

# NEDLAC SOUTH AFRICAN POULTRY INDUSTRY

**Presented by Izaak Breitenbach**

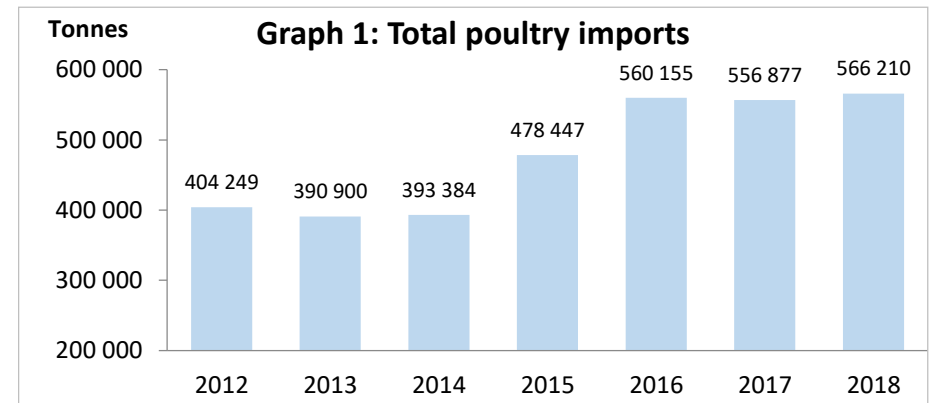
**Thursday, 28 February 2019**



*Small footprint. Big impact.*

# Current state of the industry

- Profit warnings issued:
  - Lowest LQ prices in history, the lowest price R8.00/kg and average price R13.78/kg
  - Imports highest in history, 50 000t/m
- Imports are at an all time high despite:
  - Trade measures
  - Phytosanitary events:
    - AI – EU
    - Salmonella – Brazil
- Total local supply reduced by 10% 2017/2018 due to the imports taking over the market
- Feed prices are increasing
- The market is soft



# NEDLAC issues raised at previous TIC meeting

- Demand outstrips supply in SA and the effects of imports
- Public support measures (GVT), incentives and possibly further tariffs provided to the industry
- The issue of food security in the light of challenges facing this sector
- The effect on employment and job creation
- Food safety and sanitary issues
- Feed and the impact on this, including maize and soya



# Perception issues that limit industry support

- The industry is globally uncompetitive (BFAP 2018)
- Tariffs are only there to increase profits (Genesis Study)
- Tariffs will increase prices for the consumer (Genesis study)
- How effective are tariffs in curtailing imports? (Leading Edge)
- Industry not committed to transformation (Report to follow)
- The industry has a poor relationship with government
- The industry can't supply demand



# Industry Competitiveness

BFAP study

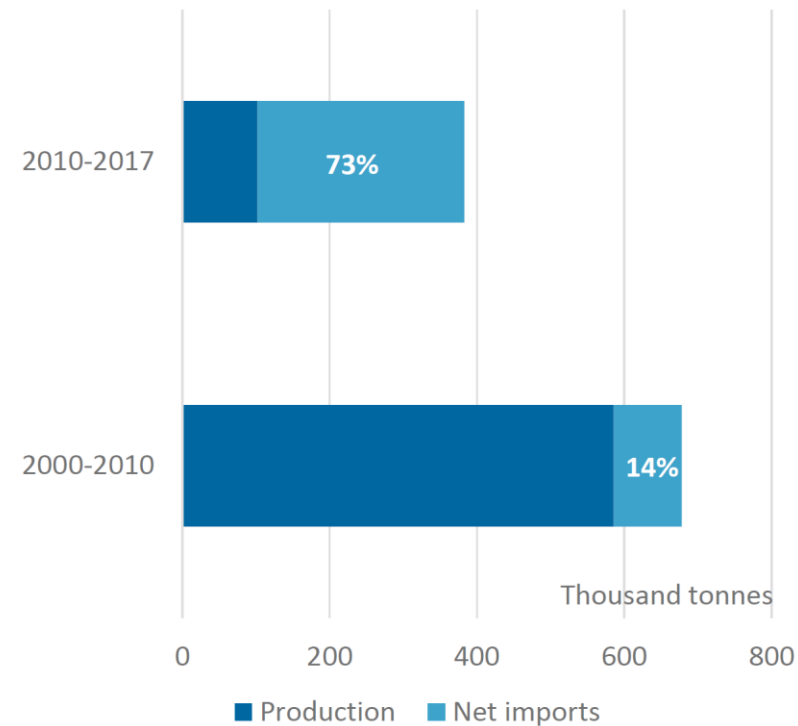
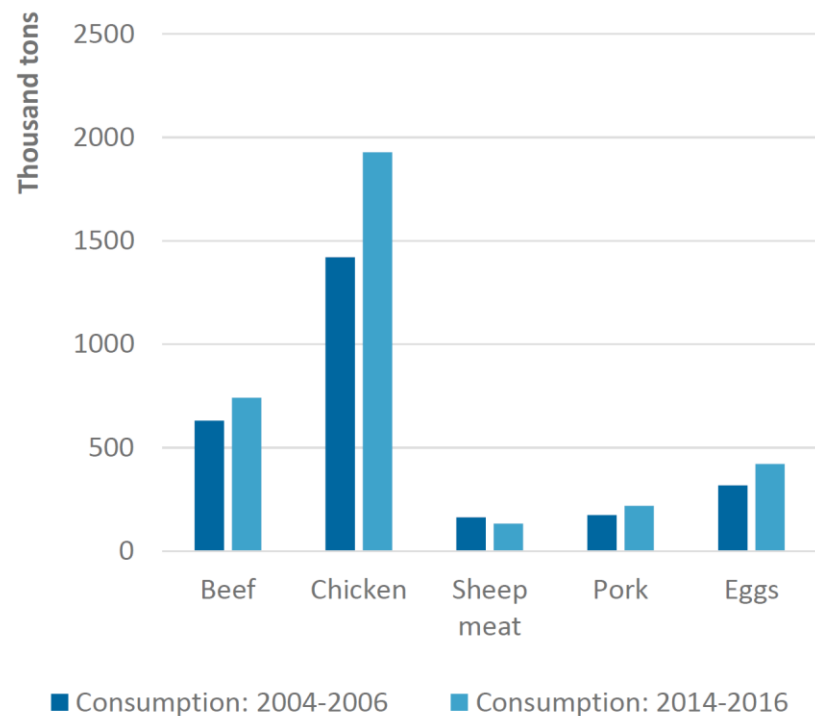


*Small footprint. Big impact.*

# Growth in poultry consumption

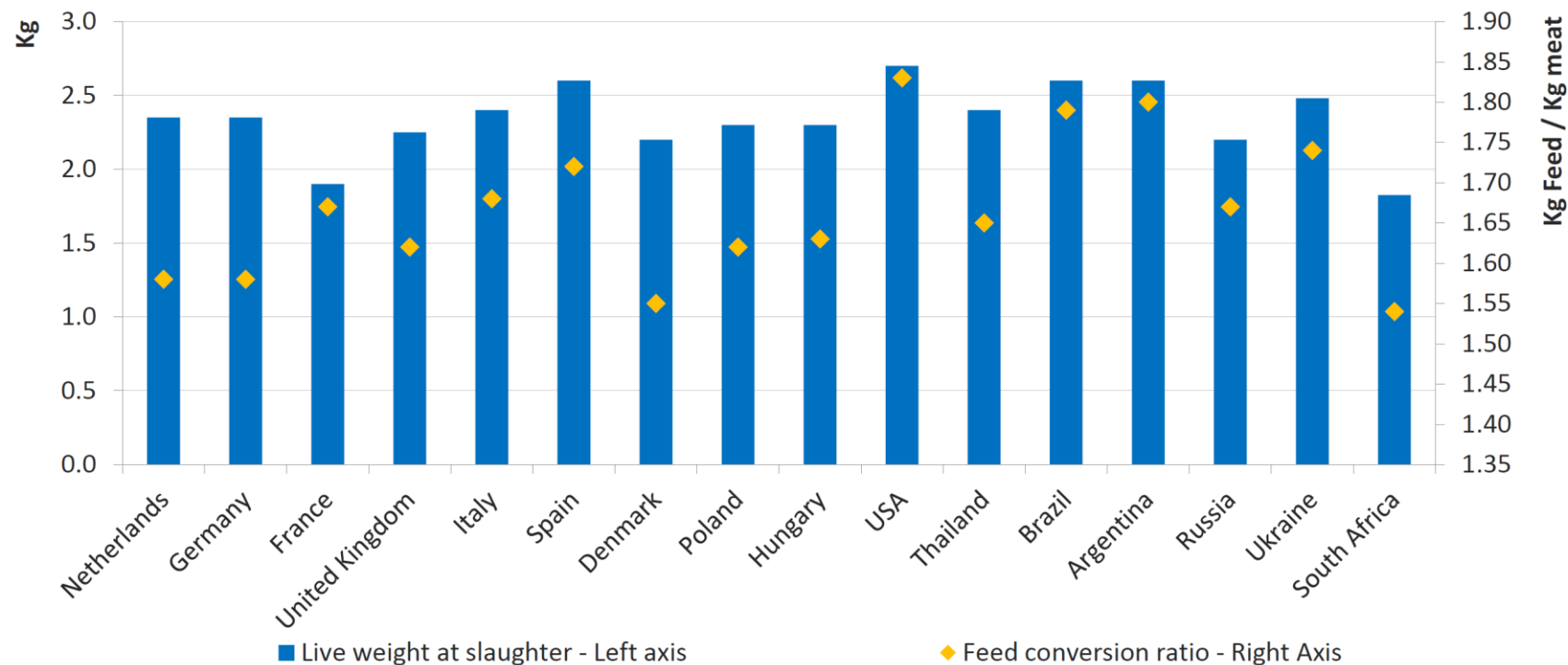


**BFAP**  
DATA  
DRIVEN  
INSIGHT



*Small footprint. Big impact.*

# Benchmark of Technical Efficiency, 2017

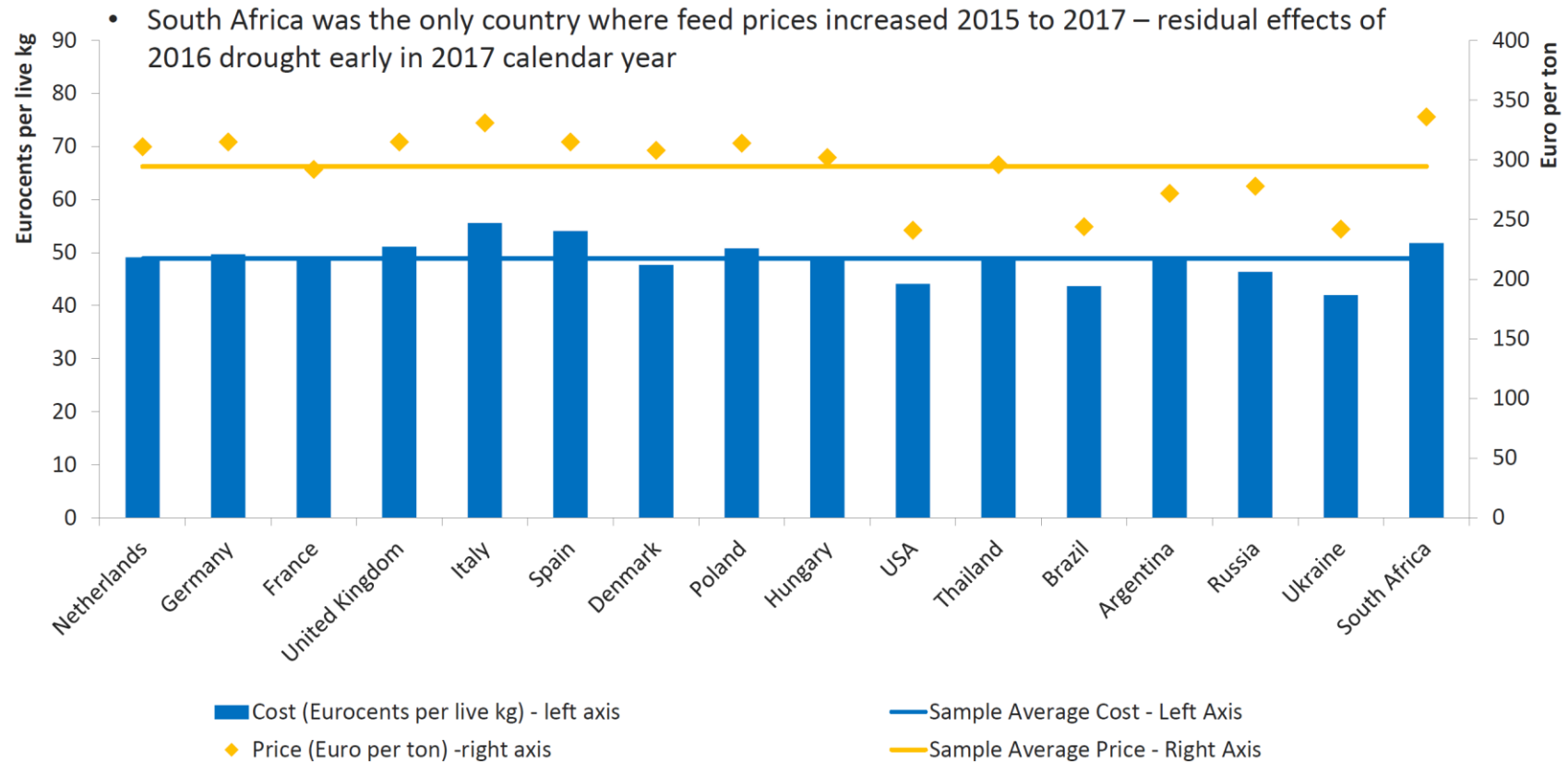


- Indicative of good technical efficiency – but not perfect indicator as no correction for slaughter age



*Small footprint. Big impact.*

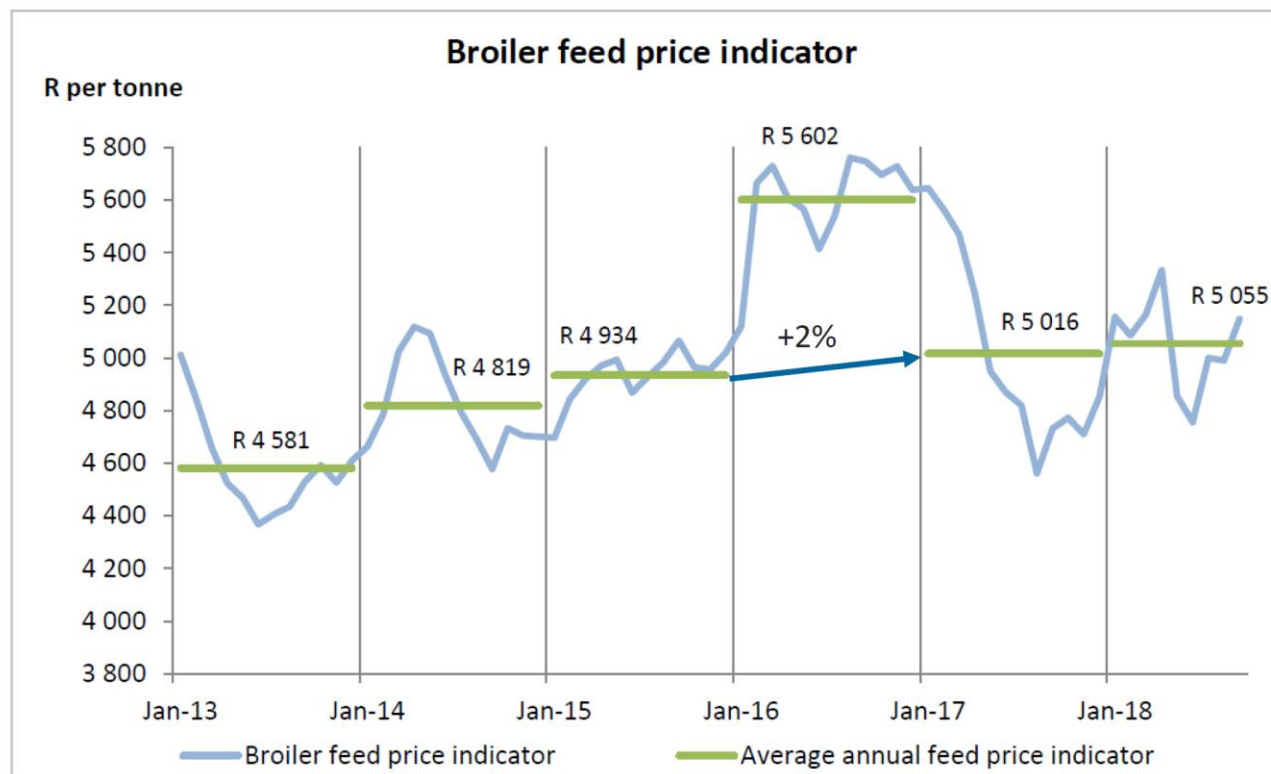
# Benchmark of Feed Costs, 2017



*Small footprint. Big impact.*

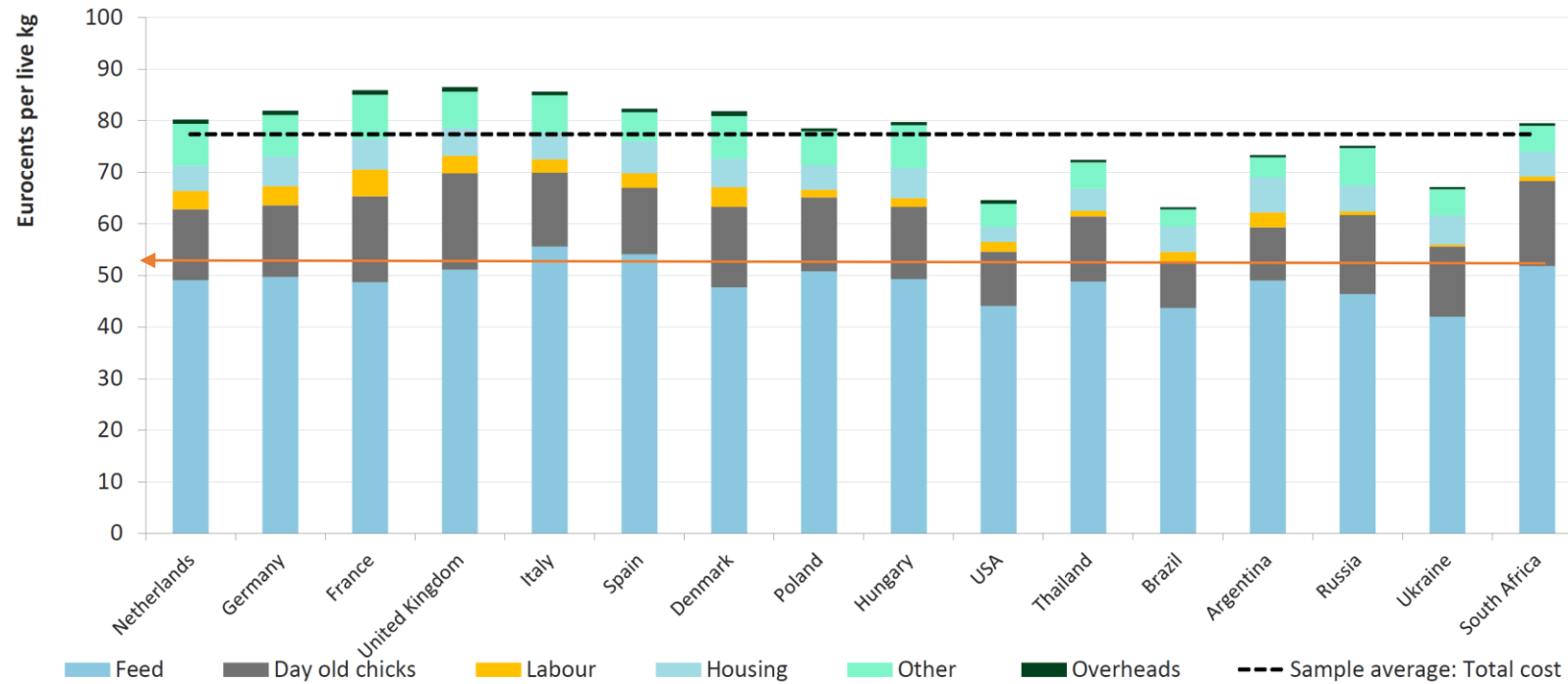


# Broiler feed prices: SAPA



*Small footprint. Big impact.*

# Benchmark of Primary Production Costs, 2017

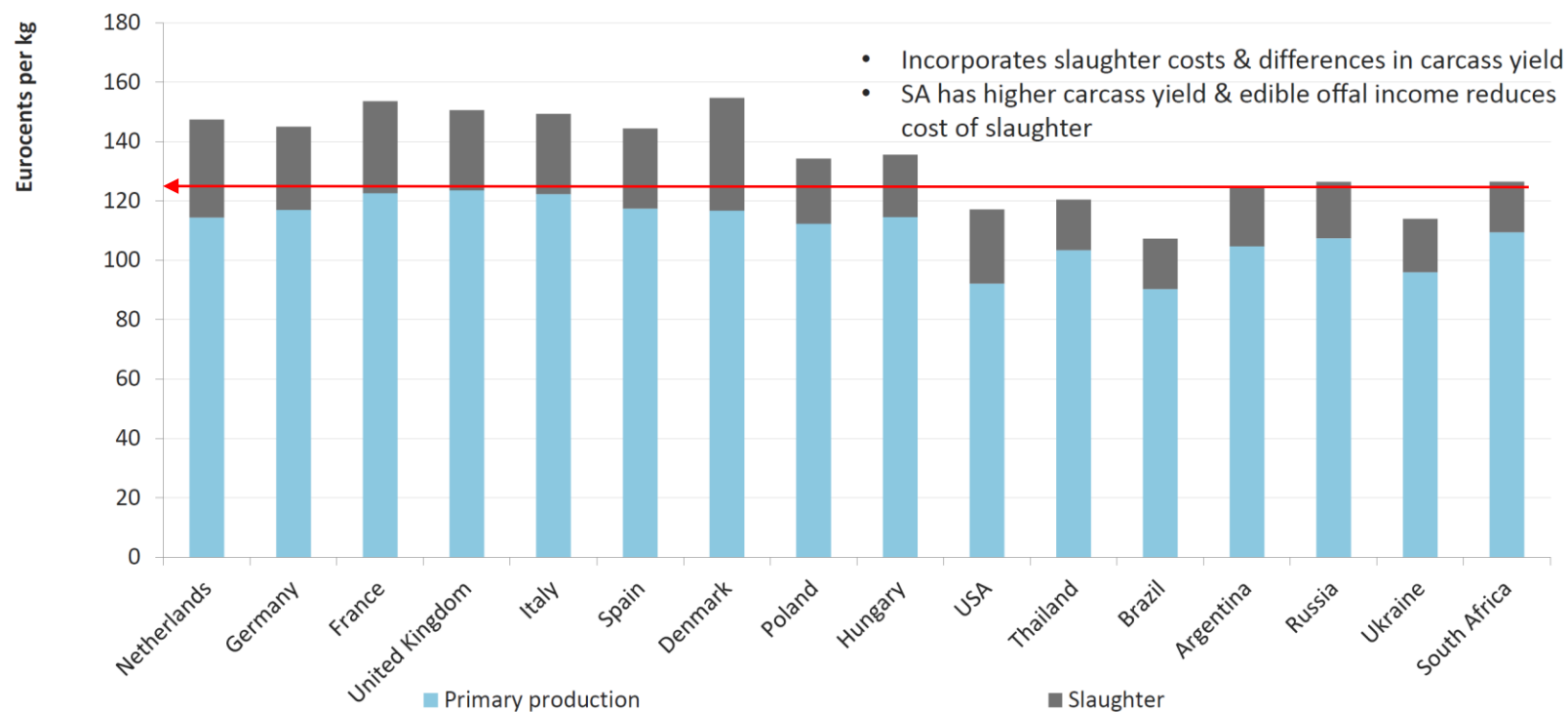


*Small footprint. Big impact.*

# Benchmark of Total Production Costs, 2017

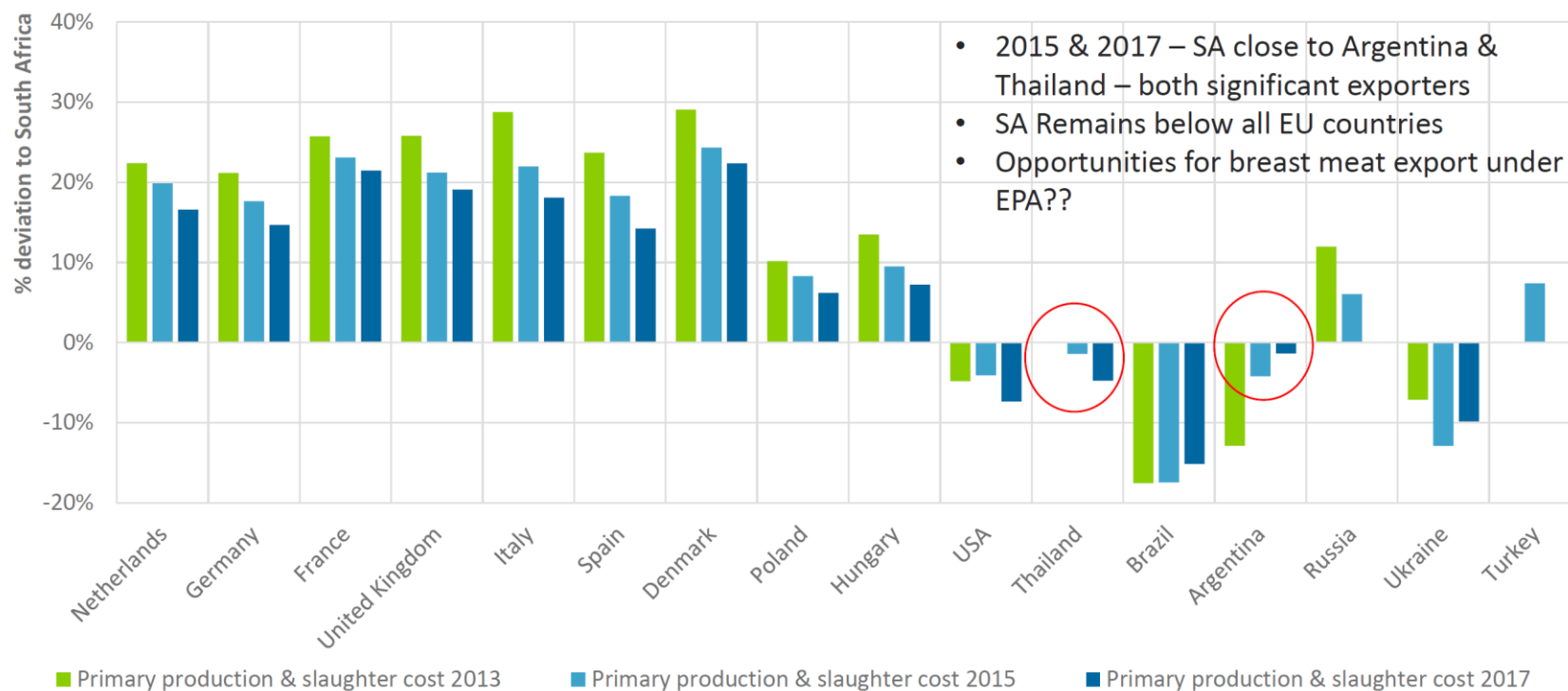


**BFAP**  
DATA  
DRIVEN  
INSIGHT

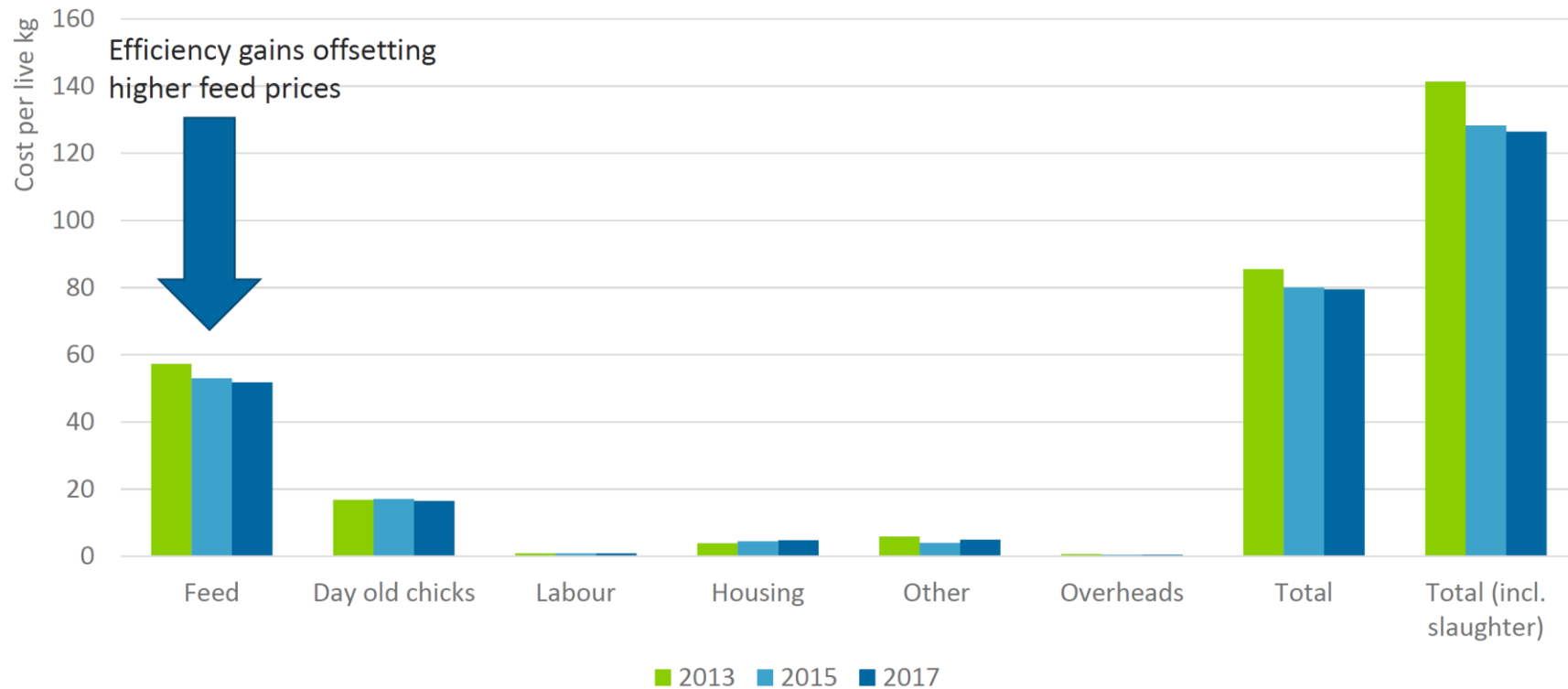


*Small footprint. Big impact.*

# To summarize: SA deviation from others



# Summary: Changes over time

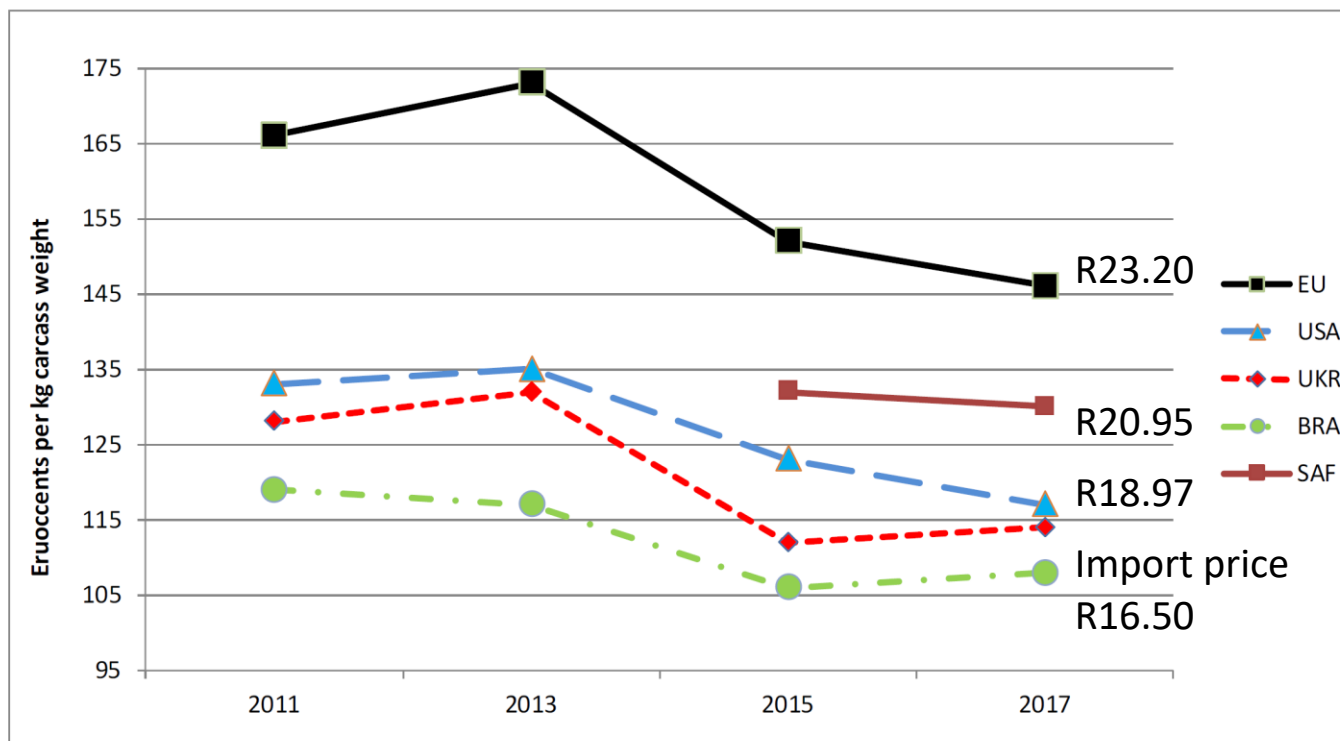


*Small footprint. Big impact.*

## Other countries over time...



**BFAP**  
DATA  
DRIVEN  
INSIGHT



*Small footprint. Big impact.*

**Table 3      Dumping Margin based on Exports to a Third Country**

	Volume (kg)	Percentage of Total Volume	Price rice (USD per kg)	Dumping Margin (USD per kg)	Dumping Duty (%)
Japan	431,947,629 kg	16.01%	USD 2.08 per kg	USD 1.34	181.79%
China	391,037,046 kg	14.50%	USD 1.95 per kg	USD 1.21	163.58%
South Africa	341,722,793 kg	12.67%	USD 0.74 per kg	USD 0.00	0.00%
China, Hong Kong SAR	247,036,625 kg	9.16%	USD 1.57 per kg	USD 0.83	113.01%
Saudi Arabia	215,249,153 kg	7.98%	USD 2.12 per kg	USD 1.38	186.85%
United Arab Emirates	144,535,681 kg	5.36%	USD 2.02 per kg	USD 1.28	173.92%
Mexico	94,345,261 kg	3.50%	USD 1.95 per kg	USD 1.21	164.49%
Rep. of Korea	88,917,156 kg	3.30%	USD 1.88 per kg	USD 1.15	155.32%
Russian Federation	83,027,045 kg	3.08%	USD 1.53 per kg	USD 0.79	106.77%
Singapore	67,801,229 kg	2.51%	USD 2.16 per kg	USD 1.43	193.36%



# Industry Profitability

Genesis study



*Small footprint. Big impact.*



# Tariffs only exist to hike profits: Genesis study

**Table 1: Sales, EBIT, EBIT margin and ROCE actually achieved by the five producers, 2010-2015**  
(in Rands millions and %)

Year	2010	2011	2012	2013	2014	Period average (weighted)
Total poultry sales (aggregate)	15 453	17 344	17 798	19 772	21 671	92 037
Poultry EBIT (aggregate)	749	994	489	-98	54	2 189
<b>Poultry EBIT margin (weighted average)</b>	<b>4.8%</b>	<b>5.7%</b>	<b>2.7%</b>	<b>-0.5%</b>	<b>0.2%</b>	<b>2.4%</b>
Total poultry assets less current liabilities (aggregate)	15 209	16 127	17 581	19 597	19 925	88 439
<b>Poultry ROCE* (weighted average)</b>	<b>4.9%</b>	<b>6.2%</b>	<b>2.8%</b>	<b>-0.5%</b>	<b>0.3%</b>	<b>2.5%</b>

Source: Data received from Afgri, Astral, CBH, Rainbow and Sovereign and estimates based on Genesis calculations

Notes: The values are based on annual financial statement data from 2010-2015.

\* Row 2 divided by Row 4



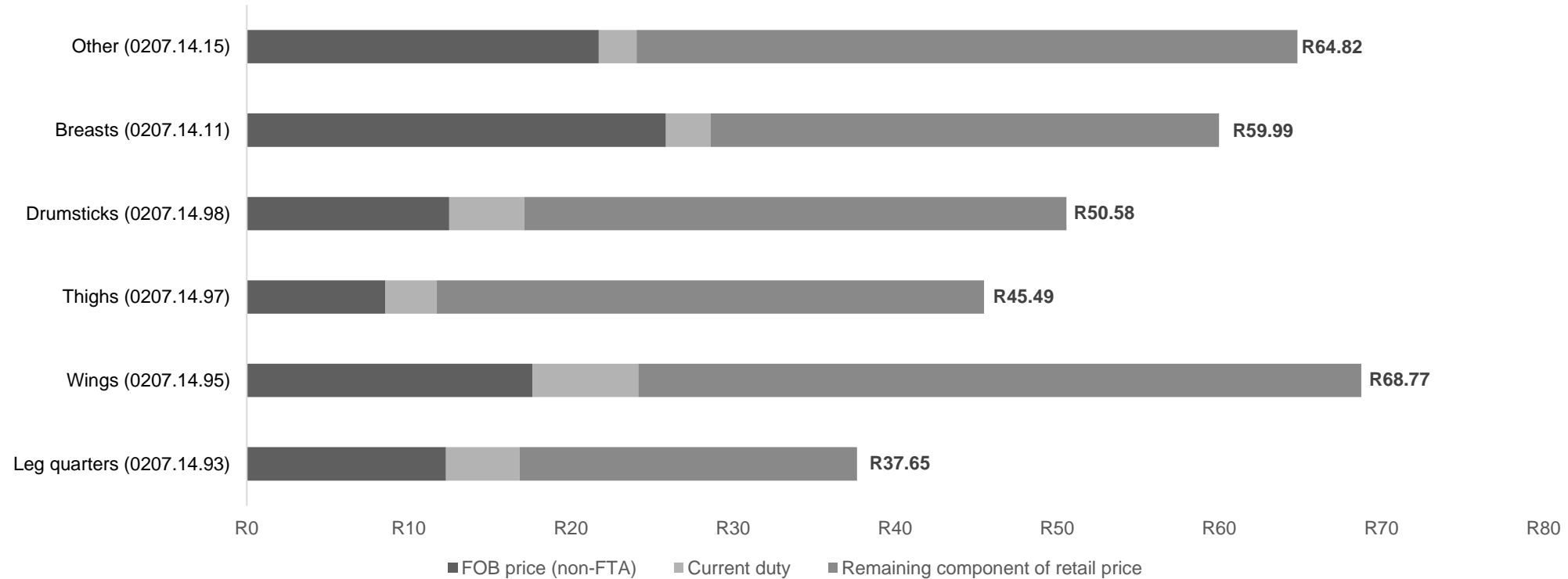
# The impact of imports on consumer prices

Genesis



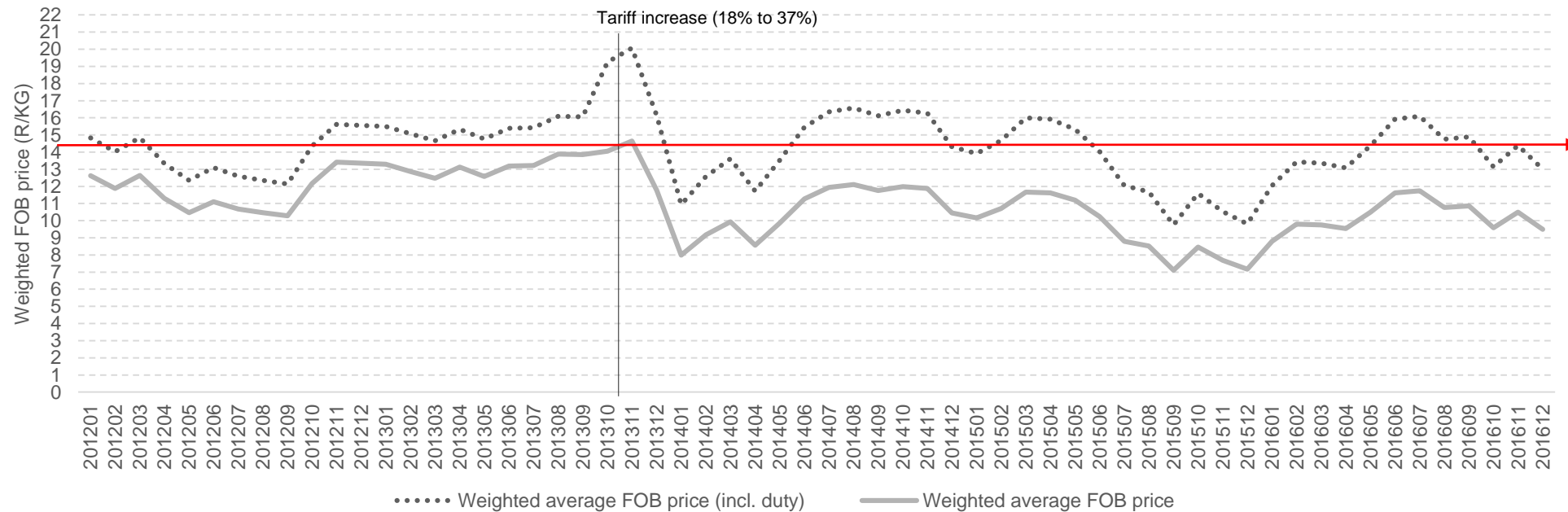
*Small footprint. Big impact.*

# The impact of tariffs on retail price



*Small footprint. Big impact.*

# Non-FTA weighted FOB prices (excl & incl duties) for bone-in portions, 2012-2016



*Small footprint. Big impact.*

# Potential retail price increases in bone-in portions accounting for export price reductions and trade diversion, 2018

Tariff code Description	0207.14.93 Leg quarters	0207.14.95 Wings	0207.14.97 Thighs	0207.14.98 Drumsticks
Current non-FTA FOB prices	12.29	17.64	8.55	12.50
Reduced non-FTA FOB prices	11.36	16.30	7.90	11.55
Current non-FTA duty	4.55	6.53	3.16	4.62
Proposed non-FTA duty	9.31	13.37	6.48	9.47
Change in non-FTA duty	4.76	6.84	3.32	4.85
<i>Effective trade-weighted increase in duty</i>	<i>4.04</i>	<i>3.81</i>	<i>0.97</i>	<i>4.43</i>
Current retail prices	37.65	68.77	45.49	50.58
Possible retail prices	42.29	73.15	46.60	55.68
<b>Potential price increase</b>	<b>12.3%</b>	<b>6.4%</b>	<b>2.4%</b>	<b>10.1%</b>



*Small footprint. Big impact.*

# The effectiveness of tariffs

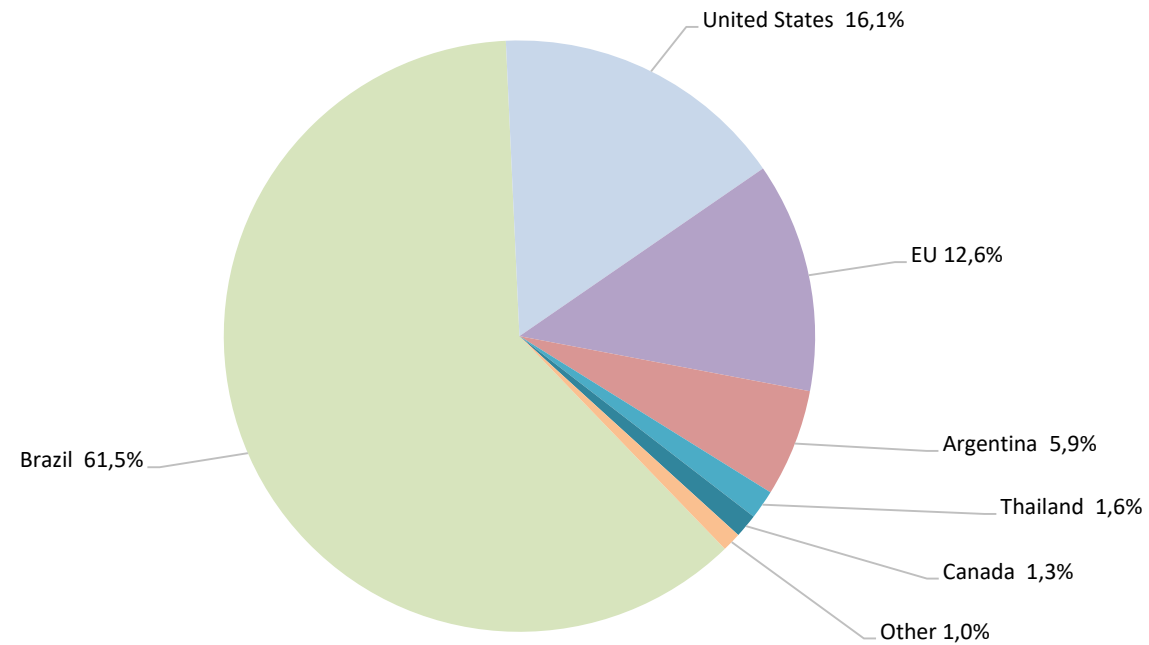
Leading Edge



*Small footprint. Big impact.*

# Brazil, US and EU

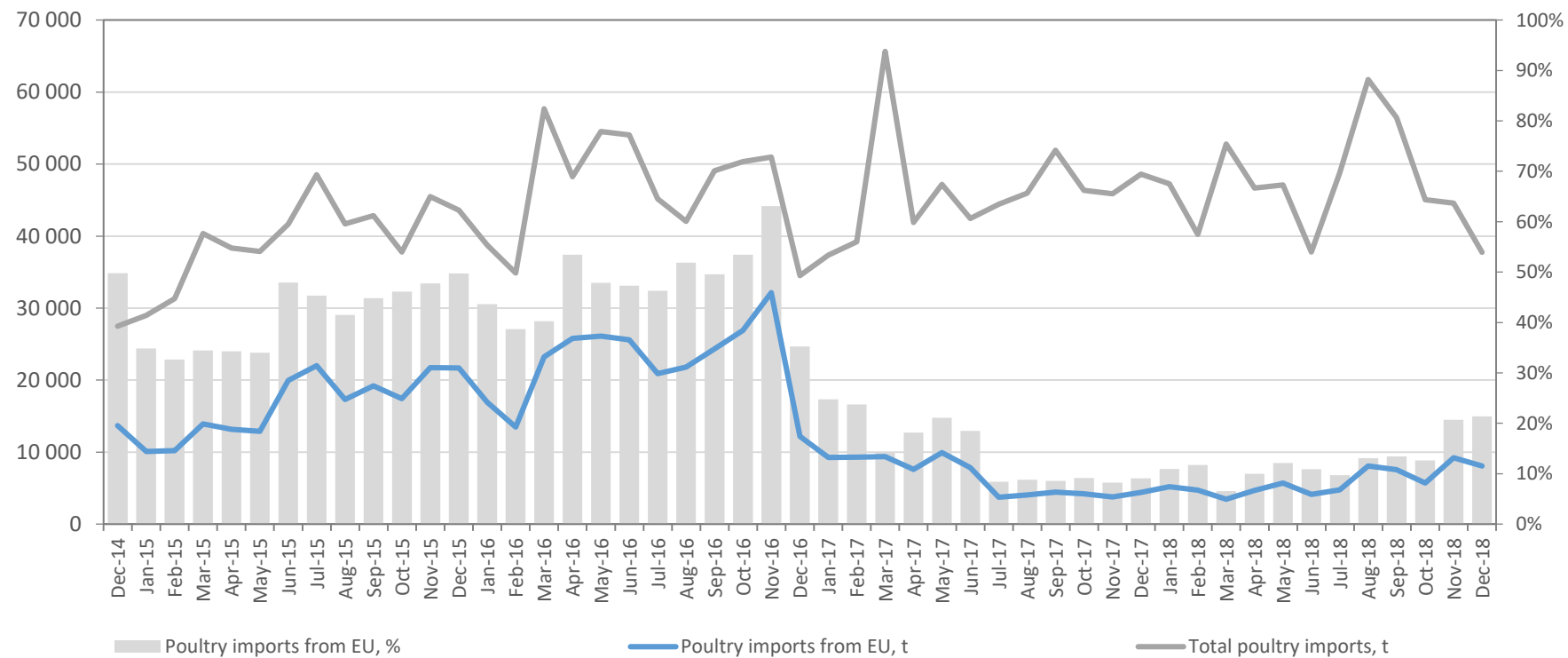
Graph 2: Country of origin 2018 (EU countries grouped)



*Small footprint. Big impact.*

Tonnes

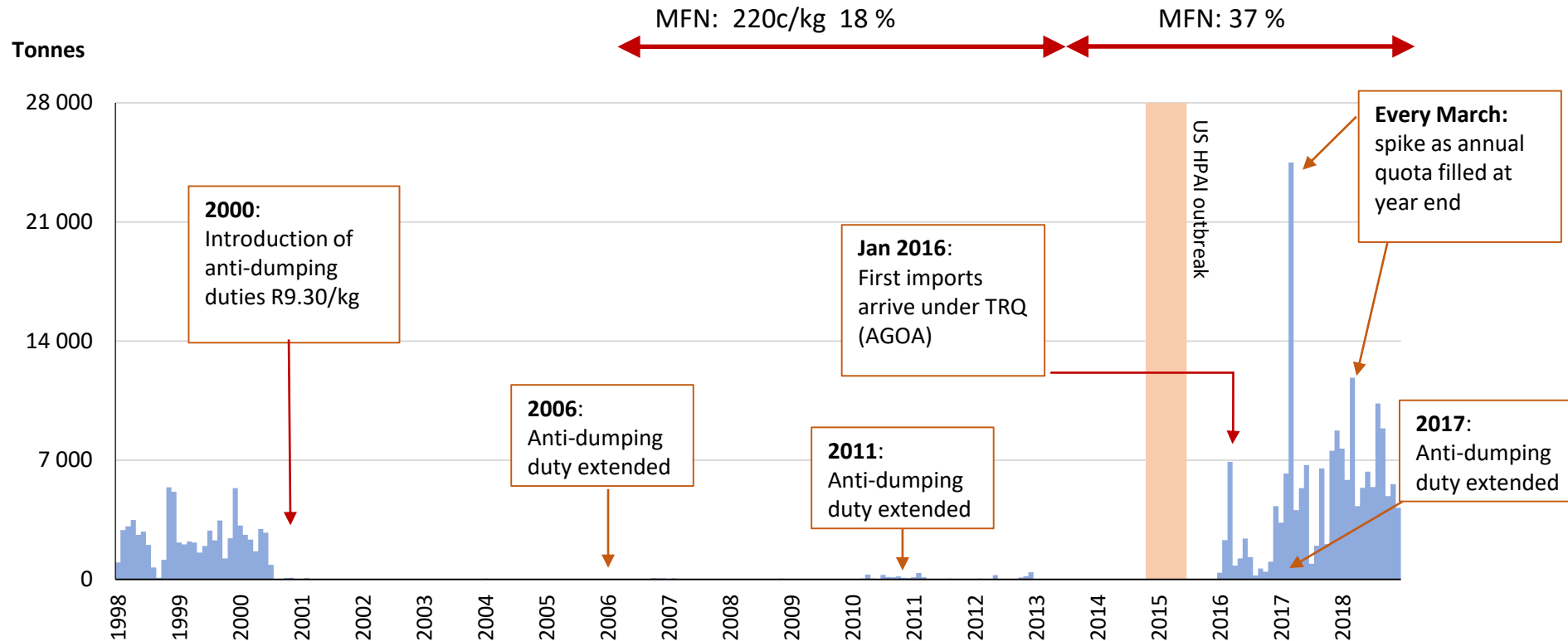
Graph 10: Poultry imports from EU vs total poultry imports



*Small footprint. Big impact.*



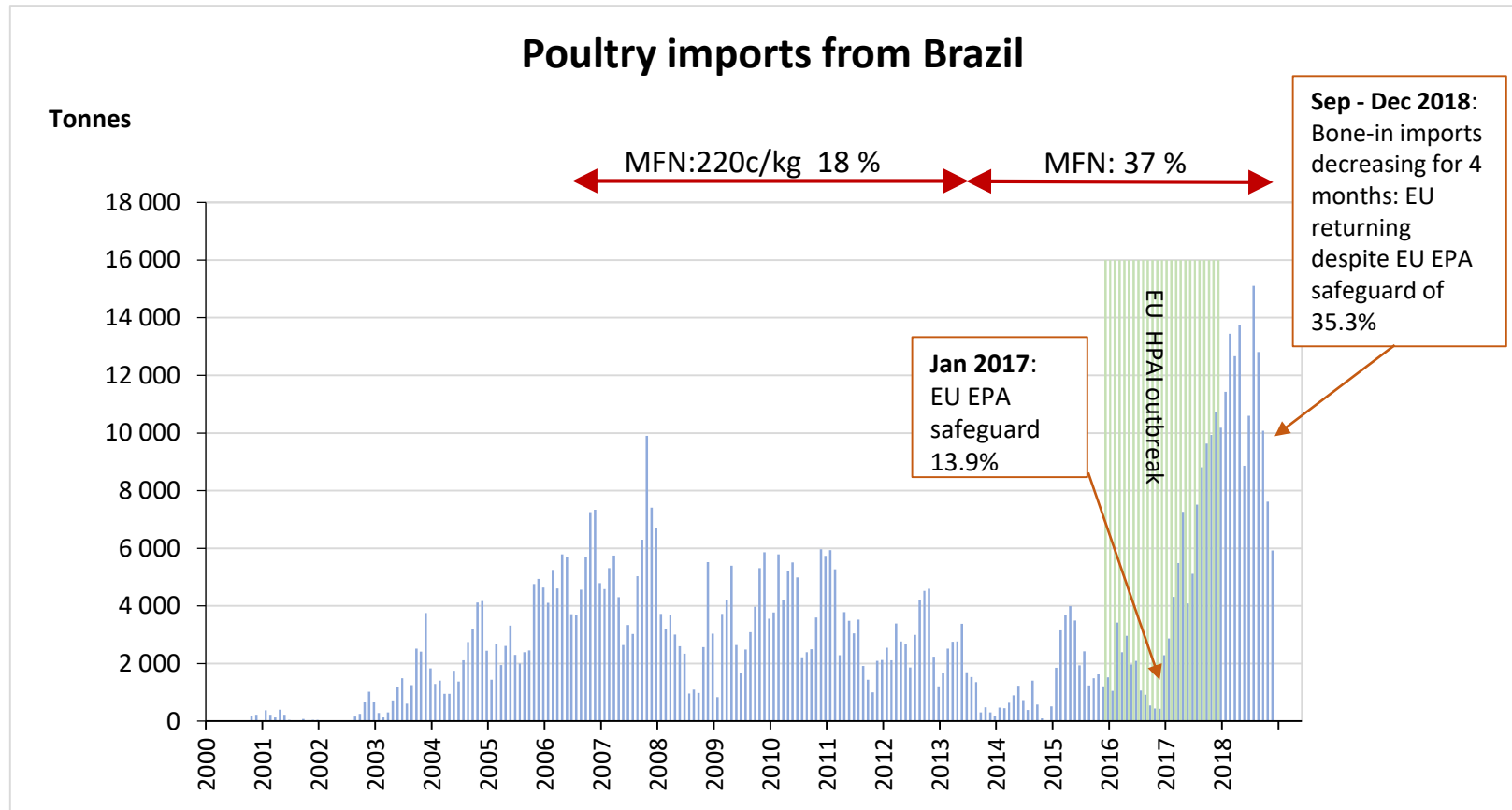
## Poultry imports from the United States



Bone-in portions enter at MFN rate of duty – 37% (since 2013) • Anti-dumping duty of R9.40/kg first introduced on US bone-in portions in 2000; effectiveness evident mid 2000 to end of 2015 • HPAI even more effective Dec 2014 – July 2016 • AGOA-related Tariff Rate Quota (anti-dumping duty-free) in place from January 2016 – quota year runs April to March • Hence it's still profitable for US to export bone-in portions to SA, even with 37% MFN rate of duty • Only punitive anti-dumping duty was effective.



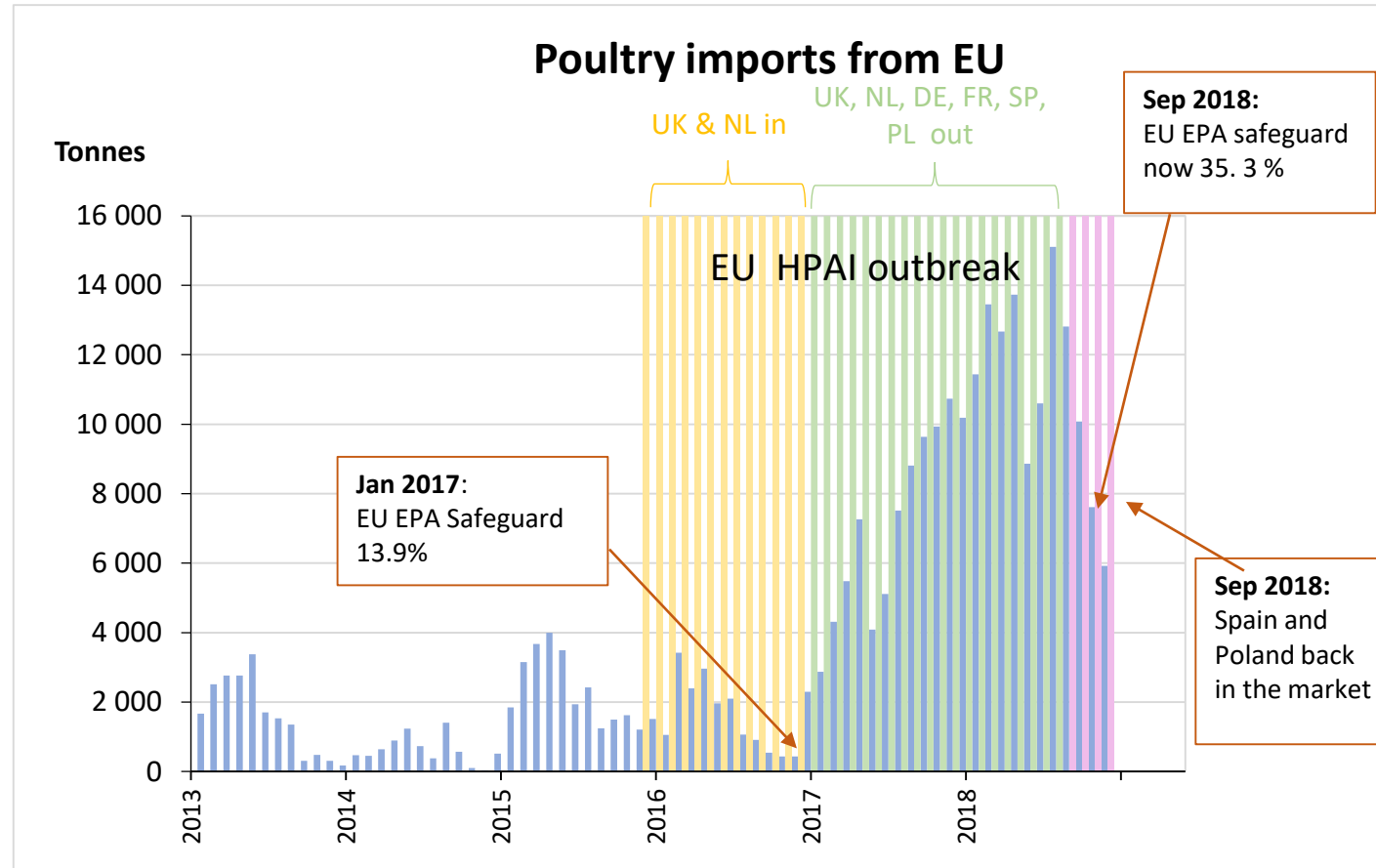
*Small footprint. Big impact.*



Bone-in portions charged at MFN rate of duty – 37 % • From 2011, Brazil lost market share in bone-in portions to the EU and did not regain ground initially during EU HPAI outbreaks (UK, Spain, Denmark took up slack, in absence of France, Germany) • In 2017, Brazil increased market share due to fewer EU countries in market • One opinion: it coincided with EU EPA safeguard introduced (Jan 2017, 13.9 %) and 13.9 % is effective • BUT when EU EPA was increased to 35.3 % (Sept 2018), Brazilian bone-in imports dropped for 4 consecutive months • THEREFORE higher Brazilian imports in 2017/18 more likely due to AI-related trade bans against EU countries • 37% MFN duty ineffective in stemming Brazilian imports when EU not in market • All that stops Brazil is EU imports.



*Small footprint. Big impact.*

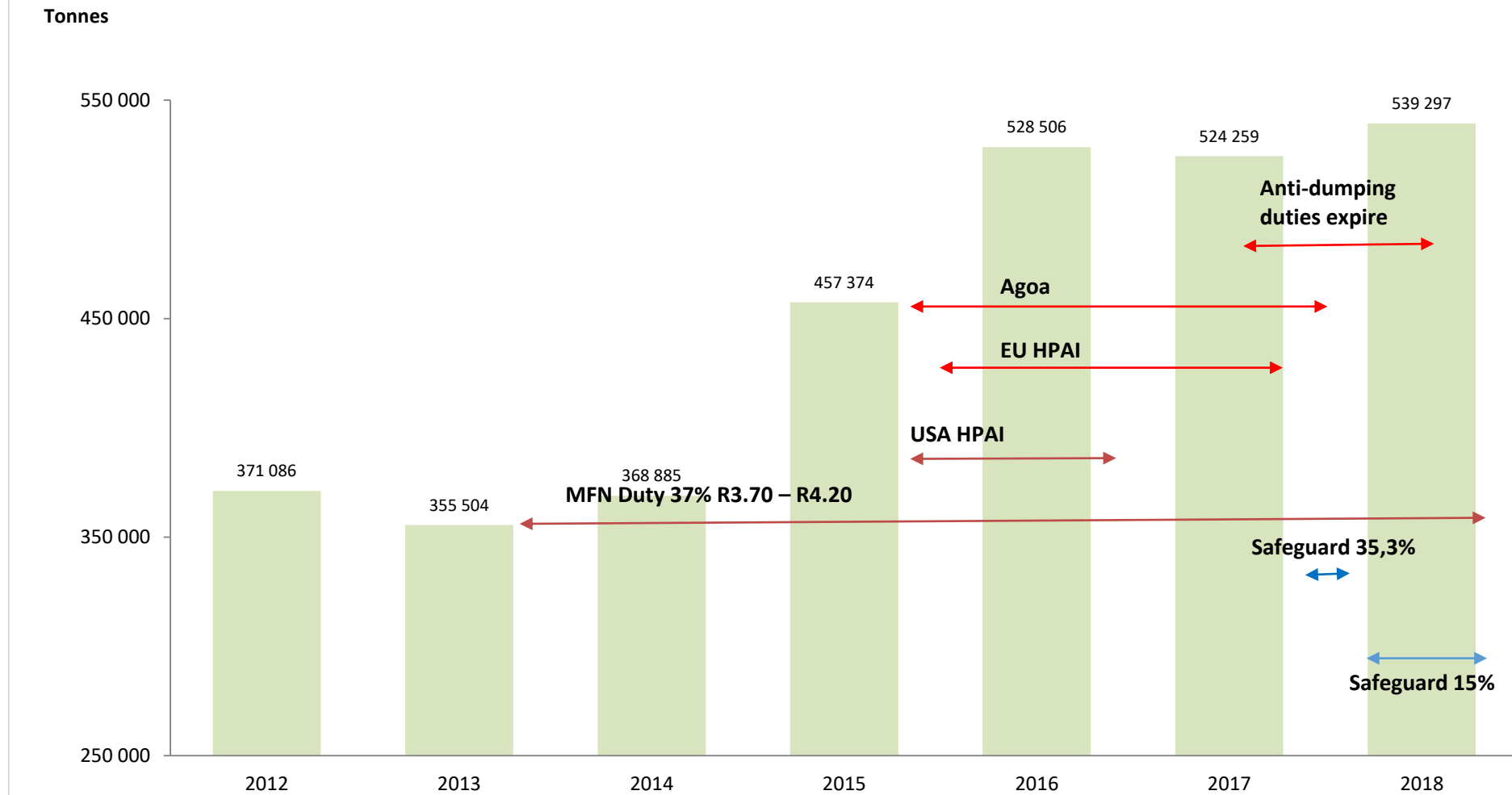


Closer look at recent years: in 2016, France and Germany were hard hit by HPAI, but UK and Netherlands could still export (NL exported record volumes) • Brazilian bone-in exports stayed low • In 2017 and most of 2018, NL, UK, Germany, France, Spain and Poland were all out of the market • Importers turned to the US and Brazil for bone-in portions, but US kept within quota (avoiding punitive antidumping tariff) and so Brazil picked up the slack, despite the 3 % MFN duty • This graph shows ineffectiveness of EU EPA even at 35.3 % – as soon as trade bans are lifted, EU countries replace Brazilian imports • Witness Poland and Spain, Sept 2018 onwards.



*Small footprint. Big impact.*

Graph 6: Total chicken imports

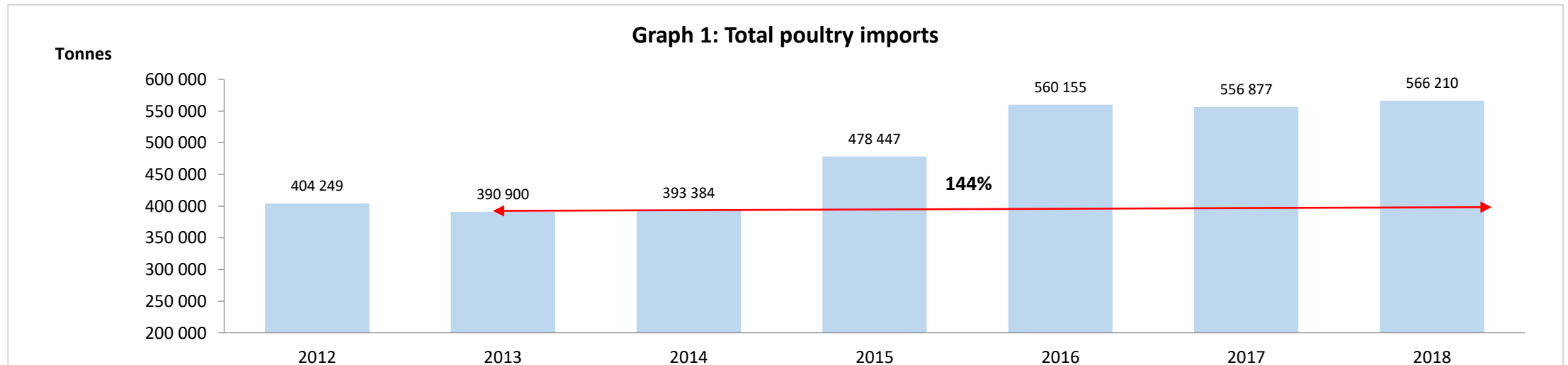
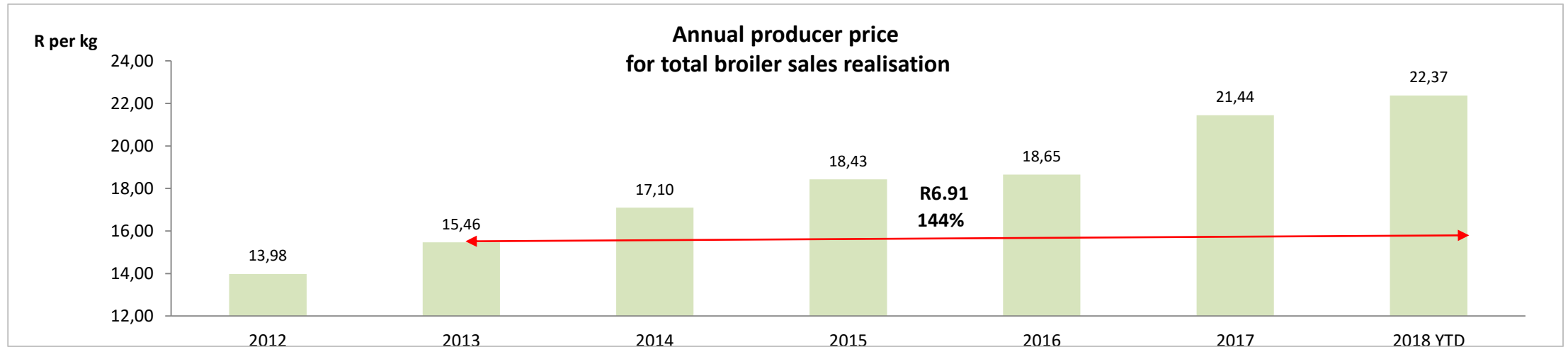


*Small footprint. Big impact.*

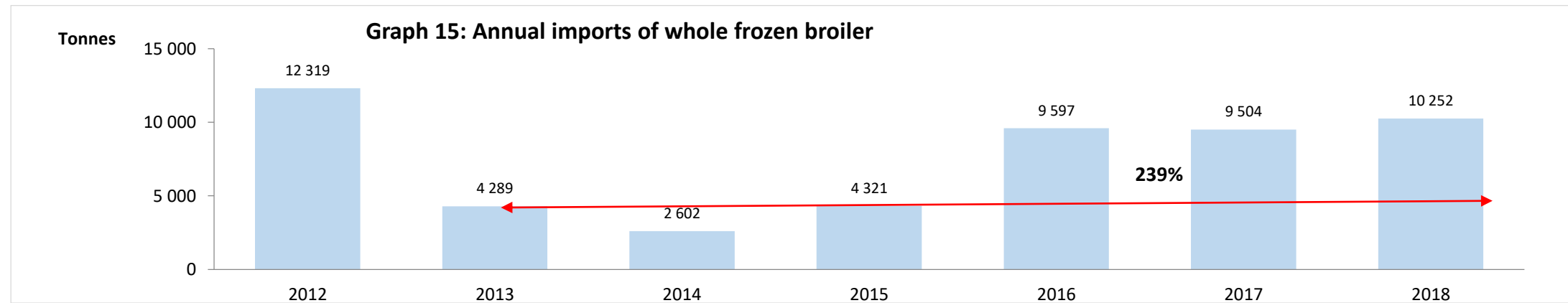
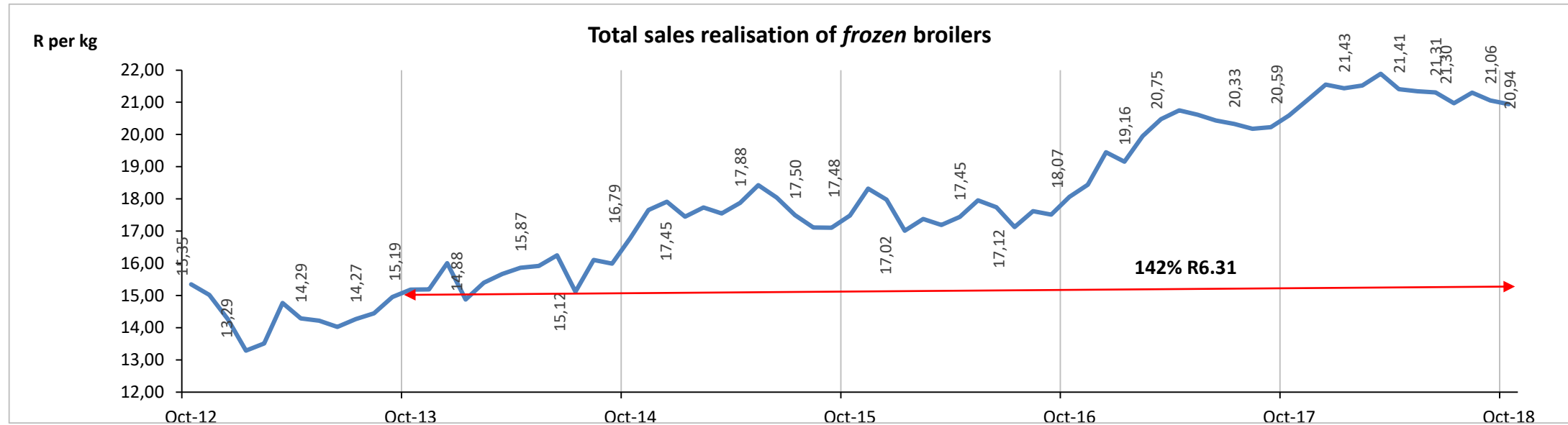
# What is driving the demand for imports?

- The differential between FOB price plus tariff and retail price creates a big margin
- As local price increases the imports increase

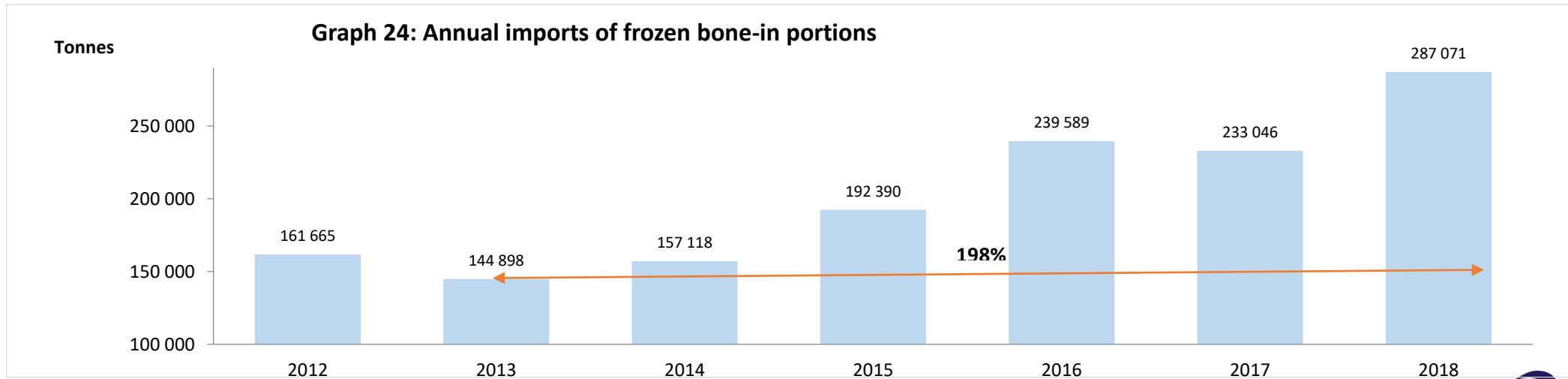
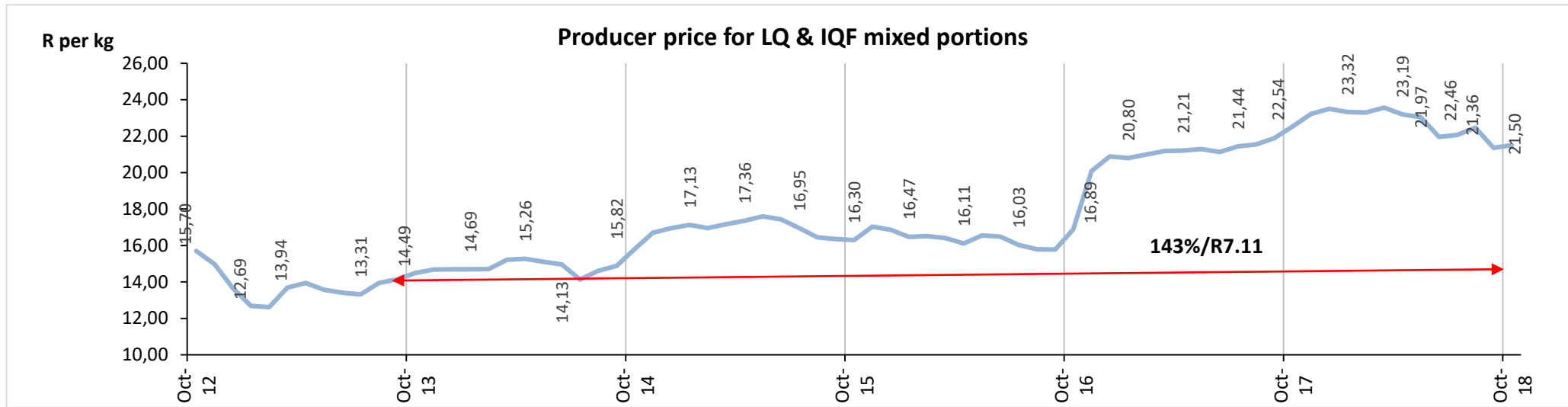




*Small footprint. Big impact.*

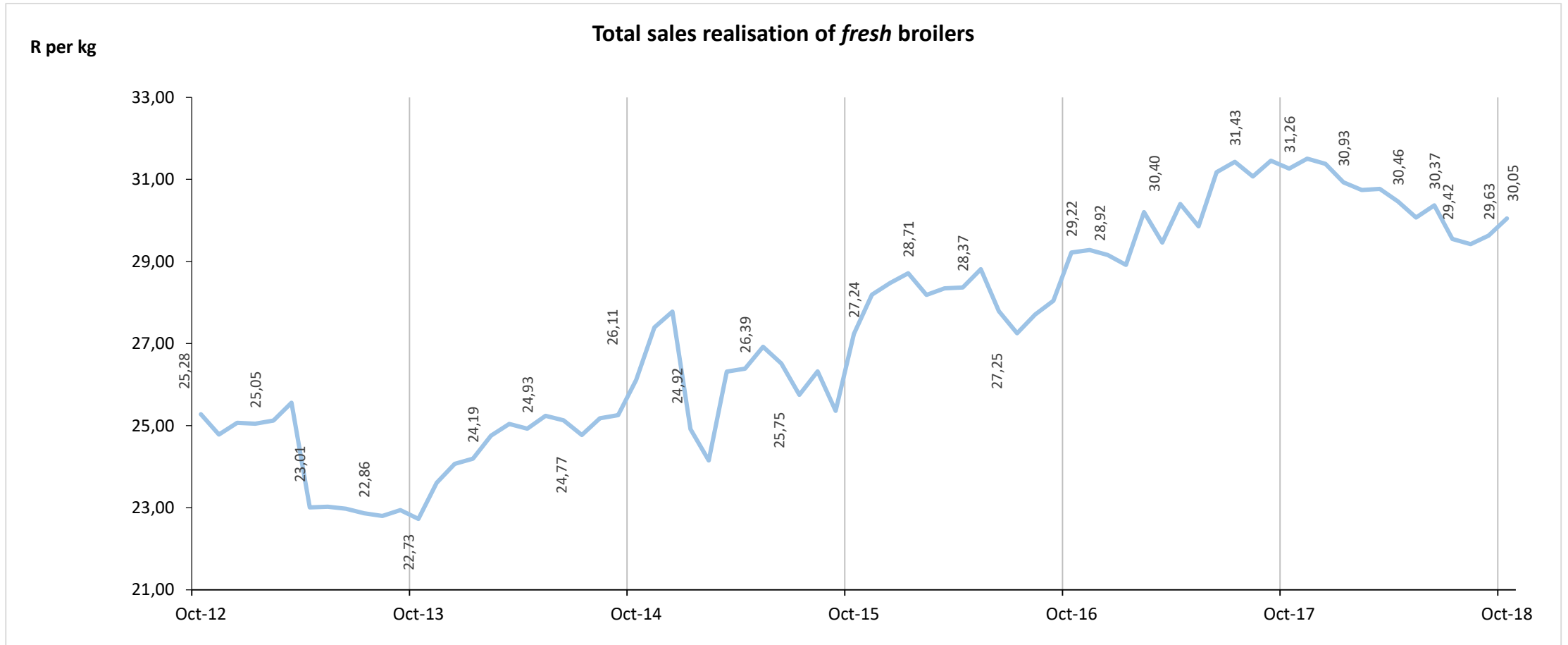


*Small footprint. Big impact.*



*Small footprint. Big impact.*





*Small footprint. Big impact.*

# What trade remedies work for SA?

- Antidumping duty against the US of R9.30: very effective
- Phytosanitary measures: very effective BUT other countries merely filled the gap
- MFN duties: no effect on import volumes – export countries merely reduce price to get rid of unwanted “spare parts” accumulating in storage
- All export countries sell frozen whole birds substantially under cost, inclusive of indirect subsidies



# Industry capacity & food security

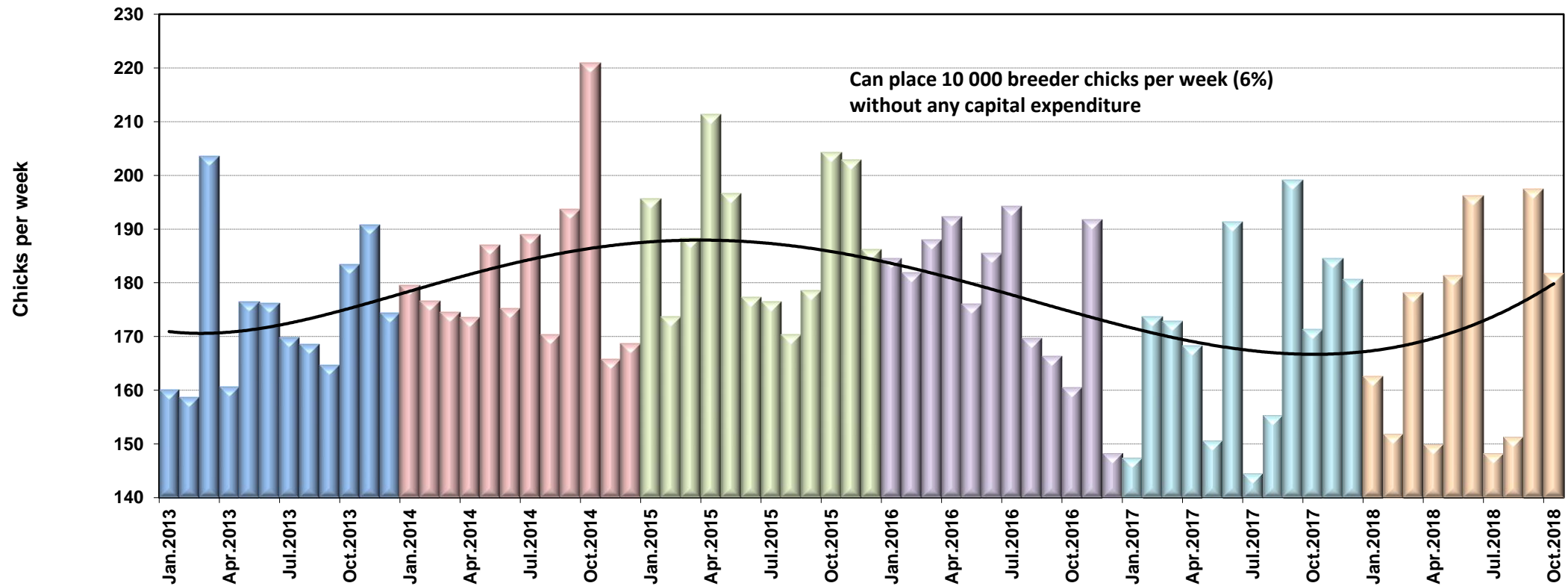
SA Poultry Association



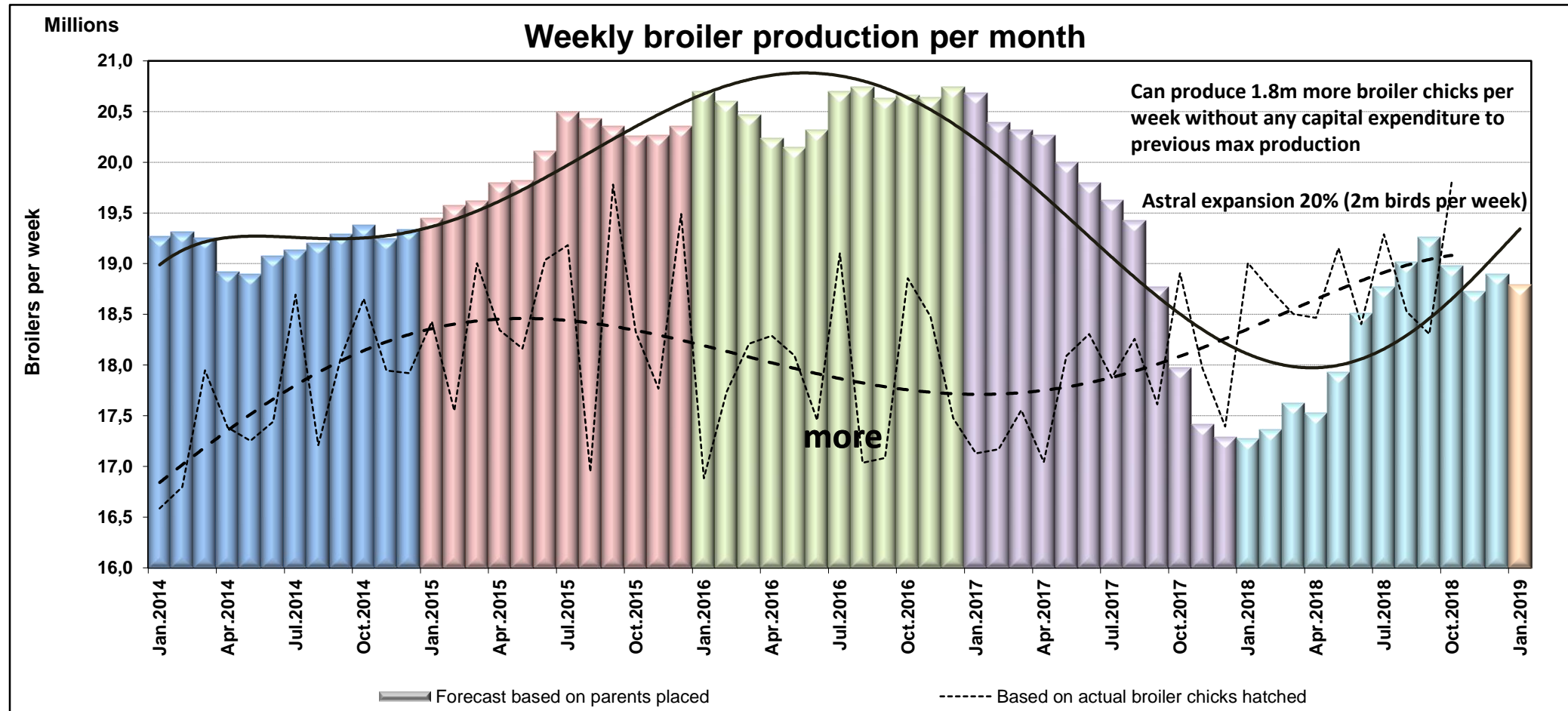
*Small footprint. Big impact.*

Thousands

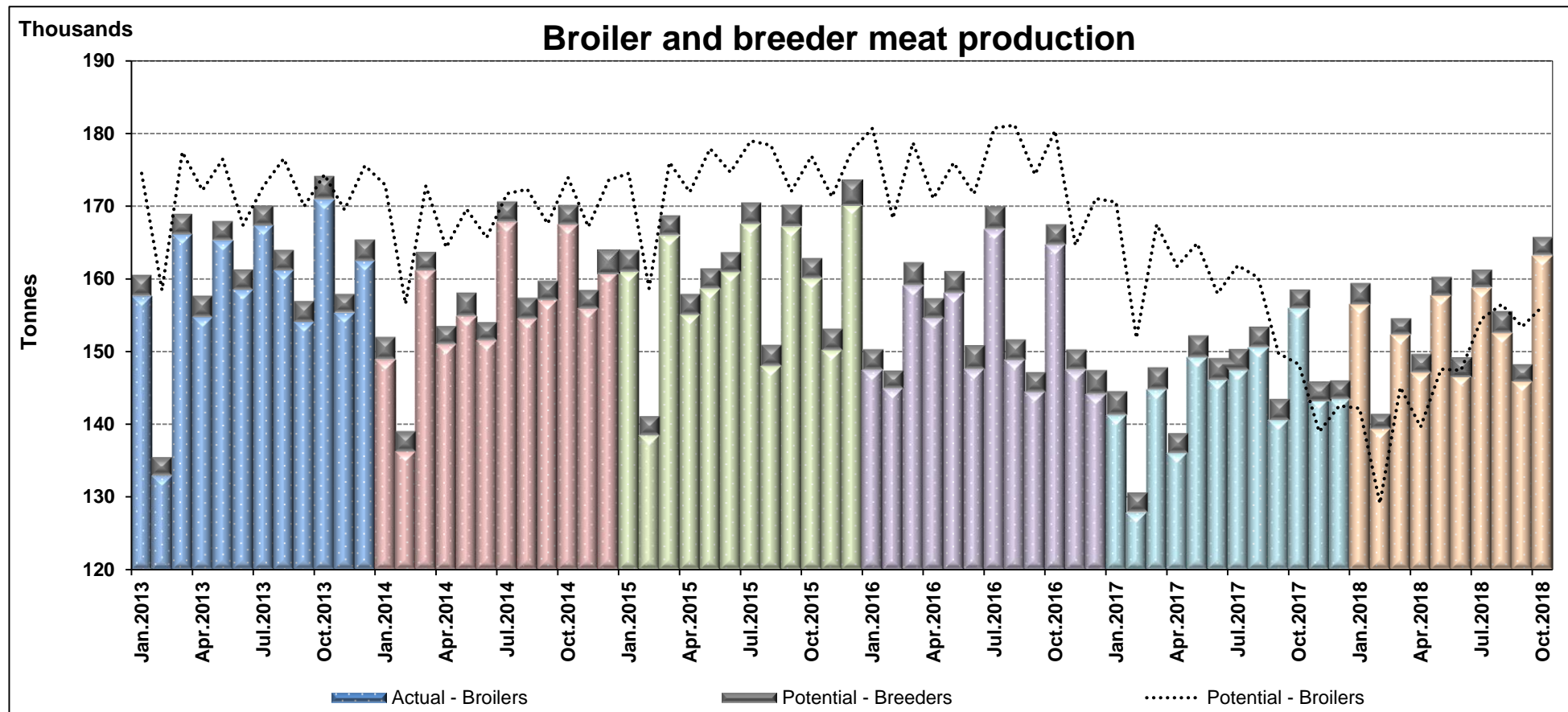
## Day-old broiler parents placed (Average per week to October 2018)



*Small footprint. Big impact.*



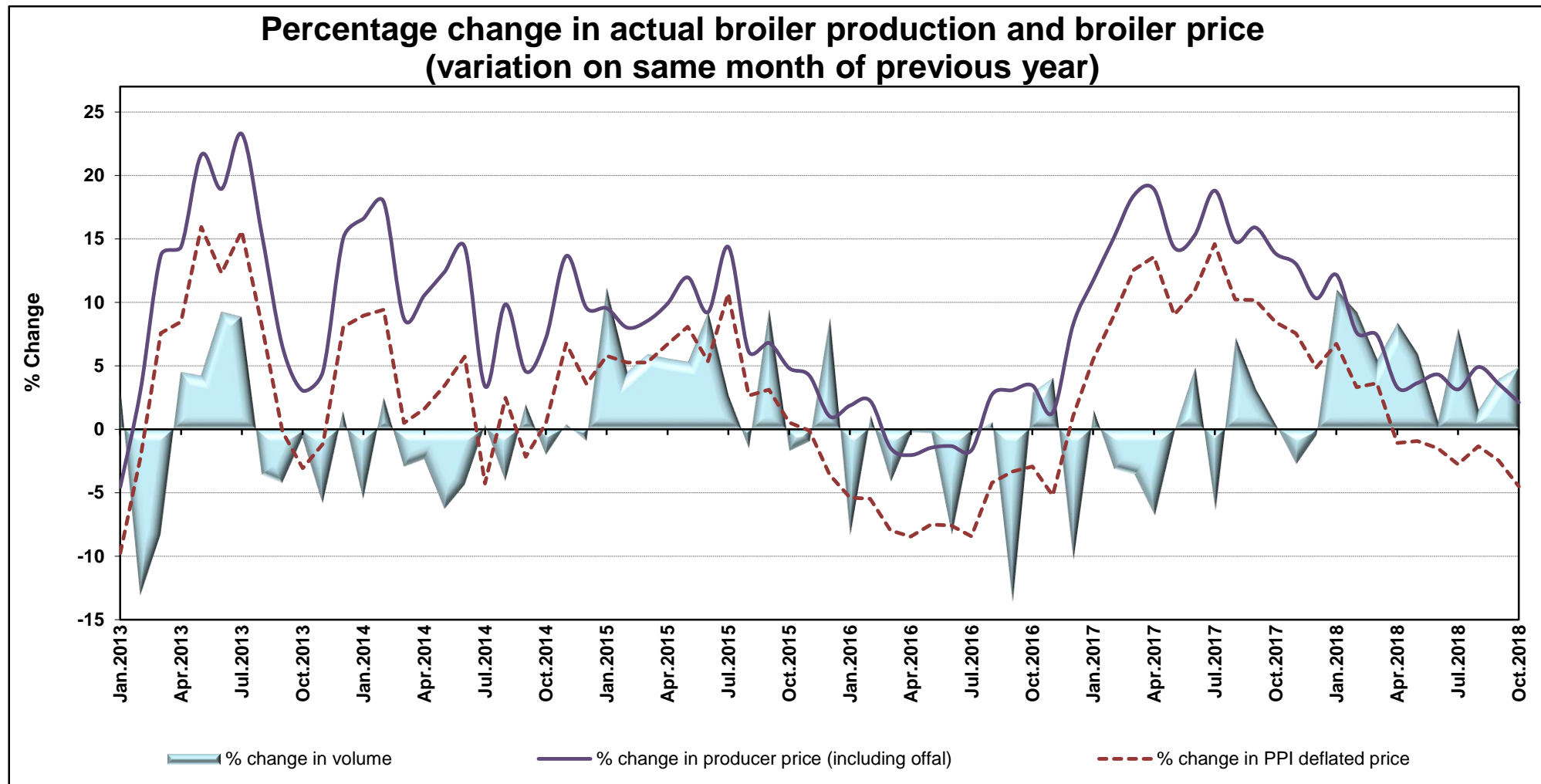
*Small footprint. Big impact.*



**10 000t/m no expansion • 20 000t/m Astral**



*Small footprint. Big impact.*



*Small footprint. Big impact.*

# Poultry task team & Poultry Master Plan

- The task team are working on proposals relating to stimulate economic growth, job creation and BBBEEE
- Trade measures
- To achieve the above, a number of issues need to be sorted with the DTI & DAFF respectively, namely:
  - The trade matters discussed and
  - Port controls
    - Food safety and phyto-sanitary matters that include:
      - Facility visits
      - Bacteriology and residue testing and
      - Packaging and process control
    - Underdeclaration of imported product & declaration under wrong tariff heading
- It is expected that the Master Plan will assist in getting more resources for DAFF and the DOH to execute its mandate





# Employment and job creation

- 30 000 jobs created abroad in farming and processing that could have been here
- Industry employ
  - 50 000 people directly
  - 50 000 people in the value chain
- Producers assisted in development of 60 successful black farms
  - Farm ownership
  - 600 people in employ
  - 10m to 12m chickens
- Top 6 companies
  - 1 x fully black empowered
  - 2 x 25% black shareholding
- More that 1000 small farmers trained in poultry production in the last 3 years



# Food safety and phytosanitary issues

- The systems developed are sufficient, except for harmonising legislation between DAFF and Department of Health
  - Local producers fall under DAFF and imports under Department of Health
- Implementation of legislation is problematic and too reactive in terms of imports at import and wholesale level (AFSQ)
  - Port bacteriology tests – 55 containers are imported per working day
  - Traceability
    - Thawing of poultry products and loss of origin
    - More than one country declared on bags
    - “Frozen fresh” products sold in retail
  - Selling product out of bond store in Komatipoort and en route to Namibia



# What is needed to remedy the import threat?

- Tariffs must be high enough to nullify the massive profit margins on imports: by-products from elsewhere are sold here as prime product at a huge margin. The quantum of tariff needed to be effective is around R9.30/kg
- Probably a more aggressive stance on Phytosanitary measures and its application the EU and Brazil keep imports out based on phytosanitary measures
- Import in final packaging (no repackaging of product to be allowed)
- Thawing, injecting and selling repackaged frozen imports as fresh product is the new threat for profitability of the industry and for human health
- Incorrect declaration of product to be addressed:
  - Declaration under the wrong tariff code renders current tariffs ineffective.
  - Under declaration of product is eroding the effect of tariffs
  - Selling product out of bond stores, which reduce the cost by a further 15%, to be stopped
- Buy local, be proudly South African
  - Government should buy local to reduce the demand for imported product
  - Importers should be compelled to buy a specified volume from local producers



# Thank you



*Small footprint. Big impact.*