



International Trade Administration Commission of South Africa

---

## **Report No. 36**

### **Increase in the rate of duty on frozen poultry offal**

**The International Trade Administration Commission herewith presents its  
Report No. 36: INCREASE IN THE RATE OF DUTY ON FROZEN POULTRY  
OFFAL**

  
.....  
**Ms N P MAIMELA**  
**CHIEF COMMISSIONER**

**PRETORIA**

...14 November...2003

**REPUBLIC OF SOUTH AFRICA**

**INTERNATIONAL TRADE ADMINISTRATION COMMISSION**

**REPORT NO. 36**

**INCREASE IN THE RATE OF DUTY ON FROZEN POULTRY OFFAL**

**Synopsis**

The Commission considered an application for an increase in the rates of duty on whole frozen chicken, frozen offal and other prepared or preserved meat or offal, classifiable under tariff subheadings 0207.12, 0207.14.20, 0207.14.90, 1602.32.90 and 1602.39.90. The reason for the application, according to the applicant is that the SACU market is being flooded with imports, at an annualised level of 20 per cent of domestic production, harming the industry. The applicant further stated that the specific duty (R2,20) has eroded over six years of its existence due to inflation and the sharp movement in currency (Rand) value which has had a significant effect on feed and input costs. Brazil has also been identified as a country, which, due to low price input cost and currency devaluation, was a big threat. The application for an increase in the rate of duty on products classifiable under tariff subheading 0207.12, 0207.14.20 and 0207.14.90 was published in the Government Gazette on 6 June 2003. Products classifiable under tariff subheadings 1602.32.90 and 1602.39.90 were not included in the investigation as the Commission found that a formal investigation regarding an increase in the rate of duty on the relevant products was not justified. Several comments were received on the publication of the application.

The available information indicates that the SACU poultry industry is experiencing fierce and dynamic competition from products imported from Brazil.

The Commission came to the conclusion that the fact that poultry offal is free of duty is to the detriment of the development of the SACU industry and that an increase in the rate of duty to 27 per cent ad valorem which is equal to the level of duty on whole frozen chicken, is justified. The Commission is of the opinion that such increase would not significantly increase the consumer price of offal at this stage, as the available information indicates that the consumer prices of SACU produced offal and imported offal are at similar levels.

The Commission concluded that an increase in the rate of duty on whole frozen chicken and chicken cuts is at this stage not justified. In this regard the Commission took into account that the duty on whole frozen chicken is relatively high and that the price disadvantage of the SACU industry with respect to chicken cuts, is insignificant.

The fluctuating competitive position of the SACU industry and the fluctuating competition experienced by the industry could justify possible further investigation in future, if necessary.

In view of the above the Commission decides to recommend the following:

- a) Rejection of the application for an increase in the rate of duty on whole frozen chicken classifiable under tariff subheading 0207.12 and poultry (bone-in) leg quarters, classifiable under tariff subheading 0207.14.90.
- b) Increase in the rate of duty on poultry offal classifiable under tariff subheading 0207.14.20 from free of duty to 27 per cent ad valorem.

## Discussion

- 1 The Southern African Poultry Association (SAPA), urgently applied for an increase in the rates of duty on the following poultry products:

Tariff subheading	Description	Current duty	Requested duty
<b>02.07</b>	<b>Meat and edible offal, of the poultry of Heading No. 01.05, fresh, chilled or frozen</b>		
	Of fowls of a species Gallus domesticus:		
0207.12	Not cut in pieces, frozen	27%	40%
207.14	Cuts and offal, frozen:		
0207.14.20	Offal	free	220c/kg
0207.14.90	Other	220c/kg	440c/kg
	Other prepared or preserved Meat, offal or blood:		
1602.32	Of fowls of the species Gallus domesticus:		
1602.32.90	Other	220c/kg	440c/kg
1602.39.90	Other	27%	40%

2. As reason for the application the applicant stated that the SACU market is being flooded with imports, at an annualised level of 20 per cent of domestic production, harming the industry. The applicant further stated that the specific duty (R2,20) has eroded over six years of its existence due to inflation and the sharp movement in currency (Rand) value which has had a significant effect on feed and input costs. Brazil has been identified as a country, which, due to low price input cost, and currency devaluation is a big threat.
- 3 The application for an increase in the rates of duty on products, classifiable under tariff subheadings 0207.12, 0207.14.20 and 0207.14.90 was published in the Government Gazette on 6 June 2003. Products classifiable under tariff subheadings 1602.32.90 and 1602.39.90 were not included in the investigation as the Commission found that a formal investigation regarding an increase in the rates of duty on the relevant products was not justified.
4. The Bound rate on poultry products, in terms of South Africa's commitments to the WTO, is as follows:

Tariff subheading	Bound rate
0207.12	82%
0207.14.20	82%
0207.14.90	82%

- 5 The employment figure according to SAPA for poultry producers for the period 2002/03, amounted to approximately 16 000.

6. In SACU poultry is produced by an estimated 400 producers. Included in the figure are 254 smme's and four producers are responsible for 56 per cent of the production. The estimated production of poultry in SACU during 2002 was 780 tons. The production of offal as a percentage of the value of total production is in the order of 12.7 per cent. Poultry producers in SACU use the same breed of poultry as Brazil, which is the major exporter to SACU.
7. Imports of whole frozen chicken and frozen poultry offal increased from 1999 to 2002 by 70 per cent and 180 per cent respectively. The import of chicken cuts, for the same period, decreased by approximately 50 per cent. Imports from Brazil constitute 82 per cent and 84 per cent of total imports of whole frozen chicken and chicken offal, respectively for the period 2002. In 1999 imports of poultry from Brazil constituted 10 per cent of total imports.
8. The SACU industry exports limited quantities of poultry and the major export destination is Mozambique.
9. Three Associations and 5 small producers commented in support of the application stating the following:
  - ❑ Low priced imports of poultry products are currently seriously jeopardizing their future existence.
  - ❑ Offal plays an important role in the network of food supply. These businesses are informal and women represent 99 per cent of these businesses.
  - ❑ The small poultry producers cannot supply the established big retail sector. Their focus is on the informal business. As the margins in the poultry industry for emerging poultry players are tight, the heads and feet combined are important additions to their revenue.
  - ❑ The importation of chicken feet has depressed the prices the emerging producers get and as a result they cannot compete.
  - ❑ The emerging sector is still in its infancy.
  - ❑ Certain Governments support international producers.
14. Three associations which represent poultry production in Brazil, New Zealand and Canada, an association of meat importers and exporters and a major retailer group objected to an increase in the rate of duty on poultry products stating various reasons for their objections which include the following:
  - ❑ The inability of the SACU producers to obtain price increases is due to the SACU overproduction and not to chicken imports.
  - ❑ SAPA members have not become international players and have not achieved cost or quality benchmarking with Brazil, even with the current level of tariff protection.
  - ❑ Increased tariff protection would cause price inflation for the SACU consumer and will not help the SACU chicken industry to become more cost-effective.
  - ❑ The SA Government intends to liberalize the SACU tariff dispensation and to only act in instances of unfair trade, and that its intention is not to protect the SACU industry whenever they are unable to compete against fair trade.
15. The available information indicates that the SACU industry is experiencing fierce and dynamic competition from products imported from Brazil.

16. The Commission came to the conclusion that the fact that poultry offal is free of duty is to the detriment of the development of the SACU industry and that an increase in the rate of duty to 27 per cent ad valorem which is equal to the level of duty on whole frozen chicken, is justified. The Commission is of the opinion that such increase would not significantly increase the consumer price of offal as the available information indicates that the consumer prices of SACU produced offal and imported offal are at a similar levels.
17. The Commission concluded that an increase in the rate of duty on whole frozen chicken and chicken cuts is at this stage not justified. In this regard the Commission took into account that the duty on whole frozen chicken is relatively high and that the price disadvantage of the SACU industry with respect to chicken cuts, is insignificant.
18. The fluctuating competitive position of the SACU industry and the fluctuating competition experienced by the industry could justify possible further investigation in future, if necessary.

### **Recommendation**

19. In view of the above the Commission decides to recommend the following:
- c) Rejection of the application for an increase in the rate of duty on whole frozen chicken classifiable under tariff subheading 0207.12 and poultry (bone-in) leg quarters, classifiable under tariff subheading 0207.14.90.
  - d) Increase in the rate of duty on poultry offal classifiable under tariff subheading 0207.14.20 from free of duty to 27 per cent ad valorem.

[T5/2/4/2/1 (030022)]