

THE (NEGLIGIBLE) EFFECT OF ANTI-DUMPING DUTIES ON POULTRY PRICE

August 2023 marks the deadline imposed by Trade, Industry and Competition Minister Ebrahim Patel to implement long awaited anti-dumping duties on Brazil, Denmark, Ireland, Poland, and Spain. The International Trade Administration Commission (ITAC) has investigated producers in these markets and concluded that A) Dumping is taking place, and B) It's causing material harm to the South African poultry industry. ITAC recommended a set of compensatory tariffs – anti-dumping duties – to offset the harm being done.

Previously, from December 2021 to June 2022, provisional anti-dumping duties were imposed on the five countries. Once lapsed, these provisional anti-dumping duties were supposed to have been followed by permanent anti-dumping duties. Trade Minister Ebrahim Patel agreed to ITAC's recommendations in August 2022, but delayed the implementation of permanent anti-dumping duties for 12 months, citing consumer cost concerns as the grounds for the suspension.

The duties are now due to be imposed in August 2023.

A further suspension of these tariffs would have a far costlier outcome to South Africans than the potential passthrough of an anti-dumping duty – it will have a severely negative impact on the South African poultry industry, a R59-billion strategic national asset. While the effects of dumping are well documented (*it eviscerated Ghana and Cameroon's poultry industries in a few short years*), the empirical evidence from knock-on effects of corrective trade measures are far too limited. The SA Poultry Association therefore commissioned a study to determine the potential passthrough to consumers of any corrective trade measures. These are the core insights and findings from the report prepared by Genesis Analytics, entitled “*Assessment of the potential price impact of anti-dumping duties on bone-in* poultry products*”:

*(*Bone-in portions such as leg quarters are the imports that do most damage to the local poultry industry, competing with the popular IQF packs which constitute a large portion of the local market)*

European avian influenza (AI) outbreaks meant many dumpers were prohibited from exporting. Accordingly, Brazil was effectively the only country subject to the provisional duties during the six months that the provisional duties were imposed. 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.

After accounting for trade composition (by country and product) as well as Free-On-Board (FOB) levels (and monthly fluctuations in these factors) results suggest that

1. The average percentage by which retail prices could have increased as a result of the provisional duty is approximately 3%
2. Assuming trade dynamics remain the same with the final duties in the place the potential passthrough is reduced to 2.5%
3. There are a range of proposed anti-dumping duties for certain producers in the highlighted countries. When applying the maximum final duty applied to each country, the potential

passthrough would be 4.9%. When applying the minimum of the final duty ranges, the potential passthrough drops to 0.4%

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. Any additional imports from those exempt would further reduce the potential passthrough of the final anti-dumping duties.

Furthermore, this approach is conservative given that it does not account for the multiple factors which may serve to further dilute the duties impact. For instance, bone-in portions, particularly when sold in the form of IQF mixed portions, are often used as a loss leader by retailers – this further dilutes the extent to which the duties are passed through to end consumers. More factors considered below – please refer to the editor's notes.

*“We can finally see that the potential passthrough of these corrective trade measures are negligible at best, especially when compared to the effect loadshedding has had on the poultry price over the last year; **loadshedding adds several rands to the price of locally produced poultry, where anti-dumping duty adds a few cents on selected imports,**”* says Izaak Breitenbach, GM of SAPA. *“And it's these anti-dumping duties that allow us to grow the industry, to invest more, to create more jobs – we've created more than 4600 jobs throughout the value-chain since Covid, and we've invested over R2.1-billion in the local industry, with another R600-million coming online by the end of 2024. But we're only able to do all these things as signatories to a masterplan that encourages the use of trade measures that would defend the local industry from predatory trade practices, like dumping.”*

Three countries – the United States, Brazil and Argentina – supplied more than 98% of South Africa's bone-in imports in the first five months of the year. The US (57%) is heavily affected by bird flu and imports have been dropping, despite the annual sharp increase in March. Argentina (9%) is banned for product dispatched after February 2023, and Brazil (32% of bone-in imports) has reported its first bird flu cases in wild birds. The disease has not yet spread to Brazil's commercial poultry farms, which will result in bird flu bans. This means developments in the months ahead could depend as much on the spread of bird flu as on the desire of Brazilian producers to rush in imports before the implementation of suspended anti-dumping duties in August 2023, or the introduction of a total (or partial) bird flu ban.

“We share Minister Patel's concerns, which is why your local producers subsidise many of their production costs to ensure that we continue to offer the cheapest chicken your rands can buy. If we need immediate relief for our most vulnerable, we highly recommend scrapping VAT on selected poultry products – the loadshedding tax is already too much. It is evident that the removal of anti-dumping duties will have little to no impact on the poorest of the poor but will jeopardise the businesses of integrated producers and emerging poultry farmers alike; SA is rated as one of the top 3 most competitive poultry producers in the world! But no one can compete with dumping,” concluded Breitenbach.

ENDS

NOTES TO THE EDITOR:

Additional factors that continue to dilute the potential pass-through of anti-dumping duties include:

1. 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.
2. 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.
3. 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.
4. 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.
5. 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.
6. The countervailing power of larger buyers in the retail sector can also limit the pass-through of costs.
7. 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).