BIZCOMMUNITY

# Setting the record straight: Reported import prices distort SA poultry market reality

By Fred Hume

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After a 12-month reprieve, punitive trade tariffs on imported chicken will be implemented again on Monday, 31 July 2023.

Source: Supplied

These long-feared, anti-competitive duties were initially suspended in July last year over concerns regarding the impact of these duties on soaring food prices. But now, astronomical duties on imports from some of the country's most important poultry trading partners will once again hit local pockets at a time when many South Africans are already buckling under severe financial stress.

The result will be an anti-dumping duty of a maximum of 265% placed on chicken imports from Brazil in addition to the 62% tariff that is already in place, which is responsible for more than half of the country's imported frozen chicken. The new duties also include an additional tariff of a maximum of 158.4% on imports from Ireland; 96.9% on Poland; 85.8% on Spain; and 67.4% on Denmark.


Minister suspends anti-dumping duties for frozen chicken imports

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Understandably, South Africa's local poultry producers have expressed their concern about the impact of dumping practices on their ability to compete in the local market, which is why the duties were implemented. But the problem is far more nuanced and unfortunately, in the current circumstances, these duties are likely to do far more harm than good.

In a recent statement by the general manager of the South African Poultry Association, Izaak Breitenbach claimed that the landed cost of imported chicken from Brazil is around R9.00 per kilogram. By comparison, he stated that the local producer price is closer to R30.50, which would mean that imports are more than three times cheaper.

However, this estimation fails to consider that mechanically deboned meat (MDM) chicken and offal cannot and should not be factored into this calculation. South African poultry producers do not manufacture Mechanically Deboned Meat (MDM), which is often significantly less expensive than bone-in meat despite the higher input costs. As a result, the inclusion of MDM unfairly distorts the calculation.

Source: Supplied | Fred Hume, managing director of Hume International. Photo: Supplied/Hume International.

Additionally, imported chicken leg quarters – an extremely popular cut in South Africa – are already landing at a cost of over R35.00 per kilogram, including duties. By contrast, locally-produced individual quick frozen (IQF) chicken is being sold to local wholesalers at approximately R25.00 per kilogram. In other words, local producers have a clear advantage against international competitors.

Finally, calculations should specifically consider whole birds and bone-in portions, which attract import duties of 82% and 62% from Brazil and the United States (US), respectively. These duties are collected by the government before the goods become eligible for sale in the local market and are subsequently added to importers' costs.

## The issue with disincentivising imports

Reciprocal trade benefits all market participants, from producers and sellers to consumers and even the government, which benefits from increased tax revenue due to enhanced supply. South Africa cannot expect to export with low or no duties, while imposing absurd duties on our import partners.

US poultry imports and accompanying low anti-dumping duties are a necessary trade-off for the local poultry industry to ensure South Africa's continued participation in the African Growth and Opportunity Act (AGOA) agreement which allows for highly beneficial trade terms for local manufacturers with America.

Our continued participation in AGOA is paramount to sustaining and even improving our employment rate through stimulating mutually beneficial trade. The agreement has created numerous jobs, and contributed substantially to the disposable income and purchasing power of South African citizens who consume both local and internationally sourced chicken.

It is important to recognise that not a single kilogram of chicken leg quarters has been imported from the Netherlands or Ireland in the past 29 months. Both countries are now free from bird-flu and are technically allowed to export to South Africa, but unreasonably high anti-dumping duty tariffs have meant that they have instead sold to other, more attractive and commercially viable international markets. Both prefer to sell to other markets which offer lower duties and, consequently, higher profit margins.

## The effect on the everyday consumer

In other words, the net result of new duties is likely to be perennial shortages of supply of South Africans' favourite chicken cuts, as we have already seen with chicken wings and leg quarters. The new duties also risk significantly higher chicken prices on the shelves and at restaurants.

As a local and international food distributor, Hume International would actually prefer being able to source a consistent supply of affordable locally-produced chicken. But the simple reality is that the local industry currently does not produce enough to satisfy the country's needs – and does not produce MDM at all. Worse, as long as power, water and infrastructure challenges continue to impede their growth and profitability, we are unlikely to see the rapid expansion required to meet demand.



Our customers, who include wholesalers, retailers and other businesses across the country, have been willing to pay a premium for imported chicken because of a shortage of local supply. This signals that local producers are perhaps not as affected by imports as they have been made to seem.

But ultimately, consumers are the ones who will now pay the literal price of higher duties, which have failed to give careful consideration to the complex issues at play. We urgently need further engagements and discussions from all stakeholders, including food distributors, local businesses, poultry producers, and the government to reach better solutions. Until then, the new tariffs should remain suspended.

## ABOUT THE AUTHOR

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