



# POTENTIAL IMPACT OF CREATING A TEMPORARY REBATE ON CHICKEN MEAT IMPORTS

(classifiable under HS 0207.1)



## Key messages

- Over the past two years, South Africa's chicken meat imports have been declining.
- Due to domestic supply constraints owing to the increased culling of chickens due to Avian Influenza outbreaks, the average retail prices are likely to soar exerting further strain on the already impoverished households.
- Given the constrained domestic supply of chicken meat coupled with declining imports, the creation of a temporary rebate facility to only ordinary custom duties and not anti-dumping duties may bring relief to the consumers. The temporary rebate facility must be for a shorter period of time to allow the industry to recover and contain the spread of avian flu.
- Efforts towards increasing domestic production of chicken meat and poultry feed are highly recommended. Additionally, there is a need to increase government efforts towards adopting approved vaccines to abate the outbreaks of avian flu.



## Background

The global livestock industry continues to face numerous challenges which among most is the outbreak of animal diseases. In particular, the poultry industry is currently plagued by the outbreak and spread of Avian Influenza (AI) (commonly known as bird flu) worldwide. According to the World Organization for Animal Health (WOAH, 2023a), AI is a highly contagious viral disease that affects both domestic and wild birds.

Additionally, AI is mainly caused by a group of viruses which can be divided into several subtypes (such as H5N1, H5N3, H5N8, etc.) whose genetic characteristics tend to advance rapidly. Depending on the severity of AI in poultry, WOAH (2023a) reckons that the several strains of bird flu can be classified

into two categories, namely: low pathogenicity avian influenza (LPAI) which causes little or no clinical signs, as well as, the high pathogenicity avian influenza (HPAI) which cause severe clinical signs and also high mortality rates.

Over the years, the HPAI has resulted in devastating consequences for the poultry industry, international trade, livelihoods of farmers, and health of birds. This is underpinned by HPAI's ability to results in high mortality rates that can range up to 100% thus causing a devastating effect not only to producers but also to livelihoods (WOAH, 2023b).

This can be exemplified by financial and psychological repercussions for farmers, jobs losses along the

poultry value chain, as well as, price spikes of chicken meat and other poultry related products. According to the recent HPAI situation reports by the WOAH, about nine new outbreaks were reported in poultry and non-poultry birds and mammals over a three weeks period from 15 September to 5 October 2023 in Africa, Americas, and Europe which led to the death and culling of about 10 000 poultry birds.

The global HPAI outbreak has led to a reduction in supply of poultry meat and export bans in several major producing regions such as Americas and Europe. Additionally, the constrained global supply has also led to an increase in export prices from major producers such as Brazil and the United States of America (USA). In September 2023, the Food and Agriculture Organization (FAO)



meat price indices showed that it currently costs 14% and 9% higher to export poultry meat in the USA and Brazil, respectively compared to 2021 export prices.

Similar to the global phenomenon, South Africa is also faced with an increasing number HPAI (H5N1 and H7N6 virus variants) outbreaks in its major poultry producing regions. According to the Department of Agriculture, Land Reforms and Rural Development (DALRRD), the current influenza A(H5N1) outbreaks have been ongoing since April 2023. To date, 10 outbreaks in poultry (Western Cape and KwaZulu-Natal) and 39 outbreaks in non-poultry birds (Western Cape and KwaZulu, Eastern Cape, Gauteng, Mpumalanga, and North West provinces) have been reported. The current outbreaks have led to the neighbouring Namibia banning chicken meat and egg imports from

South Africa. The DALRRD reckons that about 2.7 million chickens has been culled as of September 2023. This has raised food security concerns in the country due to the increasing depletion in locally available poultry meat. Generally, South Africa is regarded as a food-secure country at a national level but not at a household level as a significant portion of the population still lives under severe poverty.

According to Statistics South Africa (Stats SA), at least 2.6 million people had inadequate access to food, while about 1.1 million people had severe inadequate access to food in 2021 (Stats SA, 2023a). This is equivalent to about 15% and 6% of the South African population who faces food insecurity and severe food insecurity, respectively.

The broiler industry remains one of the most strategic agricultural subsectors as it is regarded as the cheapest alternative to other sources of protein which in turn makes it essential for ensuring food security within the country. Subsequently, the South African government is exploring possible trade remedy measures to ease the foreseeable supply shortages of chicken meat and abating possible retail price spikes. Hence, this article aims to assess current trends of chicken meat imports, average retail prices, and producer prices. Then, based on the trend analysis, an advisory on the potential impact of creating a temporary rebate on ordinary custom duties and anti-dumping duties (ADDs) on chicken meat imports (classifiable under HS0207.1) will be provided.



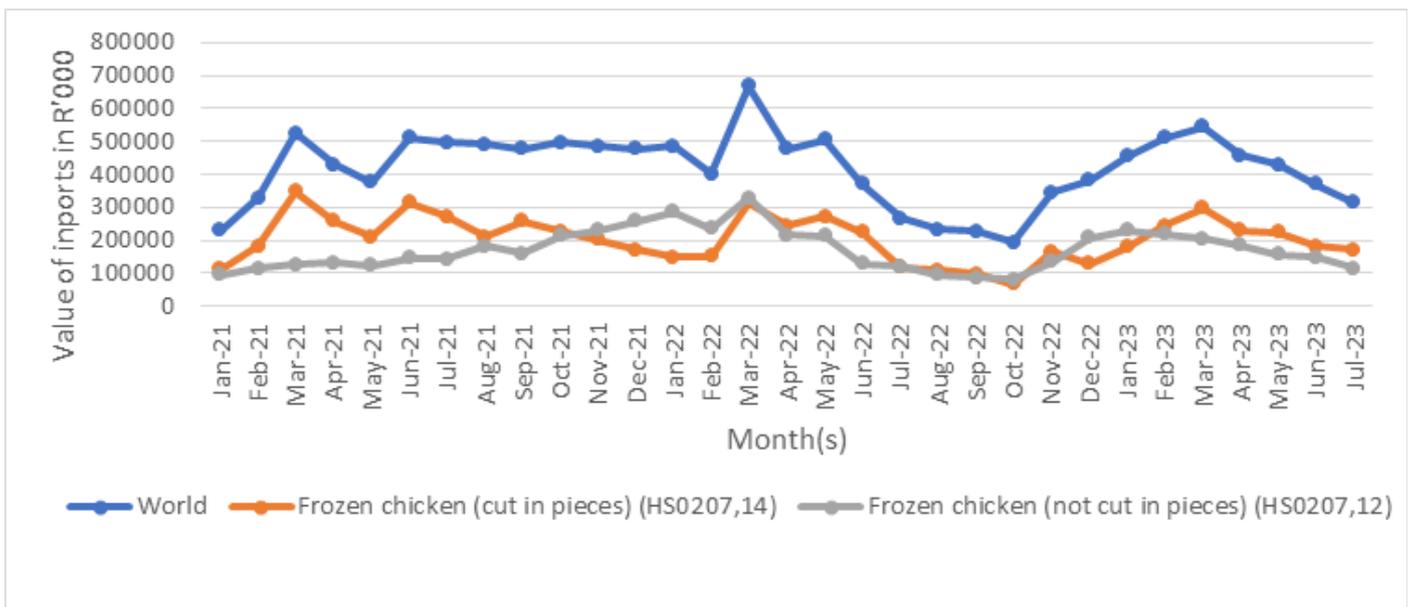
### South Africa's imports of chicken meat

The abstract of agricultural statistics shows that South Africa's production of broiler chicken has increased significantly by 8.3% from 1.77 million tons in 2019 to 1.91 million tons in 2022 (DALRRD, 2023). Preliminary estimates for 2023 show that production will further increase to 1.98 million tons. Despite the recent increase in domestic broiler production, the country still requires imports to meet the domestic demand. In 2022, domestic consumption of chicken meat was estimated at approximately 2.3 million tons. Figure 1 below depicts the value of South Africa's imports of chicken meat on a monthly basis from January 2021 to July 2023.

In July 2023, South Africa's overall chicken imports (HS 0207) from the world were valued at R313.6 million, showing a month-to-month (m/m) decline of 15% compared to the value of R370.2 million recorded in June 2023. In contrast, overall chicken imports recorded an 18% year-on-year (y/y) increase compared to the same time in 2022.

The observed increase in 2022 is underpinned by the surge of imports which followed the temporary suspension of ADDs on frozen bone-in chicken imports originating from Brazil, Denmark, Poland, Ireland, and Spain for a period starting from August 2022 to August 2023 to relieve consumers

(especially the poor households) from the burden of food inflation. However, overall imports recorded a decline of 37% compared to the level observed in 2021. Frozen chicken meat (not cut in pieces) (HS 0207.12) (whole) accounted for a share of 37% of overall chicken meat imports, while frozen chicken cuts imports (HS 0207.14) accounted for 55%. Both frozen chicken cuts and frozen whole chicken imports recorded negative m/m rates of 5% and 23%, respectively. Imports of frozen chicken portions recorded a positive growth rate of 46% y/y compared to a decline of 5% for frozen whole chicken imports. Compared to 2021, both frozen chicken portions and frozen whole chicken imports recorded a decline of 37% and 20%, respectively.



**Figure 1:** South Africa’s chicken meat imports from 2021-2023\* in value terms.

Source: Trade Map (2023)

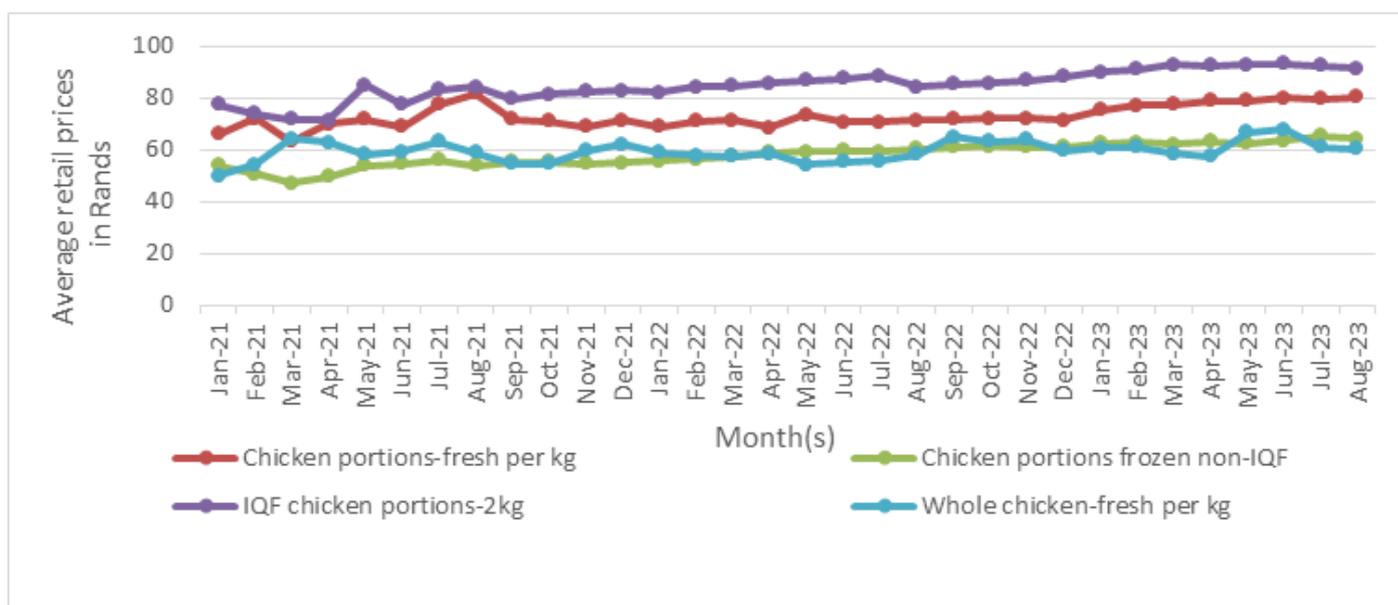
In July 2023, the leading suppliers of frozen whole chicken imports were Brazil with a share of 98% followed by Ireland (1%), and Netherlands (1%). The USA accounted for a smaller share of 0.3%. Imports of frozen whole chicken from all the leading suppliers declined m/m except for Ireland which moved from a value of zero in July 2022 to a value of R858 000 in July 2023. Imports from the Netherlands experienced the highest decline of 69% compared to imports from the USA (35%) and Brazil (23%).

Brazil is the leading supplier of frozen chicken portion imports accounting for a share of 70%, followed by the USA (21%), Ireland (6%), Australia (2%), and Eswatini (2%). Imports of frozen chicken portions from Ireland and Australia recorded the highest m/m growth rates of 210% and 153%, respectively. Despite this observed increase in imports from these countries, the magnitude of the value of imports originating from these countries is small compared to the magnitude of the decrease of imports from Brazil and the USA which are leading suppliers. The value of imports from the USA and Brazil recorded a decline of 25% and 5% m/m respectively. Compared to 2022, the overall bone-in chicken imports from all sources increased. Imports from Australia experienced the highest growth rate of 1459% followed by Brazil (59%), USA (59%), and Eswatini (38%). Also, imports from Ireland grew from a value of zero in July 2022 to a value of R9.5 million in July 2023. However, if we compare 2023 and 2021, imports from the USA declined by 39% followed by Brazil (26%), and Australia (9%).

## Domestic average retail prices of different types of chicken meat

**Figure 2** below illustrates the average monthly retail price trends of different chicken meat between January 2021 and August 2023. The different chicken portions considered in this analysis are fresh chicken portions, frozen non-IQF chicken portions, 2 Kilogram (Kg) IQF chicken portions, and fresh whole chicken. Between August 2021 and August 2022, average retail prices of frozen non-IQF chicken portions increased by 12% from R53.96 per Kg to R60.33 per Kg. Average retail prices for fresh chicken portions were selling at R71.47 per Kg in August 2022 showing a decline of 13% y/y, while average price of a fresh whole chicken declined by 1% to R58.32 per Kg. On the other hand, average retail prices for a 2 Kg of IQF remained relatively stable at R84.28.

Over the period from August 2022 to August 2023, average retail prices of the selected chicken meat types increased significantly. Average retail prices for fresh chicken portions experienced the highest from rate of 13% followed by 2 Kg IQF chicken portions (9%), non-IQF chicken portions (6%), fresh whole chicken (3%). In August 2023, 2 Kg IQF portions were the most expensive among other types of chicken meat with an average retail price of R91.60 followed by fresh chicken portions (R80.44 per Kg), non-IQF chicken portions (64.21 per Kg), and fresh whole chicken (R60.31 per Kg). It is important to note that the increase in retail prices of chicken meat observed during the period between August 2022 to August 2023 was recorded despite the temporary suspension of ADDs on chicken imports. This means that despite the overall increase in imports during this period, the retail prices did not respond to the increase in supply underpinned by the influx of imports.



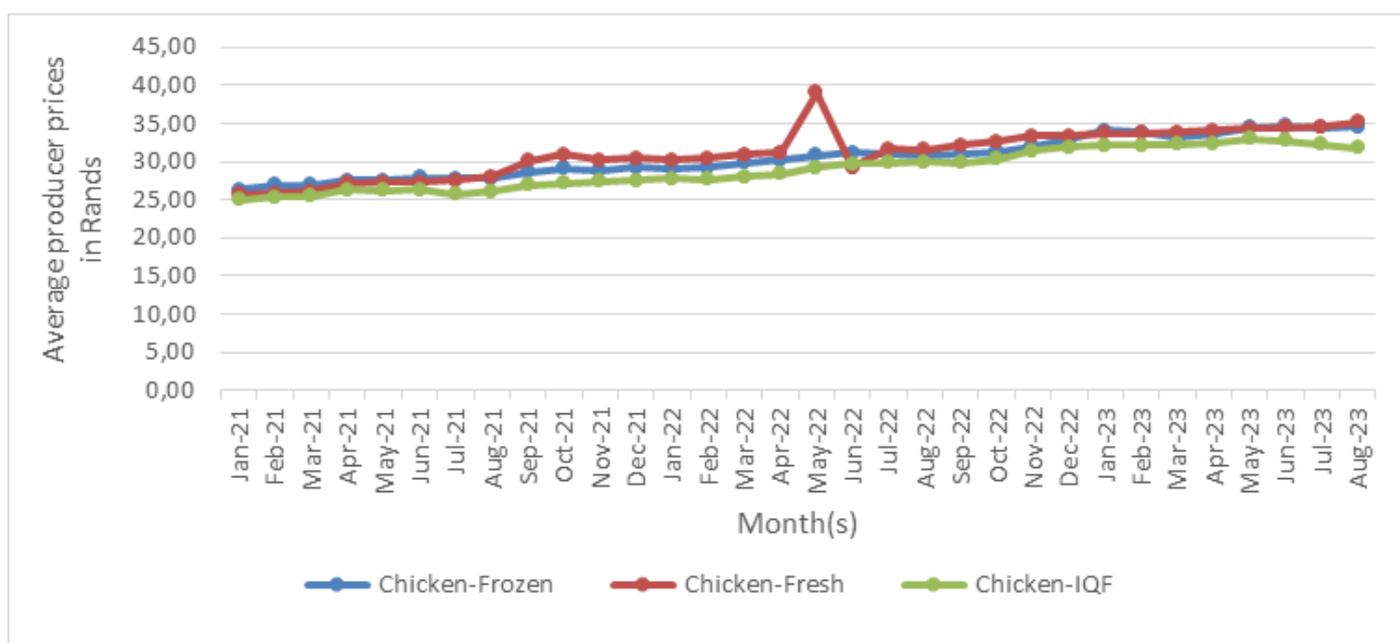
**Figure 2:** Domestic average retail prices of different types of chicken meat

Source: Stats SA (2023)

Average retail prices for chicken meat are expected to continue exhibiting the increasing trend given the current challenges including the culling of chickens due to HPAI. The Consumer Price Index (CPI) for October shows that overall meat prices increased by 0.6% between August and September mainly driven by increases in the prices of poultry meat due to supply constraints following the increased culling of chickens (Stats SA, 2023b). Data from Stats SA (2023b) shows that in September 2023, prices for fresh whole chicken and fresh chicken portions increased by 2.2% while prices for non-IQF chicken portions increased by 1.9%. Inversely, prices IQF chicken portions remain relatively stable.

### Domestic average producer prices of different types of chicken meat

**Figure 3** below illustrates the price trends of poultry producer prices between January 2021 and August 2023. Average producer prices for poultry meat (IQF chicken portions, fresh chicken portions, and frozen chicken portions) maintained an increasing trend between August 2021 to August 2023. In August 2022, average producer prices of IQF chicken portions increased significantly by 15%, followed by fresh chicken portions (12%), and frozen chicken portions (11%), respectively. In August 2023, average producer prices of fresh chicken portions were the highest at R35.20 per Kg followed by frozen chicken portions (R34.59 per Kg), and frozen IQF chicken portions (R31.77 per Kg). During this period, average producer prices for fresh chicken portions and frozen chicken portions experienced a 12% y/y increase while average producer prices for IQF chicken portions recorded a y/y increase of 6%.



**Figure 3:** Average producer prices of different types of chicken meat

Source: AMT (2023)

The observed increasing trend in poultry meat producer prices may be attributed to factors such as the soaring feed costs, which accounts for about 50 to 70% of broiler production costs, as well as factors such as the impact of load-shedding on domestic production.

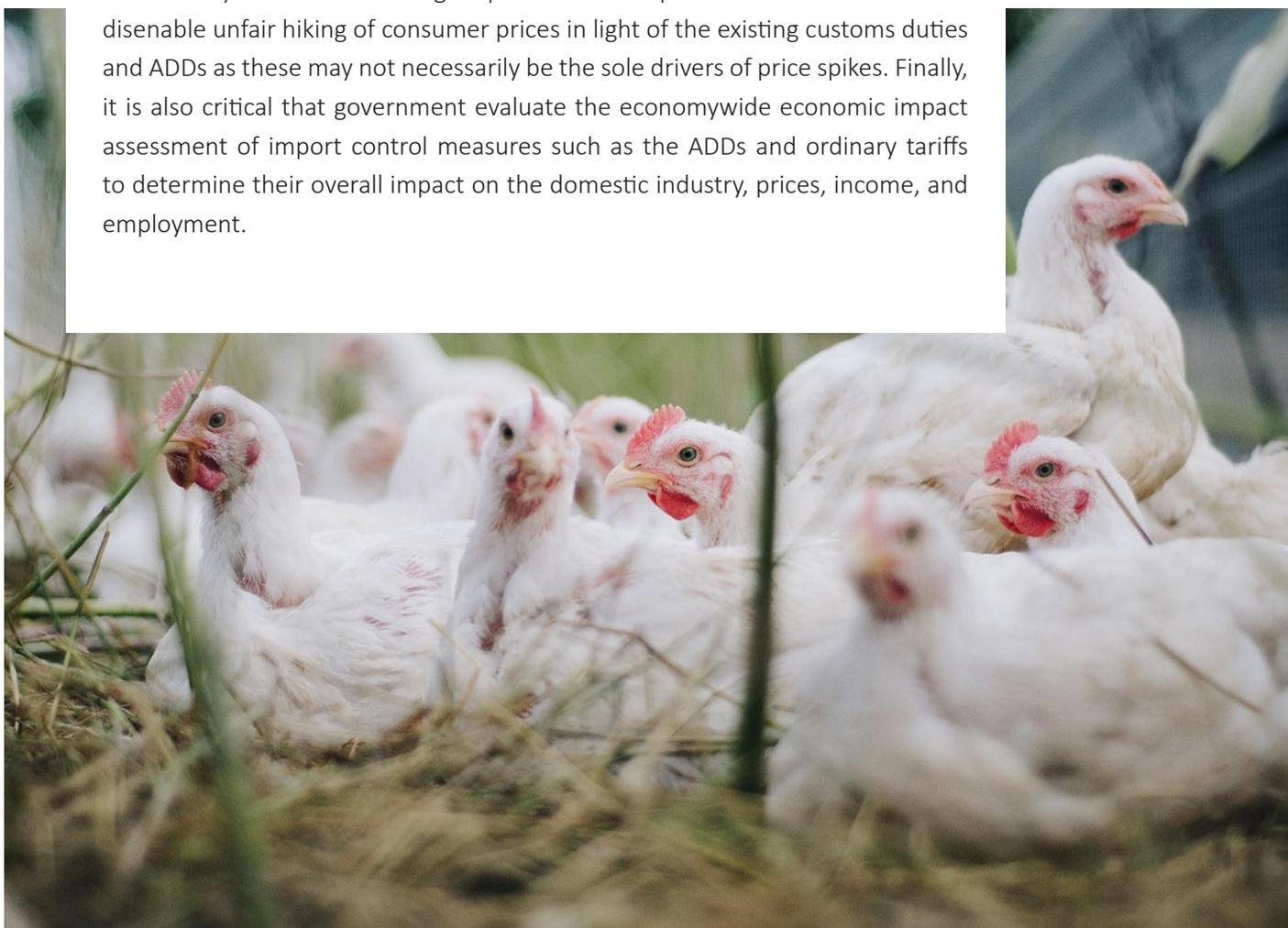
### Discussion and conclusion

The overall trend analysis employed reveals that South Africa's overall imports have been declining over the past two years. This may well be attributed to global supply constraints/shortages due to the outbreak of avian flu as well as the existing custom duties and ADDs imposed against chicken meat imports. In contrast, both average retail prices and producer prices of chicken meat has been increasing significantly. Given the restricted domestic supply due to the increasing culling of chickens and the declining chicken meat imports, retail prices are also likely to increase further; thus, exerting more strain on the impoverished households. Therefore, the creation of a temporary rebate on chicken meat imports (classifiable under HS0207.1) is highly recommended. However, the temporary rebate facility should only apply to ordinary customs duties and not ADDs in the short-run. It is advisable that the rebate facility be in place for a short period until the spread of HPAI has been contained.

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Dumping is an unfair trade practice; hence, extending the rebate to ADDs may exert further strain on the already embattled domestic industry and disenable the industry to recover soon. To retain the poultry industry's status as an affordable source of protein, as well as, its sustainability and competitiveness, it must be protected at all times against unfair and predatory trade. To achieve consumer welfare while protecting the interests of the local industry, efforts must also be directed toward increasing the domestic supply of chicken meat as well as reducing feed prices for poultry production. Fortunately, among the Poultry Industry Masterplan's key strategic or priority areas, increasing the industry's capacity at all stages of the value chain, including the production of feed, farming of chickens, and processing of poultry products is catered for. Interestingly, since the signing of the Poultry Masterplan in 2019, domestic production has increased significantly, even though it has not matched local demand.

The government should consider to speed up efforts of evaluating the possibility of adopting approved vaccines and scale up distribution thereof to curb the spread of avian flu and the impact thereof in the local industry. Evidence also shows that retail prices continued to soar even after the temporary suspension of ADDs since August 2022 in an attempt to relieve consumers from the burden of food inflation. Therefore, it is imperative for the government and other industry role players to consider establishing price monitoring mechanisms to track the dynamics from farm gate price and retail price determinants. This will disenable unfair hiking of consumer prices in light of the existing customs duties and ADDs as these may not necessarily be the sole drivers of price spikes. Finally, it is also critical that government evaluate the economywide economic impact assessment of import control measures such as the ADDs and ordinary tariffs to determine their overall impact on the domestic industry, prices, income, and employment.



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