in early 2023) outstripping price increases.
- 54.3. A likely driver of these cost trends is the live bird costs. Live bird cost includes the cost of feed and day-old chicks and accounts for more than 70% of production costs. The weighted average per unit live bird cost for the 6 producers rose by 24% from January 2022 to March 2023.

Table 8: Average net profit margins index for frozen bone-in portions

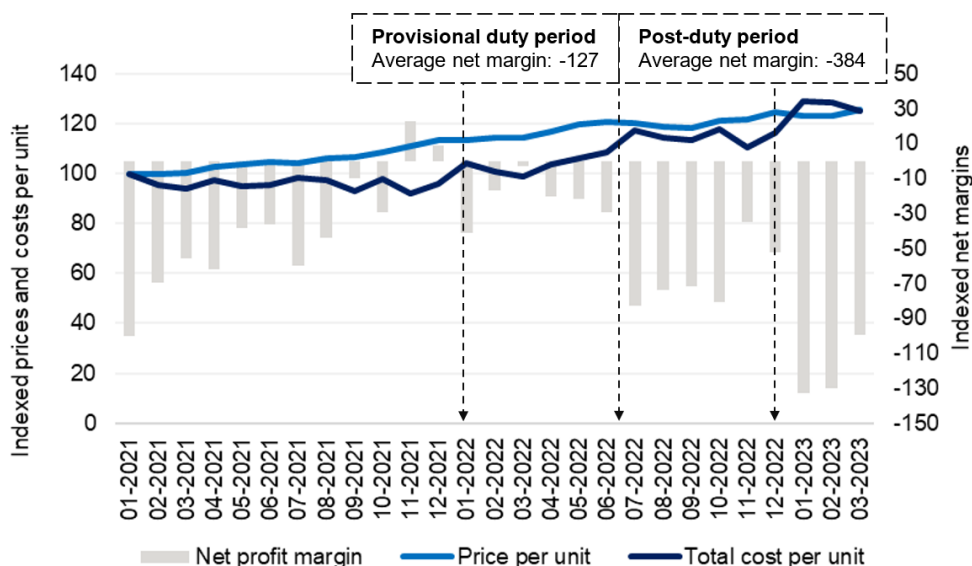
Producer	Jul - Dec 2021 (Pre-duty period)	Jan - Jun 2022 (Duty period)	Jul 2022 - Dec 2022 (Post-duty period)
Average across producers	-100	-127	-384

Source: Own calculations – producer data provided by legal team for monthly ex-factory sales value, sales volumes, and total costs.

Notes: The base period (July – December 2021) net profit margin was negative, which is why the indexing starts at -100.

55. Figure 5 below illustrates the indexed weighted net margin as well as indexed unit prices and costs⁴⁶. The graph shows that costs were increasing significantly towards the end of 2021 and then again from March 2022 to July 2022, with prices increasing at a lower rate.

Figure 5: Per unit price and production cost, and net profit margin for all producers (indexed)



Source: Own calculations – producer data provided by legal team for monthly ex-factory sales value, sales volumes, total costs and net profit margins.

Notes: The average per unit prices and per unit total cost are represented on the primary vertical axis and the net profit margin is reflected on the secondary vertical axis. All values are calculated as weighted averages for frozen bone-in portions

56. In summary, although poultry producers increased prices during and after the duties were imposed, production costs rose to a greater extent contributing to declining gross and net margins over both periods. This indicates that supra-competitive producer prices did not prevail when the provisional duties were in place, and there is no reason to expect that they will occur in the foreseeable future.

⁴⁶ Because the prices, costs and margins are indexed, their rates of change are accurately replicated (in comparison to a non-indexed graph). However, the relative positions of the price trendline and cost trendline are not accurately represented since both have a base index of 100. Thus, it is possible for the price line to lie above the cost line on the indexed graph where the gross margin is negative.

APPENDIX

APPENDIX I: ESTIMATES OF THE POTENTIAL IMPACT OF THE DUTIES ON RETAIL PRICES BASED ON MINIMUM AND MAXIMUM DUTIES

Approach 1: Estimating the impact of the duties assuming current trade dynamics continue

57. Below we repeat the calculation for Approach 1 undertaken above, based on the **minimum and maximum applicable provisional and final duties** (as opposed to the average provisional and final duties as presented above).
58. After accounting for trade composition (by country and product) as well as FOB levels (and monthly fluctuations in these factors) results suggest that:
 - 58.1. when considering the retail price increase as a result of the *minimum* provisional duties, the potential passthrough drops to approximately **0.7%**.⁴⁷ When considering the maximum provisional duties on the other hand, the potential passthrough increases to **5.9%**.⁴⁸
 - 58.2. assuming trade dynamics remain the same when the final duties are implemented, because the final duties are lower than the provisional duties (on average, and for Brazil in particular), the potential passthrough is reduced to between **0.4%**⁴⁹ and **4.9%**⁵⁰ based on the minimum and maximum final duties respectively.

⁴⁷ When this calculation is repeated based on non-IQF retail prices, the potential passthrough based on the minimum provisional duties amounts to approximately 0.5%.

⁴⁸ When this calculation is repeated based on non-IQF retail prices, the potential passthrough based on the maximum provisional duties amounts to approximately 4.4%

⁴⁹ When this calculation is repeated based on non-IQF retail prices, the potential passthrough based on the minimum final duties amounts to approximately 0.3%

⁵⁰ When this calculation is repeated based on non-IQF retail prices, the potential passthrough based on the maximum final duties amounts to approximately 3.6%.

Table 9. Maximum potential price impact of the duties adjusted for (i) product mix, (ii) country mix, and (iii) FOB levels (R/kg)

	Minimum payable provisional duties	Maximum payable provisional duties	Minimum payable final duties	Maximum payable final duties
Effective increase in average duties payable (R/kg)	0.30	2.52	0.18	2.08
Average retail price (January 2022 - June 2022)	42.63	42.63	42.63	42.63
Potential retail price including the increased duty (R/kg)	42.92	45.15	42.80	44.70
Maximum % increase in the retail price as a result of the duty	0.7%	5.9%	0.4%	4.9%

Source: [1] Retail prices based on data from Stats SA | [2] Effective increase in the duty is calculated based on the ITAC reports, SARS tariff announcements and amendments, and SARS trade data.

Notes: [1] The maximum duty applied for Brazil excludes the residual duty.

Approach 2: Estimating the maximum impact of the final duties based on the trade composition in 2020

59. When Approach 2 is repeated based on the minimum final duties, the potential passthrough drops to approximately **0.8%**⁵¹ whilst when based on the maximum final duties the passthrough increases to **9.1**.⁵²

Table 10. Maximum potential price impact of the final duties adjusted for (i) product mix in 2020, (ii) country mix in 2020 and (iii) escalated FOB levels (R/kg)

	Minimum payable duties	Maximum payable duties
Effective increase in average duties payable (R/kg)	0.33	3.90
Average retail price in 2022 (Jan 22 - Dec 22)	42.94	42.94
Potential retail price including the increased in the duty (R/kg)	43.27	46.84
Maximum % increase in the retail price as a result of the duty	0.8%	9.1%

Source: [1] Retail prices based on urban CPI data from Stats SA | [2] Effective increase in the duty is calculated based on SARS tariff announcements and SARS trade data.

Notes: [1] The maximum duty for Brazil excludes the residual duty.

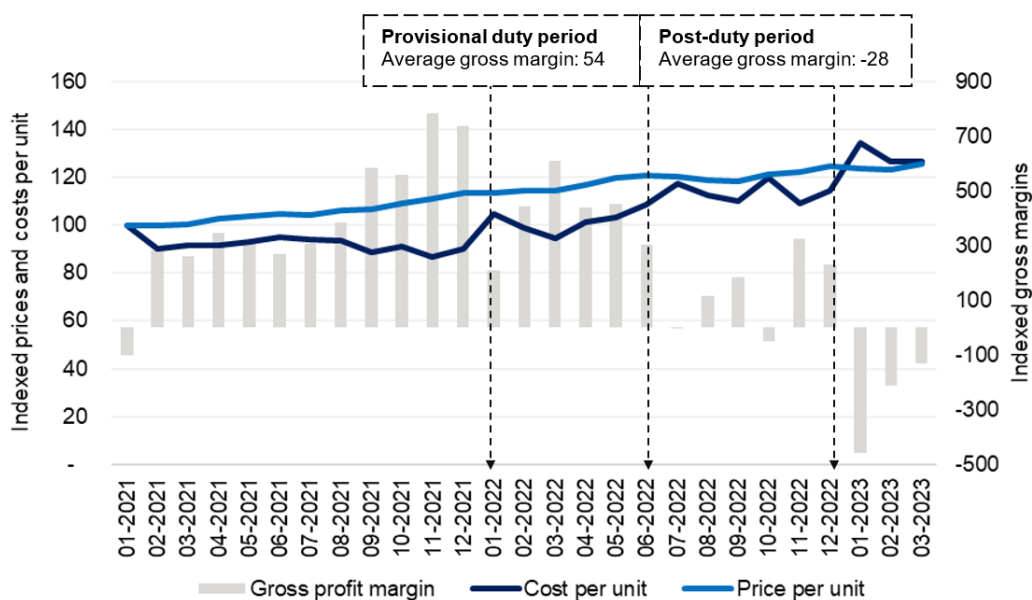
⁵¹ The passthrough based on non-IQF retail prices and the minimum final duties would amount to approximately 0.6%.

⁵² The passthrough based on non-IQF retail prices and the maximum final duties would amount to approximately 6.6%.

APPENDIX II: TIME SERIES OF PRODUCER PRICES, COSTS, GROSS PROFIT MARGINS AND NET PROFIT MARGINS

60. The figure below provides indexed weighted: (i) average unit prices; (ii) average unit production costs; and (iii) weighted average gross profit margins across all six producers per month. The figure demonstrates that gross margins were decreasing from the end of 2021, and then fell significantly following the suspension of the provisional duties.

Figure 6: Per unit price and production cost, and gross profit margin for all producers (indexed)



Source: Own calculations – producer data provided by legal team for monthly ex-factory sales value, sales volumes, production costs and gross profit margins.

Notes: The average prices and production costs are represented on the primary vertical axis and the gross profit margin is reflected on the secondary vertical axis. All values are calculated as weighted averages for frozen bone-in portions.

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