

## **REPORT NO. 726**

**Creation of temporary rebate provisions for the importation of meat and edible offal, fresh, chilled or frozen of fowls of the species *Gallus domesticus*, classifiable under tariff subheading 0207.1**

The International Trade Administration Commission of South Africa herewith presents **Report No. 726: Creation of temporary rebate provisions for the importation of meat and edible offal, fresh, chilled or frozen of fowls of the species *Gallus domesticus*, classifiable under tariff subheading 0207.1**



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**CHIEF COMMISSIONER**

**PRETORIA**  
**15 December 2023**

## REPUBLIC OF SOUTH AFRICA

### INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

#### REPORT NO. 726

**Creation of temporary rebate provisions for the importation of meat and edible offal, fresh, chilled or frozen of fowls of the species *Gallus domesticus*, classifiable under tariff subheading 0207.1**

#### **Synopsis**

The Minister of Trade, Industry and Competition (from here on referred to as “the Minister”) directed the International Trade Administration Commission of South Africa (“ITAC”) in terms of section 16(1)(d)(ii) of the International Trade Administration Act, Act 71 of 2002 (“ITA Act”), to consider the creation of a temporary rebate provision on meat and edible offal, fresh, chilled or frozen of fowls of the species *Gallus domesticus* classifiable under HS0207.1.

This Directive follows an engagement with the Minister of the Department of Agriculture, Land Reform and Rural Development (“DALRRD”) as well as a statement issued by DALRRD, which confirmed that South Africa is currently dealing with a number of Highly Pathogenic Avian Influenza (“HPAI”) outbreaks, which led to the culling of 2 680 758 chickens as at 21 September 2023. The impact of the depletion of locally available poultry will have severe food security implications on the availability and prices of poultry, which is a basic, staple protein in South Africa.

During its deliberations and in arriving at its recommendation, the Commission considered the information at its disposal, including comments received during the investigation period.

The Commission found that:

- There is an expected shortage in 2023 as result of HPAI. However, this shortage can be addressed without necessitating the implementation of a temporary rebate by utilizing domestic producers' existing inventory stock. The balance can be addressed by imports.
- There was a significant disparity in the shortage estimations for 2024 in terms of the Commission's methodology, importers, and South African Poultry Association ("SAPA") methodologies.
- To determine the estimated shortage for 2024, the Commission used a structured methodology, encompassing a comprehensive approach to forecasting broiler production figures. The methodology incorporated historical data, and took into account industry-specific parameters and considered both the impact of the HPAI and the several contingency measures as suggested by SAPA (including the utilization of fertilized eggs for broilers, extending the depletion age of broiler breeders, and relaxing grading criteria) designed to lessen the impact of the potential chicken shortage. Ultimately, it relied on historical trends, key assumptions, and reported data.
- On balance, the Commission further considered the inherent forecasting nature of SAPA's contingency measures, which naturally lacks a definitive methodology to ascertain guaranteed yields for the proposed strategies. Consequently, the Commission estimates a possible shortage of approximately 172,000 tons for the year 2024.
- In evaluating the performance of the domestic industry, it was found that domestic producers have demonstrated an increase in production volumes between 2021 and 2022, thereby enhancing capacity utilization over the same period. Employment increased between 2021 and mid-2023.
- Information at Commission's disposal indicated that the pricing landscape for poultry products in the domestic market was characterized by a continuous upward trend in net ex-factory prices in 2022 and 2023.

- Future projections also indicate the likelihood of further price increases in 2024 given the fact that the recent HPAI outbreak has exerted an additional influence, potentially leading to significant repercussions on the demand and supply dynamics.
- During the HPAI outbreaks in 2017 and 2021, there was a monthly average price increase in Individually Quick Frozen (“IQF”) chicken portions. However, in the recent 2023 HPAI outbreak, the IQF chicken portion prices increased marginally in July 2023 but decreased in August 2023, suggesting a different pattern compared to previous outbreaks.
- Imports have shown a declining trend over the last three years, which could be attributable to, amongst others, the imposition of tariff measures, freight costs, logistical challenges, load shedding etc.
- Information at the Commission’s disposal indicated that an acceptable balance could be found in implementing a Tariff Rate Quota (“TRQ”) system.
- Poultry products classifiable under tariff subheadings 0207.14.1 and 0207.14.9 should be rebated to 2019 customs duty levels and all other poultry products classifiable under tariff subheading 0207.1 should be rebated to free of duty, that provides a balanced approach which is essential, taking into account the need to provide support for the recovery of the domestic industry and to provide access to affordable food products consumed by the lower segment of the market.
- The rebate should be a standing rebate, which must only be utilised in instances where the Director General: DALRRD has reported an outbreak of HPAI in South Africa, linked to a shortage of poultry products as a result of the outbreak.
- Additionally, it was also determined that the issuance of permits in terms of the rebate provision can be discontinued at any time through a publication in the Government Gazette, contingent upon the assessment by DALRRD in consultation with the National Agricultural Marketing Council (“NAMC”) of the performance of domestic producers' production and their recovery from the HPAI outbreak.
- With regards to the removal of anti-dumping duties, it was found that a significant majority of stakeholders do not endorse this initiative. Information at the

Commission's disposal indicates that such a measure could result in a recurrence of injury within the domestic market as its purpose is to address unfair trade practices.

- Regarding comments submitted by the different stakeholders, it was found that the majority of importers supported the creation of a rebate, albeit not all supported rebating anti-dumping duties.
- The domestic poultry producers, represented by SAPA, have submitted their comments objecting to the creation of the temporary rebate provision. According to SAPA, to the extent that there is a material shortage, this could be met by the contingency measures put in place by local producers as well as imports.
- It was found that out of the total anticipated shortage of 172 000 tons for 2024, the initial rebate permits be issued for a 3-month period, with a 6-month window for applications, based on HPAI prevalence. The quota for a possible 6-month period is therefore 86 000 tons.
- With regards to the allocation of the quota, the quota could be shared between Historical Disadvantaged Individuals ("HDIs") and Historical Importers ("HIs") on a 50/50 basis, which provision will be reviewed regularly and revert with such changes as deemed appropriate for consideration by the Minister. Based on this approach, it was found that all applicants could be allocated the same minimum quantity. Additional quantities will be determined by ITAC and distributed across all applicants based on their market share.
- The rebate facilities concerned would be subject to an ITAC permit with specific Guidelines, Rules and Conditions.

In light of the foregoing, the Commission decided to recommend the following:

- a) The creation of Schedule 4 rebate provision for poultry products classifiable under tariff subheading 0207.1, administered by ITAC, in the form of a Tariff Rate Quota ("TRQ"). The rebate will be a standing rebate, which will only be utilized in instances where the Director General: The Department of Agriculture, Land Reform and Rural Development ("DALRRD"), has reported an outbreak of Highly Pathogenic Avian

Influenza (“HPAI”) in South Africa, linked to a shortage of poultry products as a result of the outbreak.

- b) With regard to the current outbreak, it is recommended that the initial rebate permits be issued for a 3-month period, with a 6-month window for applications, based on HPAI prevalence. If it is found that the path of the outbreak is entrenched and that broiler shortages persist, then the rebate may be extended for another period as deemed appropriate by the Commission in consultation with DALRRD.
- c) The volume of the TRQ for the first 6 months was determined to be 86 000 tons, which may be equally divided into two 3-month periods i.e. 43 000 tons per 3-month period, with the permits administered on a 3-month basis over the first two 3-month period at 43 000 tons per 3-month period.
- d) Poultry products classifiable under tariff subheadings 0207.14.1 and 0207.14.9 should be rebated to 2019 ordinary customs duty levels and all other poultry products classifiable under tariff subheading 0207.1 should be rebated to free of duty for low income consumers, as summarized in the table below:

<b>Tariff Subheading</b>	<b>Description</b>	<b>Current Duty</b>	<b>Extent of the Rebate</b>	<b>Duty after rebate</b>
0207.12.20	Carcasses	31%	Full duty	0%
0207.12.90	Other	82%	Full duty	0%
0207.14.1	Boneless cuts	42%	Full duty less 30%	12%
0207.14.2	Offal	30%	Full duty	0%
0207.14.9	Bone-in	62%	Full duty less 25%	37%

- e) The chicken imported in terms of this rebate item may only be for consumption or manufacture of products for consumption, in the country of import and may not be re-exported to any other SACU member state. Every SACU member state will be able to administer the rebate to ensure its own population has access to poultry products during shortages that occur as a result of an outbreak of HPAI in South Africa. In view of the fact that the purpose of this rebate is to address a crisis situation, it is deemed appropriate to link it to the consumption levels of each country and deter re-exporting into other SACU countries, harming domestic industries;

- f) The initial allocation be shared between HDIs and HIs on a 50/50 basis, with all applicants allocated the same minimum quantity, with additional quantities allocated by ITAC across all applicants based on their market share, which provision will be reviewed regularly and revert with such changes as deemed appropriate for consideration by the Minister of Trade, Industry and Competition;
- g) DALRRD to provide monthly updates on the performance of domestic production and the epidemiological path of the outbreak. The issuance of permits under the rebate provision may be discontinued if DALRRD indicates that domestic production of poultry has satisfactorily recovered from the impact of the HPAI in South Africa;
- h) DALRRD (Directorate: Statistical and Economic Analysis), in collaboration with the National Agricultural Marketing Council (“NAMC”), to, at the end of the first 3-month period, submit a price monitoring report, which is a culmination of 3 monthly price monitoring reports submitted to ITAC with a particular focus on producer, wholesale and retail price movements to assess the impact of the rebate provision on pricing;
- i) To ensure that consumers benefit from competitively priced poultry meat imports, the Minister may request the Competition Commission of South Africa, through the unit dealing with excessive pricing and price gauging and/or the National Consumer Council (“NCC”) (as the custodian of the Consumer Protection Act), to monitor poultry retail prices by publishing regulations (informed by section 120(1)d and section 8(3)(f) of the Consumer Protection and Competition Acts, respectively) to prevent firms from charging consumers ‘unconscionable, unfair, unreasonable and unjust prices’ and to prevent them from charging ‘excessive prices; and
- j) The temporary rebate will not apply to anti-dumping duties as rebating these duties would remove protection afforded to the domestic producers of poultry against unfair trade practices. The domestic poultry producers should rather be focused on competing against firms that do not make use of these unfair trade practices.



## 1. APPLICATION AND TARIFF POSITION

- 1.1. The Minister of Trade, Industry and Competition (from here on referred to as “the Minister”) directed the International Trade Administration Commission of South Africa (“ITAC”) in terms of section 16(1)(d)(ii) of the International Trade Administration Act, Act 71 of 2002 (“ITA Act”), to consider the creation of a temporary rebate provision on meat and edible offal, fresh, chilled or frozen of fowls of the species *Gallus domesticus* classifiable under HS0207.1.
- 1.2. As indicated by the Minister, this Directive follows an engagement with the Minister of the Department of Agriculture, Land Reform and Rural Development (“DALRRD”) as well as a statement issued by DALRRD, which confirmed that South Africa is currently dealing with a number of Highly Pathogenic Avian Influenza (“HPAI”) outbreaks, which led to the culling of 2 680 758 chickens as at 21 September 2023. The impact of the depletion of locally available poultry will have severe food security implications on the availability and prices of poultry, which is a basic, staple protein in South Africa.
- 1.3. The Minister therefore directed ITAC to consider the creation of a temporary rebate provision on meat and edible offal, fresh, chilled or frozen of fowls of the species *Gallus domesticus*, classifiable under HS0207.1, taking into consideration the following aspects:
  - i. *“The investigation must be done in an expedited manner;*
  - ii. *Consideration must also be given to whether the temporary rebate should only be applicable to ordinary customs duties or whether rebating anti-dumping duties should also be included; and*
  - iii. *The rebate must be made subject to a rebate permit issued by ITAC in consultation with the Director-General of DALRRD.”*

1.4. The Directive was published in Government Gazette Number 49399 on 02 October 2023, for a period of two weeks for interested parties to comment.

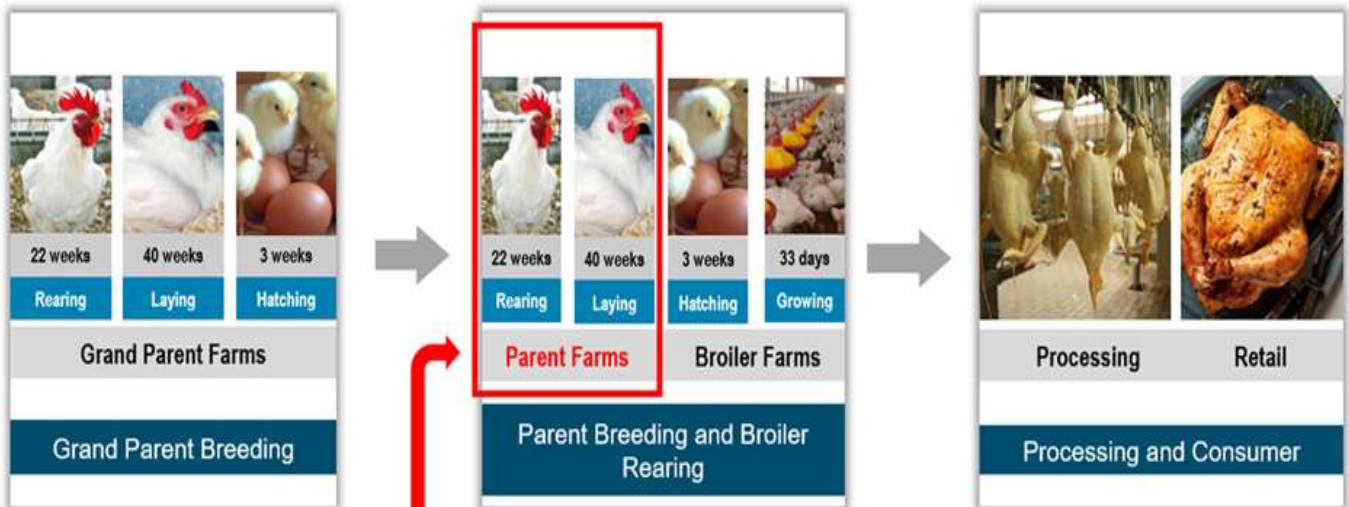
## 2. PRODUCT DESCRIPTION AND TARIFF POSITION

### Product description

2.1. The subject product is meat and edible offal, fresh, chilled or frozen of fowls of the species *Gallus domesticus*, classifiable under tariff subheading 0207.1. The broiler industry has an integrated production value chain. Broiler breeders are birds that produce fertile hatching eggs. These hatching eggs are set in hatcheries and incubated for a period of three weeks until the broiler day-old chick hatches.

2.2. **Figure 1** below shows that the production of broilers comprises of the breeding, rearing, laying, production, slaughtering and processing of chickens.

**Figure 1: Integrated broiler production chain**



**Bird flu impact in the integrated broiler production chain - culling of infected broiler breeding parent stock**

Source: SAPA, 2023



2.3. During the production process, the general steps for producing the subject products are as shown in **Table 1** below:

**Table 1: Poultry production process**

<b>Stages</b>	<b>Description</b>
Breeding	Genetic material, at the grandparent level, in the form of day-old-chicks is imported and maintained locally. The import of genetic material is done on a rolling basis. Depleted stock is sold as live chicken or slaughtered.
Rearing and laying	The purpose of these operations are to generate eggs for own or third party hatcheries, from where commercial level day-old-chicks are obtained. The cost to the business is determined by the cost of day-old-chicks placed on the broiler farm. Depleted stock is sold live or slaughtered.
Production	Day-old-chicks are placed on broiler farms and grown to a point of readiness for the abattoir. Companies own most of the farms and some belong to or are leased to contract growers. The contract growers operate on a modified franchise basis, the focus being the healthy and timely growth of the birds.
Slaughter and processing	These chickens are delivered live at the abattoirs where the chickens are slaughtered. The slaughtered broiler birds are either processed as whole birds or cut up in portions and sold as either chilled or frozen products. The subject products are produced primarily for human consumption.

**Source: SAPA**

### **Tariff Structure**

2.4. The existing tariff structure for the subject products is shown in **Table 2** below and shows that the subject products currently attract duties ranging from free, 30%, 31%, 42% 62% to 82% *ad valorem* from countries under the General; EU, EFTA; SADC, Mercosur and AfCFTA, respectively.

**Table 2: Tariff position for the subject products**

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty					
				General	EU	EFTA	SADC	MERCOSUR	AfCFTA
02.07		Meat and edible offal, of the poultry of heading 01.05, fresh, chilled or frozen:							
	0207.1	Of fowls of the species <i>Gallus domesticus</i> :							
	0207.11	Not cut in pieces, fresh or chilled	kg	free	free	free	free	free	free
	0207.12	Not cut in pieces, frozen:							
	0207.12.10	Mechanically deboned meat	kg	free	free	free	free	free	free
	0207.12.20	Carcasses (excluding necks and offal) with all cuts (e.g. thighs, wings, legs and breasts) removed	kg	31%	free	31%	free	31%	31%
	0207.12.90	Other	kg	82%	free	82%	free	82%	82%
	0207.13	Cuts and offal, fresh or chilled	kg	free	free	free	free	free	free
	0207.14	Cuts and offal, frozen							
	0207.14.1	Boneless cuts							
	0207.14.11	Breasts	kg	42%	free	42%	free	42%	42%
	0207.14.13	Thighs	kg	42%	free	42%	free	42%	42%
	0207.14.15	Other	kg	42%	free	42%	free	42%	42%
	0207.14.2	Offal:							
	0207.14.21	Livers	kg	30%	free	30%	free	30%	30%
	0207.14.23	Feet	kg	30%	free	30%	free	30%	30%
	0207.14.25	Heads	kg	30%	free	30%	free	30%	30%
	0207.14.29	Other	kg	30%	free	30%	free	30%	30%
	0207.14.9	Other							
	0207.14.91	Whole bird cut in half	kg	62%	free	62%	free	62%	62%
	0207.14.93	Leg quarters	kg	62%	free	62%	free	62%	62%
	0207.14.95	Wings	kg	62%	free	62%	free	62%	62%
	0207.14.96	Breasts	kg	62%	free	62%	free	62%	62%
	0207.14.97	Thighs	kg	62%	free	62%	free	62%	62%
	0207.14.98	Drumsticks	kg	62%	free	62%	free	62%	62%
	0207.14.99	Other	kg	62%	free	62%	free	62%	62%

Source: SARS, 2023

- 2.5. The applicable WTO bound rate level for the chicken meat concerned is 82% *ad valorem*.
- 2.6. The proposed rebate descriptions provided by the South African Revenue Service (“SARS”) are as shown in **Table 3** below:

**Table 3: Rebate Descriptions**

Rebate Item	Tariff subheading	Description	Extent of Rebate
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xxxxx	0207.12  (Carcasses)	Temporary rebate provision for the full customs duties in Part No. 1 of Schedule No. 1 on meat and edible offal, not cut in pieces, frozen, of fowls of the species Gallus domesticus, classifiable under tariff subheading 0207.12, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission (ITAC) may allow by specific permit after consultation with the Director General: The Department of Agriculture, Land Reform and Rural Development (DALRRD), for the duration of a shortage of chicken as a result of an outbreak of highly pathogenic avian influenza (HPAI) in South Africa, provided that ITAC or equivalent authority in SACU member states, is satisfied that –  (i)the chicken is only for consumption or manufacture of products for consumption, in the country of import; and  (ii) the chicken imported in terms of this rebate item is not re-exported to any other SACU member state	Full rebate
	0207.14.1 (Boneless cuts)	Temporary provision for a partial rebate of “full duty less 30%” on the customs duties in Part No. 1 of Schedule No. 1 on boneless cuts, frozen of fowls of the species Gallus domesticus, classifiable under tariff subheading 0207.14.1, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission (ITAC) may allow by specific permit after consultation with the Director General: The Department of Agriculture, Land Reform and Rural Development (DALRRD), for the duration of a shortage of chicken as a result of an outbreak of highly pathogenic avian influenza (HPAI) in South Africa, provided that ITAC or equivalent authority in SACU member states, is satisfied that –  (i)the chicken is only for consumption or manufacture of products for consumption, in the country of import; and  (ii) the chicken imported in terms of this rebate item is not re-exported to any other SACU member state.”	Full duty less 30%
	0207.14.2 (Offal)	Temporary rebate provision for the full customs duty in Part No. 1 of Schedule No. 1 on offal, frozen of fowls of the species Gallus domesticus, classifiable under tariff subheading 0207.14.2, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission (ITAC) may allow by specific permit after consultation with the Director General: The Department of Agriculture, Land Reform and Rural Development (DALRRD), for the duration of a shortage of chicken as a result of an outbreak of highly pathogenic avian influenza (HPAI) in South Africa, provided that ITAC or equivalent authority in SACU member states, is satisfied that –  (i)the chicken is only for consumption or manufacture of products for consumption, in the country of import; and  (ii) the chicken imported in terms of this rebate item is not re-exported to any other SACU member state	Full rebate
	0207.14.9 (Bone-in)	“Temporary provision for a partial rebate of “full duty less 25%” on the customs duties in Part No. 1 of Schedule No. 1 on meat, frozen, other, of fowls of the species Gallus domesticus, classifiable under tariff subheading 0207.14.9, in such quantities, at such times and subject to such conditions as the International Trade Administration	Full duty less 25%

	<p>Commission (ITAC) may allow by specific permit after consultation with the Director General: The Department of Agriculture, Land Reform and Rural Development (DALRRD), for the duration of a shortage of chicken as a result of an outbreak of highly pathogenic avian influenza (HPAI) in South Africa, provided that ITAC or equivalent authority in SACU member states, is satisfied that –</p> <p>(i) the chicken is only for consumption or manufacture of products for consumption, in the country of import; and</p> <p>(ii) the chicken imported in terms of this rebate item is not re-exported to any other SACU member state.”</p>	
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**Source: SARS**

**Other applicable duties: Anti-Dumping and Safeguard duties**

2.7. Anti-dumping duties were imposed against imports of chicken from the United States of America (“USA”) in 2017. These duties were reviewed in 2022, the outcome of which is as shown in **Table 4** below:

**Table 4: USA anti-dumping duties**

Tariff subheading	Description	Country	Duty
0207.14.91	Frozen bone-in portions of fowls of the species Gallus domesticus	USA	940c/kg*
0207.14.93	Frozen bone-in portions of fowls of the species Gallus domesticus	USA	940c/kg*
0207.14.95	Frozen bone-in portions of fowls of the species Gallus domesticus	USA	940c/kg*
0207.14.96	Frozen bone-in portions of fowls of the species Gallus domesticus	USA	940c/kg*
0207.14.97	Frozen bone-in portions of fowls of the species Gallus domesticus	USA	940c/kg*
0207.14.98	Frozen bone-in portions of fowls of the species Gallus domesticus	USA	940c/kg*
0207.14.99	Frozen bone-in portions of fowls of the species Gallus domesticus	USA	940c/kg*

**Source: SARS**

2.8. However, it should be noted that, in terms of the agreement reached between South Africa and the USA, to preserve South Africa’s participation in the African Growth and Opportunity Act (“AGOA”), this anti-dumping duty only takes effect after the applicable quota of USA chicken into the Southern African Customs Union (“SACU”) has been exceeded, (currently, South Africa increased the annual TRQ allocation by approximately 2 per cent for 2023/2024 to 71 963 tons. This rebate may also contribute to the alleviation of the shortage of bone-in chicken portions as a result of the US lifting export bans on poultry in a number of States due to the containment of previous HPAI outbreaks, which prevented exports.

2.9. All other current anti-dumping duties are contained in the Customs and Excise Act, No. 91 of 1964, Schedule 2, Part 1.

### 3. HISTORICAL BACKGROUND OF THE SOUTH AFRICAN POULTRY TARIFF STRUCTURE

3.1. The tariff structure of agricultural products in various countries is subject to complex tariff structures. For example, in the European Union (“EU”) and the USA, the Most Favoured Nation (“MFN”) tariff for boneless cut and bone-in portions are subject to specific duties.

3.2. Prior to the implementation of ITAC Report No.442 in September 2013, the tariff structure for poultry in South Africa had both *ad valorem* and non-*ad valorem* duties and tariff lines for poultry in Schedule 1 to the Customs and Excise Act, Act 91 of 1964, operated at a 6-digit, 7-digit or 8-digit level. Table 5 below reflects the tariff structure for poultry prior to the implementation of ITAC Report No.442 in 2013.

**Table 5: The poultry tariff structure prior implementation of Report 442 in 2013**

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty			
				General	EU	EFTA	SADC
<b>02.07</b>		<b>Meat and edible offal, of the poultry of headings 01.05 fresh, chilled or frozen</b>					
	<b>0207.12</b>	<b>Not cut in pieces frozen</b>					
	0207.12.20	Carcasses (excluding necks and offal) with all cuts (e.g. thighs, wings, legs and breasts) removed	kg	27%	free	27%	Free
	0207.12.90	Other*	kg	27%	free	27%	Free
	<b>0207.14</b>	<b>Cuts and offal, frozen</b>					
	0207.14.10	Boneless cuts	Kg	5%	free	5%	Free
	0207.14.20	Offal	Kg	27%	free	27%	Free
	0207.14.90	Other**	kg	220c/kg	free	220c/kg	Free

Source: ITAC Report No.442

3.3. As shown in **Table 5** above, prior to the implementation of ITAC Report No.442 in 2013, there were fewer tariff lines for poultry when compared to the current tariff structure, which further split the tariff heading into a variety of subheadings for various chicken portions.

3.4. **Table 6** below shows the poultry tariff structure prior the implementation of ITAC Report 608 in 2019. **Table 6** shows that boneless cuts attracted a 12% *ad valorem* duty and bone-in-portions attracted a 37% *ad valorem* duty from EFTA, Mercusor and Non-FTA countries. The subject products attracted a zero duty from EU and SADC.

**Table 6: The poultry tariff structure prior to implementation of ITAC Report 608 in 2019**

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty						
				General	EU	EFTA	SADC	MERCOSUR		
02.07		<b>Meat and edible offal, of the poultry of heading 01.05, fresh, chilled or frozen:</b>								
	0207.1	<b>Of fowls of the species Gallus domesticus:</b>								
	0207.14	<b>Cuts and offal, frozen</b>								
	0207.14.1	<b>Boneless cuts</b>								
	0207.14.11	Breasts	kg	12%	free	12%	free	12%		
	0207.14.13	Thighs	kg	12%	free	12%	free	12%		
	0207.14.15	Other	kg	12%	free	12%	free	12%		
	0207.14.9	<b>Other</b>								
	0207.14.91	Whole bird cut in half	kg	37%	free	37%	free	37%		
	0207.14.93	Leg quarters	kg	37%	free	37%	free	37%		
	0207.14.95	Wings	kg	37%	free	37%	free	37%		
	0207.14.96	Breasts	kg	37%	free	37%	free	37%		
	0207.14.97	Thighs	kg	37%	free	37%	free	37%		
	0207.14.98	Drumsticks	kg	37%	free	37%	free	37%		
	0207.14.99	Other	kg	37%	free	37%	free	37%		

**Source: SARS**



#### 4. HISTORICAL OVERVIEW OF THE HPAI OUTBREAKS IN SOUTH AFRICA

4.1. South Africa experienced its first significant HPAI outbreak in June 2017. **Table 7** below and **Figure 2** below show the periods of the outbreaks, number of provinces affected, the HPAI strain, as well as the number of birds affected.

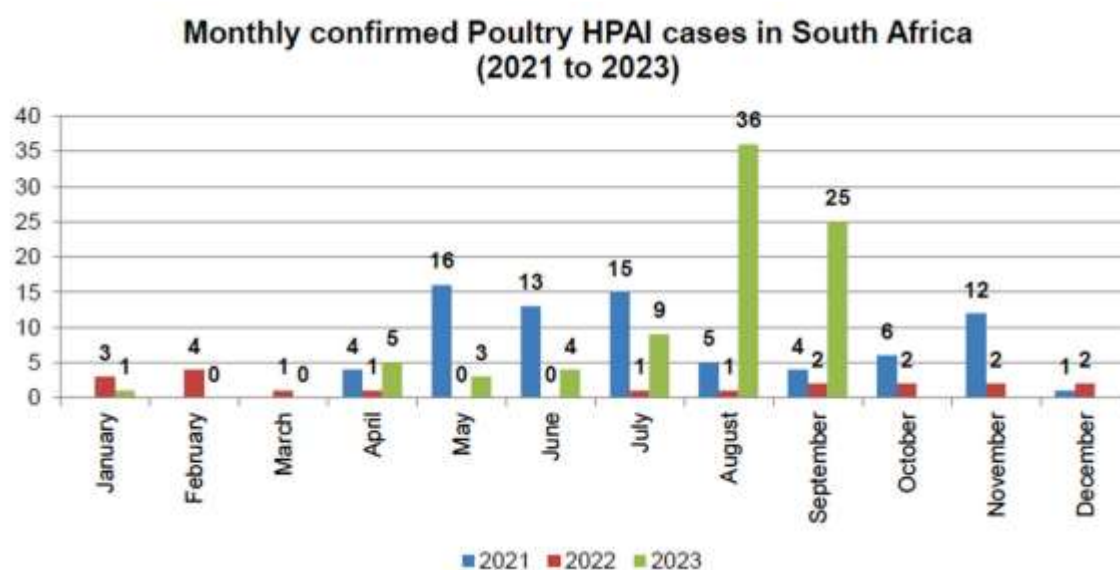
**Table 7: Historical overview of HPAI outbreak in SA**

Outbreak period	Provinces affected	Strain	Cases	Estimated Broilers culled	Estimated Layers culled	Estimated Total number of Birds culled
June 2017	Gauteng, Free State, Mpumalanga, Kwa-Zulu Natal, and Western Cape	H5N8	-	700,000	4.7 million	5.4 million
June 2021	Gauteng, North West, Western Cape, Mpumalanga, Free State, Kwa-Zulu Natal, and Eastern Cape	H5N1	76	-	-	3 million <sup>1</sup>
April 2023	Western Cape, Gauteng, Mpumalanga, Free State, Kwa-Zulu Natal, Limpopo, and North West	H5, H7	106	2.5 million	5 million	7.5 million

*Source: DALRRD*

<sup>1</sup> The breakdown of the information could not be provided as the information was not available.

**Figure 2: Monthly confirmed Poultry HPAI cases in South Africa (2021-2023)**



Source: DALRRD Reports (2021-2023) & SAPA presentation (2023)

- 4.2. **Figure 2** above shows the monthly confirmed poultry HPAI cases for the period 2021 – 2023.
- 4.3. The recent HPAI outbreak had the most confirmed cases in August 2023 at 36 cases, which reduced to 25 cases in September 2023, indicating a 30% decline in the number of confirmed cases month-on-month.
- 4.4. **Table 7** above shows that the outbreaks had a widespread impact, affecting numerous farms in multiple provinces, such as Gauteng, Free State, Mpumalanga, Kwa-Zulu Natal, and Western Cape. These provinces collectively accounted for approximately 68% of the domestic total broiler production in the year 2017.
- 4.5. A report compiled by the Bureau of Food and Agricultural Policy (“BFAP”) in 2018 showed the scale of the 2017 HPAI outbreak’s impact, indicating that around 5.4 million<sup>2</sup> birds had to be culled as a result. The majority of these culled birds, approximately 4.7 million, were from the layer sector, while the remaining, approximately 700,000 birds, came from the broiler sector, primarily at the breeder level representing approximately 10% of broiler breeder stock.

<sup>2</sup> It should be noted that a recent SAPA presentation to parliament which has also been shared with the Commission as part of SAPA’s comments, a figure of 2.5 million birds culled for the 2017 outbreak was quoted, which was contrary to the figure quoted in BFAP report prepared for SAPA in 2018 and a recent DALRRD presentation to parliament (20 October 2023).

- 4.6. As shown in Table 7 above, following the 2017 outbreak, there was another outbreak experienced in 2021, which led to the culling of approximately 3 million birds. Table 7 above also shows the scale of the impact during the 2023 outbreak which represents approximately 30% of broiler breeder stock.
- 4.7. The disproportionate impact on the layer and broiler sectors could be explained by differences in production processes and lifecycles. The layer sector typically maintains a longer lifecycle for its birds, which means the impact of the outbreak can be more protracted. Moreover, layer production frequently involves open-sided housing, rendering it more susceptible to external factors, including the spread of avian flu.<sup>3</sup>
- 4.8. Compared to the HPAI outbreak of 2017, the recent outbreak exhibits several notable disparities. Most notably, it is characterized by a significantly broader geographic distribution, which has led to a higher incidence of avian mortalities. This increased mortality rate can primarily be attributed to the culling of approximately 2 million more birds during the ongoing outbreak, as compared to the 2017 incident.

#### **Strategies employed during the 2017 and 2021 Outbreaks**

- 4.9. In 2017, to address the outbreak, South Africa adopted a comprehensive strategy that involved the culling of affected poultry sites, increasing biosecurity measures on poultry farms and the potential use of vaccination.
- 4.10. According to information submitted by SAPA, following the 2017 HPAI outbreaks, Astral developed several contingency plans to minimise the impact on its integrated broiler production value chain. These strategies involved, amongst others, extending the depletion age of the broilers and setting of eggs from younger flock. Consequently, Astral notes that the current HPAI has not caused a decrease in revenue (from being at a level of already selling below cost) in relation to the sale of chicken meat. This was attributed the implementation of contingency measures to ensure it has a sufficient pipeline of product.

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<sup>3</sup> BFAP, 2018. Economic impact of the 2017 Highly Pathogenic Avian Influenza outbreak in South Africa. [https://www.bfap.co.za/wp-content/uploads/2023/05/Economic-impact-of-HPAI\\_Final.pdf](https://www.bfap.co.za/wp-content/uploads/2023/05/Economic-impact-of-HPAI_Final.pdf)

- 4.11. With regards to the current 2023 outbreak, it was submitted to the Commission that the South African government and poultry industry has implemented a multi-faceted approach to deal with these outbreaks. These includes; the culling of chickens at affected sites, requesting the industry to ensure the utmost biosecurity measures are implemented on poultry farms, the facilitation of the importation of fertile eggs for the broiler industry and possible vaccination.
- 4.12. In light of the recent outbreak of HPAI in South Africa, countries, including Botswana, Lesotho, and Namibia, have taken precautionary measures by implementing temporary bans on imports of South African poultry products.

## **5. POLICY CONSIDERATIONS**

### **5.1. AFRICAN GROWTH AND OPPORTUNITY ACT (“AGOA”)**

- 5.1.1. AGOA is a United States Trade Act, enacted on 18 May 2000 and renewed in 2015 as Public Law, 106 of the 200th Congress. AGOA has since been renewed to 2025. The legislation significantly enhances market access to the USA for qualifying Sub-Saharan African countries.
- 5.1.2. A Tariff Rate Quota (“TRQ”) for frozen bone-in chicken pieces was created in the context of AGOA, based on an arrangement in 2015 between SAPA, the USA Poultry and Egg Export Council (“USAPEEC”) and the National Chicken Council, to ensure South Africa’s continued participation under AGOA.
- 5.1.3. The arrangement between the above-mentioned parties included, *inter alia*, the allowance of an annual quota of at least 65 000 tons of USA frozen bone-in chicken cuts into the South African market for which anti-dumping duties are waived. At least 50 per cent of the quota was intended to be allocated to historically disadvantaged individuals (“HDIs”).
- 5.1.4. The rebate provision concerned was implemented by the South African Revenue Service (“SARS”) on 18 December 2015.

5.1.5. The current quota level rebating the full anti-dumping duty on frozen bone-in portion of the fowls of the species *Gallus domesticus* imported from or originating in the USA is 71 963 tons.

## 5.2. THE SA POULTRY MASTER PLAN

5.2.1. The South African Poultry Master Plan, launched in 2019, was developed in collaboration with government, industry stakeholders, and other partners to address challenges and seize opportunities within the poultry sector. The Master Plan is a strategic initiative aimed at promoting and supporting the growth and sustainability of the South African poultry industry. It focuses on various aspects of the poultry value chain, from production and processing to distribution and export.

5.2.2. Some of the strategic objectives include, amongst others, ensuring that locally produced product makes up an increasingly larger proportion of consumption over time as well as expand the industry by increasing capacity at all stages of the value chain – farming of feed, farming of chickens and processing of poultry product – thereby increasing fixed investment, employment and the value of output. The output of poultry products should increase by around 10% within three years. The Master Plan also aims at increasing the level of black participation and particularly ownership across the value chain and increase employment and worker share-ownership in the sector.

5.2.3. The Master Plan also aims to expand domestic poultry sector, avoid losing local capacity and to keep imports in check. The Master Plan seeks to act decisively against unfair forms of trade and any attempts to dump poultry products in the domestic market. The Master Plan acknowledges the crucial necessity of stabilizing and reducing imports to achieve stability and foster the growth of the domestic industry.

5.2.4. **The Master Plan recognises some of the urgent challenges facing the sector:**

- a) **Cost of feed:** The cost of feed constitutes a large portion of the cost of chicken production. Maize and soya prices are determined internationally but tend to increase for South African producers during drought years. Many countries

subsidise their primary farming sector, allowing access to cheaper inputs for their poultry sectors.

- b) **Scale of production:** The reasonably small scale of production in South Africa makes us vulnerable to exporting countries, which exploit economies of scale. In addition, South Africa tends to slaughter broilers at a lower weight than our competitors, placing South Africa at a disadvantage in certain markets.
- c) **Segmenting production:** In recent years, several large poultry exporting countries have targeted South Africa's market for brown meat. These exporters provide white meat to the European and American markets where much higher prices are paid for breast meat, and export the remaining brown portions to South Africa at low prices. This is known in the trade as 'balancing the carcass' and is widely practised.
- d) **Inability to export:** Despite the fact that South Africa has tariff free access to Europe, South Africa has not been able to export poultry to Europe largely because it has not developed the necessary systems to meet the sanitary and phyto-sanitary requirements of the European market. South Africa's exports to other countries are also very limited, with exports constituting no more than 2% of production. This has limited South Africa's ability to compete, and to grow the local industry.
- e) **Transformation:** Although some progress has been made, South Africa has not moved sufficiently with regard to increasing black ownership throughout the value chain. Some immediate opportunities exist to improve the situation.

## 6. INDUSTRY AND MARKET OVERVIEW

### International Market

- 6.1. The following section discusses the international outlook in relation to, amongst others, production, exports, consumption trends, as well as the impact of the HPAI.
- 6.2. According to the United States Department of Agriculture ("USDA"), global production is forecast to be 1% higher in 2024 to a record 103.3 million tons. Production gains

by the USA and Brazil as well as increases by many medium-sized producing countries will more than offset a decline in China.

- 6.3. Brazil surpassed China to become the world's second largest producer in 2022 and continues to solidify its position. Brazil's record high forecast is supported by strong foreign demand and moderating production costs, particularly lower feed prices.
- 6.4. A reduction in feed costs is expected to sustain production gains globally along with the assumption of HPAI recovery in impacted countries such as Argentina, Chile, EU, Turkey, and South Africa. China's production is forecast at 3 percent lower to 13.9 million tons in terms of declines for both white and yellow broilers. White broiler production is expected to be weakened by HPAI-related import restrictions negatively impacting genetics while yellow broiler production will wane on the closure of live poultry markets.
- 6.5. Furthermore, the USDA's Global Market Analysis indicates that global exports are forecast at 3 per cent higher in 2024 to a record 14.0 million tons following relatively stagnant growth trade in 2023. It was also stated that despite a slowing global economy, which stymies robust consumption growth, chicken demand will remain firm as consumers in many countries seek relatively lower-cost animal protein.
- 6.6. The world's leading exporter, Brazil, is forecasted to capture much of the gain due to its price competitiveness and extensive market access compared to most other major exporters. Brazil's HPAI outbreaks have been limited to wild and backyard cases which are generally not subject to restrictions by trading partners. Turkey, the USA, Thailand, and the United Kingdom (UK) will also benefit from firm global demand while Chile's trade recovers from the lifting of HPAI-related restrictions. EU exports are forecasted to remain stagnant due to ongoing HPAI-related trade restrictions.
- 6.7. Understanding the importance of HPAI in recent years is crucial. In 2021, the United States faced its most severe HPAI outbreak ever, which led to the culling of over 50 million birds. This resulted in a shortage of chicken meat and higher prices. Similar situations have occurred in other major chicken-producing countries like China, Brazil, and the EU. They, too, have grappled with avian flu outbreaks, resulting in the culling of a large number of birds and disruptions in the supply chain.

- 6.8. Avian flu outbreaks have led to various responses from countries, including the establishment of early detection and response systems, vaccination of poultry flocks, and trade restrictions to prevent the spread of the disease. However, the impact of these outbreaks on the global chicken meat trade and consumers remains a significant concern.
- 6.9. The consequences of avian flu extend beyond production disruptions and can affect trade dynamics, as seen in the case of South Africa, which stopped importing chicken from the EU, leading to a shift in poultry imports from Brazil and the USA. However, bird flu outbreaks in trade partner countries, such as Argentina, have made the trade landscape unpredictable. Argentina imposed an export ban after bird flu was detected in the local industry in February 2023, however they resumed poultry shipments weeks after. The virus' spread in the United States has added further uncertainty to the global chicken meat trade, making it difficult to predict future developments.
- 6.10. According to FAO Agricultural Outlook 2023-2032<sup>4</sup>, market projections, global poultry consumption is projected to increase to 91 mt retail weight equivalent (“rwe”), accounting for nearly half of the additional meat consumed. The global increase in protein from poultry consumption has been growing for decades, and this trend is expected to continue. This is due to several factors, particularly the lower price of poultry compared to other types of meat and that it contains a healthy combination of protein and low fat.
- 6.11. The increase in poultry consumption in the last decade was driven by rising consumption in Asia, particularly in China, India and Indonesia, Pakistan and the Philippines. These trends will continue, but consumption is projected to grow rapidly in other regions, including Brazil, Sub-Saharan Africa and the USA, reflecting poultry’s significant and increasing role in diets worldwide.

### **SACU Market**

- 6.12. The broiler sector plays a crucial role in the South African agricultural landscape. This sector hugely contributes to the economy by ensuring food security, job creation and

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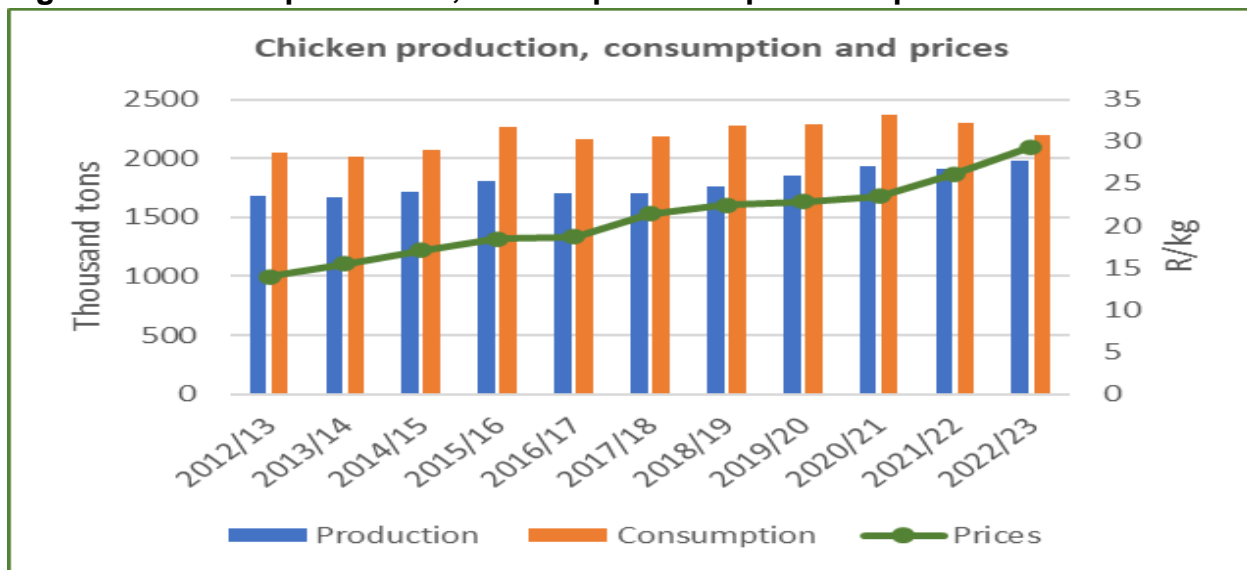
<sup>4</sup> OECD-FAO Agricultural Outlook 2023-2032



providing a cheaper source of protein. In 2021/22, the broiler sector generated over R54 billion in gross value which was about approximately 14% of the total gross value for South African agricultural products.

- 6.13. With regards to employment, the broiler sector recorded 56 458 employees, which include hatchery and rearing industries, the processing sector and the broiler distribution industries in 2022. Furthermore, chicken meat constitutes the highest consumed animal protein within the livestock sector leading with 36.22kg per capita consumption, followed by beef at 17.09kg, pork at 5.8kg and sheep meat at 3kg in 2022/23 (DALRRD, 2023).
- 6.14. Broiler production takes place in all provinces of South Africa. Geographically, the leading producers of broilers are the provinces of North West, Mpumalanga, Western Cape and Free State. **Figure 3** below presents the broiler market in terms of production, consumption and producer prices.

**Figure 3: Chicken production, consumption and producer prices**



Source: Quantec, 2023; DALRRD, 2023 and SAPA, 2022

- 6.15. In the past decade, South Africa has not been producing sufficient chicken to meet the local demand, consequently, the shortage is complimented with imports making the country a net importer of broiler meat/chicken. During the period analysed, production and consumption have been fluctuating at an increasing rate and in 2021/22, they both declined. The lower supply had caused an increase in prices

which in turn lowered the consumers' purchasing power. In 2022/23, production levels slightly increased while consumption levels continued to decrease. The decline in consumption is likely due to prices that remained high over the same period. The prices show consecutive increases of 11% and 12% in the past two years, respectively.

6.16. Information used in the next section of the report will be reflective of the data supplied by the following companies, which represent the major producers in the SACU poultry sector, representing approximately 60% of the SACU market (excluding imports). The six major producers are all members of the South African Poultry Association ("SAPA"):

- Astral Operations Ltd,
- Afgri Poultry (Pty) Ltd t/a Daybreak Farms,
- Grain Field Chickens (Pty) Ltd,
- RCL Foods Consumer (Pty) Ltd,
- Sovereign Food Investments Ltd, and
- Supreme Poultry (Pty) Ltd.

## **7. ECONOMIC ANALYSIS**

7.1. The economic analysis in this section is presented according to the data of the overall poultry business, which was submitted by SAPA, on behalf of its members.

### **Market and Trade Data analysis**

7.2. This section provides an overview of the total poultry industry, on an aggregate level, in line with products classifiable under tariff heading 0207.1.

7.3. For ease of analysis, it is important to note the following points, based on information submitted by SAPA, which outlines the methodology and assumptions that were taken into account when compiling and analyzing the data presented in the following sections:

7.3.1. SAPA has used the forecasts provided by the participating producers as well as historic estimates of the number of broilers slaughtered in the SACU market provided

by Leading Edge Poultry and FAOSTAT to estimate the production and sales volumes by the non-participating SACU producers. The estimated volumes for the non-participating SACU producers have been added to the historic and forecast information provided by the participating producers to estimate the SACU domestic supply.

- 7.3.2. To estimate the size of the SACU market, the volume of imports has been added to the estimated SACU domestic supply.
- 7.3.3. For calendar year 2024, the size of the SACU market has been estimated as the greater of (i) the estimated sales volumes by all SACU producers; or (ii) the size of the SACU market in 2023 divided by the size of the SACU market in 2022.
- 7.3.4. The volume of imports for calendar year 2024 has been estimated by subtracting the volume of sales by all SACU producers from the size of the SACU market.
- 7.3.5. To estimate the increase (or decrease) in imports for 2024 as a result of the outbreak of HPAI, SAPA subtracted the import volume in 2024 from the import volume in 2023 and added the estimated increase (or decrease) in imports as a result of the outbreak of HPAI for the period September 2023 to December 2023.

#### **SACU domestic demand and supply**

- 7.4. According to information at the Commission's disposal, there was a decrease in total SACU domestic demand and an increase in the total SACU domestic supply from 2021 to 2022. The estimated total SACU domestic demand is expected to be 2.2 billion kg in 2023, with the SACU domestic supply expected to be 1.9 billion kg for 2023, which represents approximately a 0.8% decline in domestic supply when compared to 2022.
- 7.5. The forecast for 2024 anticipates a decline in domestic capacity utilization.
- 7.6. Information at the Commission's disposal indicates that production increased between 2021 and 2022, however it is expected to decline in 2023.

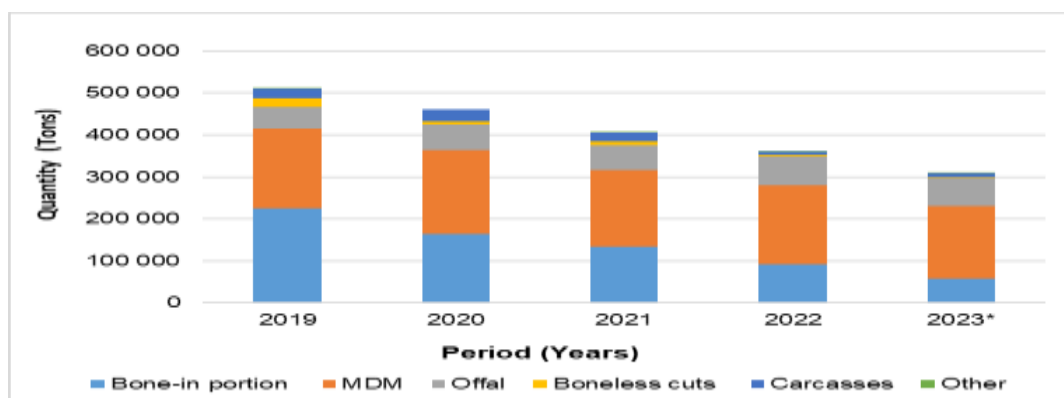
- 7.7. SAPA submitted that in light of the current outbreak, its contingency measures indicate that the accumulative effects of the strategies to be implemented are forecasted to result in production increasing in 2024 when compared to the current year 2023.
- 7.8. According to information at the Commission's disposal, domestic producers have kept inventory levels in 2023, imports of chicken is continuing, which is expected to serve as a buffer to address any potential shortages in chicken products during the upcoming festive season.
- 7.9. In regard to the net ex-factory prices for all chicken products, there has been a consistent upward trajectory for the remainder of 2023.
- 7.10. The estimated SACU domestic demand and supply projections for 2024 indicate levels surpassing those expected in 2023 for products falling within both tariff subheadings 0207.12 and 0207.14. For the period 2024, the forecasted supply and demand for products under 0207.12 is expected to increase. At the same time, the supply and demand for products under 0207.14 is also expected to increase.

## **8. TRADE ANALYSIS**

### **8.1. Imports Analysis**

- 8.1.1. This section focuses on the analysis of chicken imports into South Africa from January 2019 to September 2023, covering various types of chicken products as well as the countries from which they were imported. This section also provides an overview of the trends and patterns in chicken imports during this period and highlight the key factors driving an overall decline in imports.
- 8.1.2. **Figure 4** below, shows the composition of chicken imports into South Africa, from 2019 to 2023, in thousand tons. The figure is divided into five categories of chicken imports: bone-in portions, Mechanically Deboned Meat ("MDM"), carcasses, offal and other.

**Figure 4: Composition of poultry imports into South Africa from 2019 – 2023<sup>5</sup>**



**Source: ITC Trade Map and SARS**

- 8.1.3. **Figure 4** above shows that the total volume of chicken imports decreased over the years, from 538 440 tons in 2019 to 309 093 tons in 2023, representing a 168 259 tons decline over the period under review. This decrease is mainly due to the reduction in the imports of bone-in chicken portions, which have decreased by approximately 75% over the last five years.
- 8.1.4. Overall, the data suggests that bone-in chicken portions together with MDM, on average, represented more than 90% of total chicken imports into South Africa during the period of analysis. This is followed by imports of offal and carcasses at 7% and 2%, respectively. Furthermore, the data suggests that South Africa's chicken imports are shifting away from bone-in portions and towards processed meat products like MDM.
- 8.1.5. On the other hand, **Figure 4** also indicates that imports of MDM, (which are currently free of duty as the product is currently not produced domestically) have fluctuated over the years but remained relatively stable, with some increases in 2021 and 2022. Figure 4 also reflects that starting from 2020, MDM became the largest import category in volume, with an estimated share of approximately 53% or 173 568 tons in 2023.
- 8.1.6. Furthermore, **Figure 4** shows that carcasses, which make up a small portion of total imports, have fluctuated over the years but have generally remained under 10 000

<sup>5</sup> Trade Analysis includes both Imports and Export analysis over the past five years including figures reported year-to-date, spanning from January to September 2023

tons. In contrast, imports of offal, which include the internal organs of a chicken, have steadily increased from 50 471 tons in 2019 to 67 091 tons in 2023.

8.1.7. **Table 8**, below provides information pertaining to the origin of chicken imports, volumes, as well as the share of each country's imports from 2019 to 2023.

**Table 8: Origin of chicken imports into South Africa (Tons)**

Exporters	2019 (Tons)	2020 (Tons)	2021 (Tons)	2022 (Tons)	2023* (Tons)	Share in 2019	Share in 2023*
Brazil	262 618	262 250	279 259	272 433	257 226	51%	83%
USA	78 793	75 239	61 837	46 384	30 673	15%	10%
Argentina	37 939	29 530	23 689	33 376	15 208	7%	5%
EU	120 302	85475	33085	1 874	3 095	24%	1%
Others	11 154	7 504	7 850	5 491	2 891	2%	1%
<b>Total</b>	<b>510 806</b>	<b>459 998</b>	<b>405 720</b>	<b>359 558</b>	<b>309 093</b>	<b>100%</b>	<b>100%</b>

*Source: ITC Trade Map*

8.1.8. **Table 8** above shows that Brazil remains the largest exporter of chicken to South Africa, with a substantial increase in market share from 51% in 2019 to 83% in 2023. It is worth noting that, subsequent to the imposition of preliminary anti-dumping duties on specific Brazilian exporters, Brazil imports declined by approximately 2.5% in 2022, primarily affecting bone-in portions.

8.1.9. The USA was the second-largest exporter even though its share continued to decrease over the years, with a significant decline in market share of 46% in 2022. The reasons for the decrease in chicken imports from the USA could be attributable to the outbreak of HPAI in several states in the USA, resulting in import bans, reduced supply, and increased prices. In addition, tariff increases made it less profitable for American exporters to sell chicken to South Africa. These factors collectively contributed to the decline in the USA's market share to 10% in 2023.

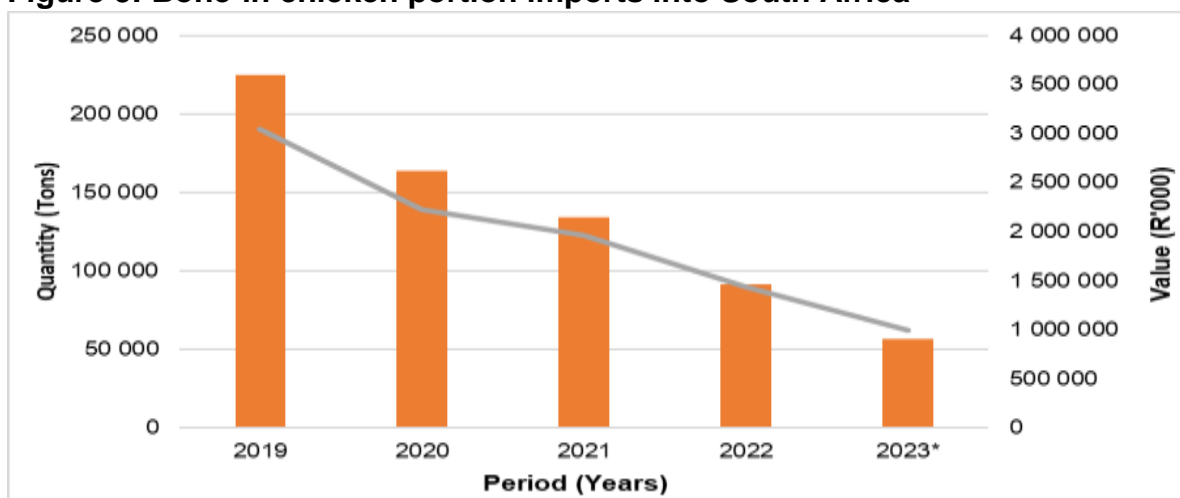
8.1.10. Argentina maintained its position as the third-largest exporter of chicken to South Africa, with a relatively stable volume of chicken imports over the past five years. Argentine imports decreased by approximately 20% between 2020 and 2021, which was followed by a significant increase of approximately 41% in 2022.

8.1.11. The EU and other countries account for a smaller share of chicken imports into South Africa, with the EU's share decreasing significantly from 13% in 2019 to just 1% in 2023. The overall decrease in EU imports may also be attributed to competitive pricing offered by other countries.

### Analysis of bone-in chicken imports

8.1.12. This section provides an overview of the volume of bone-in chicken imports over the past five years. **Figure 5** below shows the volume and value of bone-in chicken imports from 2019 to 2023.

**Figure 5: Bone-in chicken portion imports into South Africa**



Source: SARS

8.1.13. **Figure 5** above also shows, a significant decline in both the volume and value of bone-in chicken imports during the period 2019 to 2023. Specifically, the volume of imports decreased by approximately 75%, while the value of imports decreased by 68%, from R3,045,619,000 in 2019 to R992,496,466 in 2023. This significant decline over the five-year period can be attributed to several factors. One possible explanation is the increase in the MFN duty from 37% to 62% *ad valorem* and the economic impact of the COVID-19 pandemic, which may have led to a decrease in consumer demand for bone-in chicken portions.

8.1.14. Additionally, the decline in imports can be attributed to the implementation of the SA Poultry Master Plan which aims to, amongst others, promote local production of chicken, to reduce dependence on imports and boost the domestic poultry industry.

In addition, according to USDA<sup>6</sup>, the increased import duties on bone-in chicken imports and a bumper maize harvest in the country has positively impacted the productivity of the poultry industry, encouraging local production.

8.1.15. **Table 9** provides data on the origin of bone-in chicken imports into South Africa for the past five years, from 2019 to 2023.

**Table 9: Origin of bone-in chicken imports into South Africa for the past five years**

Exporters	2019 (Tons)	2020 (Tons)	2021 (Tons)	2022 (Tons)	2023* (Tons)	Average (Tons)	Share in 2019	Share in 2023
USA	73 973	73 083	60 703	45 289	30 257	56 661	33%	53%
Brazil	46 027	29 138	46 919	27 555	21 042	34 136	20%	37%
Argentina	15 533	8 366	10 818	15 108	3 674	10 700	7%	6%
EU	87 803	51 942	14 780	669	948	31 228	39%	2%
Other countries	1 662	909	1 198	2 636	792	1 439	1%	1%
<b>Total</b>	<b>224 998</b>	<b>163 438</b>	<b>134 418</b>	<b>91 257</b>	<b>56 713</b>	<b>134 165</b>	<b>100%</b>	<b>100%</b>

*Source: SARS, ITC Trade Map and ITAC calculations*

8.1.16. As observed from **Table 9** above, the USA is the largest exporter of bone-in chicken into the domestic market, followed by Brazil.

8.1.17. When focusing on the period between 2021 and 2023, which is the period under investigation, although total imports from the USA have declined by approximately 25% between 2021 and 2022, USA imports' share have increased from 45% in 2021 to 49% in 2022. The imports' share of the USA has displayed an upward trend, reaching 53% in 2023, although not for the full year.

8.1.18. Brazil's import share declined from 34% in 2021 to 30% in 2022. However, Brazil's import share increased again to approximately 37% in 2023. Total imports declined by 41% between 2021 and 2022, and a further decline of 24% occurred between 2022 to 2023. This shift in market share and imports volume may be attributed to

<sup>6</sup>[https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Poultry%20and%20Products%20Annual\\_Pretoria\\_South%20Africa%20-%20Republic%20of\\_SF2022-0024.pdf](https://apps.fas.usda.gov/newgainapi/api/Report/DownloadReportByFileName?fileName=Poultry%20and%20Products%20Annual_Pretoria_South%20Africa%20-%20Republic%20of_SF2022-0024.pdf)



factors such as changes in tariffs and anti-dumping duties, affecting Brazil's competitiveness.

8.1.19. The EU, despite enjoying duty-free access under the SADC EU-EPA, experienced a decline in exports of bone-in chicken portions to South Africa. The share of imports from the EU decreased substantially, which could be, amongst others, due to the imposition of anti-dumping duties and safeguard duties.

8.1.20. **Table 10** below shows the FOB price in R/kg of bone-in chicken imports into South Africa from various exporting countries over the past five years, with an average calculated for each exporting country.

**Table 1: FOB price (R/kg) of bone-in imports**

<b>Exporters</b>	<b>2019 (R/kg)</b>	<b>2020 (R/kg)</b>	<b>2021 (R/kg)</b>	<b>2022 (R/kg)</b>	<b>2023 (R/kg)</b>	<b>Average (R/kg)</b>
Argentina	15	13	15	15	16	15
Brazil	14	13	16	16	19	15
USA	11	11	12	13	16	12
EU	15	17	20	18	22	18
Other countries	15	11	17	13	22	14
<b>Average</b>	<b>14</b>	<b>13</b>	<b>16</b>	<b>15</b>	<b>19</b>	<b>15</b>

*Source: SARS*

8.1.21. According to SARS data, the average FOB price remained stable at R15/kg, with fluctuations based on exporting countries and years. The EU offered the highest-priced bone-in chicken portions, with an average of R18/kg, with peaks in 2021 and 2023, indicating their relatively higher cost levels.

8.1.22. In contrast, the USA provided the most competitively priced products, averaging R12/kg over the five-year period. However, when considering the period from 2021 to 2023, which is the period under investigation, USA prices showed a significant increase, increasing from R12/kg in 2021 to R16/kg in 2023, representing approximately a 33% price increase.

8.1.23. In summary, bone-in chicken imports from the USA offered the most low-priced options, the EU providing higher-priced products, and Argentina and Brazil falling in

between. These price dynamics were influenced by a range of factors, including tariffs, exchange rates, and market conditions.

## 8.2. Export Analysis

8.2.1. **Table 11** provides an overview of South African chicken exports over the past five years, shedding light on the volume of exports to various destinations.

**Table 21: South African chicken exports for the past five years**

Importers	2019 (Tons)	2020 (Tons)	2021 (Tons)	2022 (Tons)	2023* (Tons)	Share in 2019	Share in 2023*
Lesotho	23 230	22 867	25 635	25 154	19 068	51%	66%
Mozambique	13 792	12 239	3 772	8 443	5 234	31%	18%
Namibia	3 106	4 362	3 625	3 843	2 296	7%	8%
Botswana	1 926	1 393	1 412	1 423	1 245	4%	4%
United Arab Emirates	1 811	977	442	572	174	4%	1%
Other Countries	1 298	1 772	1 254	1 236	779	3%	3%
<b>Total</b>	<b>45 164</b>	<b>43 611</b>	<b>36 140</b>	<b>40 670</b>	<b>28 796</b>	<b>100%</b>	<b>100%</b>

**Source: SARS**

8.2.2. **Table 11** above shows that the overall export trend in domestic chicken exports indicate a decline from approximately 45 164tons in 2019 to 28 796tons in 2023.

8.2.3. Lesotho emerges as the primary importer of South African chicken throughout the five-year period, with its share increasing from 51% in 2019 to 66% in 2023. Mozambique, Namibia, Botswana, the United Arab Emirates, and other countries also contribute to South Africa's poultry export market.

8.2.4. As of 2023, 74% of exports were destined for the SACU countries, which adhere to the same tariffs and anti-dumping duties as South Africa.

8.2.5. In light of the fact that some SACU countries, like Namibia, have implemented trade bans on South African poultry products due to the outbreak, SAPA has indicated that domestic producers will be reallocating those export quantities to the domestic market to mitigate any potential supply shortages as a result of the avian flu outbreak.

## 9. POTENTIAL SHORTAGE ESTIMATION

- 9.1. The ongoing HPAI outbreak has the potential to affect the domestic poultry industry's capacity to fulfill local demand thus creating a potential additional shortage. Therefore, it is crucial to assess potential shortages in chicken meat resulting from the outbreak and to evaluate potential mitigating factors.
- 9.2. During the publication period of this Ministerial Directive, a number of interested parties, including the Association for Meat Importers and Exporters (“AMIE”) and Merlog Foods (“Merlog”) provided comments, with summaries of estimated shortages. However, domestic producers submitted the view that there will be no shortage of the subject product.
- 9.3. **Table 12** below provides a breakdown of different estimation methodologies used by some stakeholders to estimate the potential shortage.

**Table 32: Estimated shortages by various stakeholders**

Organization company name	or	2023 estimated shortage	Method 1	Method 2
			2024 estimated shortage	2024 estimated increase in imports as a result of the HPAI
AMIE		460 000 tons	847 000 tons	560 000 tons
Merlog Foods		-	747 000 tons	530 000 tons

*Source: AMIE and Merlog Foods, 2023*

- 9.4. Given the difference in estimations by the various stakeholders, the Commission employed a structured methodology, incorporating a comprehensive approach to forecasting broiler production and estimating the potential shortage.
- 9.5. The provided methodology takes into account various factors, including historical industry data and the potential impact of the HPAI outbreak, and subsequently provides insights into the expected broiler production for the remainder of 2023 and projections for 2024.
- 9.6. The methodology considered historical data, the impact of the HPAI, and took into account industry-specific parameters. Ultimately, it relied on historical trends, key assumptions, and reported data.

9.7. In order to address the potential shortages attributable to the HPAI, SAPA has employed several contingency measures including, *inter alia*:

- the importation of fertilized broiler eggs,
- extending the depletion age of broiler breeders, and
- setting eggs from younger flocks and relaxing grading criteria.

9.8. On balance, the Commission considered the inherent forecasting nature of SAPA's contingency measures, which naturally lacks a definitive methodology to ascertain guaranteed yields for the proposed strategies. Consequently, the Commission estimates a shortage of approximately 172,000 tons for the year 2024.

## **10. EXPECTED MOVEMENTS IN DOMESTIC AND GLOBAL PRICES**

10.1. With regards to the 2024 projections of domestic prices, although the information furnished by SAPA indicated a relatively modest price adjustment, it is crucial to consider that the outbreak is expected to raise production costs for domestic poultry producers.

10.2. This increase is attributed to the heightened biosecurity measures and the proposed contingency plans to mitigate potential shortages.

10.3. Regarding global prices, according to the OECD-FAO the projected world prices for poultry exhibit a steadily decreasing trend over the next ten years.

## **11. CONSUMER WELFARE AND FOOD SECURITY**

11.1. The protection of consumer welfare and the assurance of food security constitute paramount concerns. According to information at the Commission's disposal, the decrease in local poultry supply present a threat to the country's food security due to the possibility of inflating prices of chicken meat, which is regarded as an affordable staple protein in South Africa.

11.2. In the absence of intervention in instances where there would be shortages of chicken, there exists a heightened potential for an escalation in domestic chicken prices, thereby increasing the susceptibility of food insecurity, particularly among vulnerable demographic segments.

- 11.3. The adoption of full or partial duty reduction in the form of a TRQ mechanism may enhance both consumer welfare and food security by rendering domestic chicken more accessible.

## **12. EVALUATION OF ANTI-DUMPING DUTIES**

- 12.1. The second facet of the ministerial directive involved an evaluation of whether the temporary rebate should also encompass the creation of rebate provision for anti-dumping duties as well.
- 12.2. Anti-Dumping measures have been instituted in the domestic poultry market subsequent to numerous investigations that revealed the imposition of harmful practices by foreign poultry industries within the domestic poultry sector.
- 12.3. Information at the Commission's disposal indicates that creating rebates on anti-dumping duties would undermine the integral strategic objectives behind the South African Poultry Master Plan of which the strategic objectives are, amongst others, "to contain imports" and to "act decisively against unfair forms of trade and any attempts to dump poultry products in the South African market". It is also important to note that the Poultry Master Plan has shown effectiveness in terms of increased production, employment and capacity utilization, amongst others, by 2023 of which the domestic producers could continue to capitalize on.

## **13. COMMENTS**

- 13.1. Comments from interested parties were solicited through the publication of the directive in the Government Gazette. Subsequently, ITAC received a total of 20 comments from domestic industry stakeholders and 4 statements from international organizations.
- 13.2. Of the 20 comments received, 10 were from AGOA rebate beneficiaries, who all submitted their support for the creation of the rebate provision, including support from the Association of Meat Importers and Exporters ("AMIE") and the Emerging Black Importer and Exporters of South Africa ("EBieSA").

- 13.3. Domestic producers represented by SAPA objected to the creation of this rebate stating that their contingency measures should meet the anticipated shortages.
- 13.4. FairPlay also submitted its comments objecting to this rebate stating that rebates on tariffs and duties could undermine the Poultry Master Plan signed in 2019, putting at risk the local industry's efforts to curb imports and revitalize production.

#### **14. SUMMARY OF FINDINGS**

The Commission found that:

- 14.1. There is an expected shortage in 2023 as result of HPAI. However, this shortage can be addressed without necessitating the implementation of a temporary rebate by utilizing domestic producers' existing inventory stock. The balance can be addressed by imports.
- 14.2. There was a significant disparity in the shortage estimations for 2024 in terms of the Commission's methodology, importers, and SAPA's methodologies.
- 14.3. To determine the estimated shortage for 2024, the Commission used a structured methodology, encompassing a comprehensive approach to forecasting broiler production figures. The methodology incorporated historical data, and took into account industry-specific parameters and considered both the impact of the HPAI and the several contingency measures as suggested by SAPA (including the utilization of fertilized eggs for broilers, extending the depletion age of broiler breeders, and relaxing grading criteria) designed to lessen the impact of the potential chicken shortage. Ultimately, it relied on historical trends, key assumptions, and reported data.
- 14.4. On balance, the Commission further considered the inherent forecasting nature of SAPA's contingency measures, which naturally lacks a definitive methodology to ascertain guaranteed yields for the proposed strategies. Consequently, the Commission estimates a possible shortage of approximately 172,000 tons for the year 2024.

- 14.5. In evaluating the performance of the domestic industry, it was found that domestic producers have demonstrated an increase in production volumes between 2021 and 2022, thereby enhancing capacity utilization over the same period. Employment increased between 2021 and mid-2023.
- 14.6. Information at the Commission's disposal indicated that the pricing landscape for poultry products in the domestic market was characterized by a continuous upward trend in net ex-factory prices in 2022 and 2023.
- 14.7. Future projections also indicated the likelihood of further price increases in 2024 given the fact that the recent HPAI outbreak has exerted an additional influence, potentially leading to significant repercussions on the demand and supply dynamics.
- 14.8. During the HPAI outbreaks in 2017 and 2021, there was a monthly average price increase in Individually Quick Frozen ("IQF") chicken portions. However, in the recent 2023 HPAI outbreak, the IQF chicken portion prices increased marginally in July 2023 but decreased in August 2023, suggesting a different pattern compared to previous outbreaks.
- 14.9. Imports have shown a declining trend over the last three years, which could be attributable to, amongst others, the imposition of tariff measures, freight costs, logistical challenges, load shedding etc.
- 14.10. Information at the Commission's disposal indicated that an acceptable balance could be found in implementing a Tariff Rate Quota ("TRQ") system.
- 14.11. Poultry products classifiable under tariff subheadings 0207.14.1 and 0207.14.9 should be rebated to 2019 customs duty levels and all other poultry products classifiable under tariff subheading 0207.1 should be rebated to free of duty, that provides a balanced approach which is essential, taking into account the need to provide support for the recovery of the domestic industry and to provide access to affordable food products consumed by the lower segment of the market.
- 14.12. The rebate should be a standing rebate, which must only be utilised in instances where the Director General: DALRRD has reported an outbreak of HPAI in South Africa, linked to a shortage of poultry products as a result of the outbreak.

- 14.13. Additionally, it was also determined that the issuance of permits in terms of the rebate provision can be discontinued at any time through a publication in the Government Gazette, contingent upon the assessment by DALRRD in consultation with National Agricultural Marketing Council (“NAMC”) of the performance of domestic producers' production and their recovery from the HPAI outbreak.
- 14.14. With regards to the removal of anti-dumping duties, it was found a significant majority of stakeholders do not endorse this initiative. Information at the Commission's disposal indicates that such a measure could result in a recurrence of injury within the domestic market as its purpose is to address unfair trade practices.
- 14.15. Regarding comments submitted by the different stakeholders, it was found that the majority of importers supported the creation of a rebate, albeit not all supported rebating anti-dumping duties.
- 14.16. The domestic poultry producers, represented by SAPA, have submitted their comments objecting to the creation of a temporary rebate provision. According to SAPA, to the extent that there is a material shortage, this could be met by the contingency measures put in place by local producers as well as imports.
- 14.17. It was found that out of the total anticipated shortage of 172 000 tons for 2024, the initial rebate permits be issued for a 3-month period with a 6-month window for applications, based on HPAI prevalence. The quota for a possible 6-month period is therefore 86 000 tons.
- 14.18. With regards to the allocation the quota, the quota could be shared between Historical Disadvantaged Individuals (“HDIs”) and Historical Importers (“HIs”) on a 50/50 basis, which provision will be reviewed regularly and revert with such changes as deemed appropriate for consideration by the Minister. Based on this approach, it was found that all applicants could be allocated the same minimum quantity. Additional quantities will be determined by ITAC and distributed across all applicants based on their market share.
- 14.19. The rebate facilities concerned would be subject to an ITAC permit with specific Guidelines, Rules and Conditions.



## 15. RECOMMENDATION

15.1. In light of the foregoing, the Commission decided to recommend the following:

- a) The creation of Schedule 4 rebate provision for poultry products classifiable under tariff subheading 0207.1, administered by ITAC, in the form of a Tariff Rate Quota (“TRQ”). The rebate will be a standing rebate, which will only be utilized in instances where the Director General: The Department of Agriculture, Land Reform and Rural Development (“DALRRD”), has reported an outbreak of Highly Pathogenic Avian Influenza (“HPAI”) in South Africa, linked to a shortage of poultry products as a result of the outbreak.
- b) With regard to the current outbreak, it is recommended that the initial rebate permits be issued for a 3-month period, with a 6-month window for applications, based on HPAI prevalence. If it is found that the path of the outbreak is entrenched and that broiler shortages persist, then the rebate may be extended for another period as deemed appropriate by the Commission in consultation with DALRRD.
- c) The volume of the TRQ for the first 6 months was determined to be 86 000 tons, which may be equally divided into two 3-month periods i.e. 43 000 tons per 3-month period, with the permits administered on a 3-month basis over the first two 3-month period at 43 000 tons per 3-month period.
- d) Poultry products classifiable under tariff subheadings 0207.14.1 and 0207.14.9 should be rebated to 2019 ordinary customs duty levels and all other poultry products classifiable under tariff subheading 0207.1 should be rebated to free of duty for low income consumers, as summarized in the table below:

<b>Tariff Subheading</b>	<b>Description</b>	<b>Current Duty</b>	<b>Extent of the Rebate</b>	<b>Duty after rebate</b>
0207.12.20	Carcasses	31%	Full duty	0%
0207.12.90	Other	82%	Full duty	0%
0207.14.1	Boneless cuts	42%	Full duty less 30%	12%
0207.14.2	Offal	30%	Full duty	0%
0207.14.9	Bone-in	62%	Full duty less 25%	37%

- e) The chicken imported in terms of this rebate item may only be for consumption or manufacture of products for consumption, in the country of import and may not be re-exported to any other SACU member state. Every SACU member state will be able to administer the rebate to ensure its own population has access to poultry products during shortages that occur as a result of an outbreak of HPAI in South Africa. In view of the fact that the purpose of this rebate is to address a crisis situation, it is deemed appropriate to link it to the consumption levels of each country and deter re-exporting into other SACU countries, harming domestic industries;
- f) The initial allocation be shared between HDIs and HIs on a 50/50 basis, with all applicants allocated the same minimum quantity, with additional quantities allocated by ITAC across all applicants based on their market share, which provision will be reviewed regularly and revert with such changes as deemed appropriate for consideration by the Minister of Trade, Industry and Competition;
- g) DALRRD to provide monthly updates on the performance of domestic production and the epidemiological path of the outbreak. The issuance of permits under the rebate provision may be discontinued if DALRRD indicates that domestic production of poultry has satisfactorily recovered from the impact of the HPAI in South Africa;
- h) DALRRD (Directorate: Statistical and Economic Analysis), in collaboration with the National Agricultural Marketing Council (“NAMC”), to, at the end of the first 3-month period, submit a price monitoring report, which is a culmination of 3 monthly price monitoring reports submitted to ITAC with a particular focus on producer, wholesale and retail price movements to assess the impact of the rebate provision on pricing;
- i) To ensure that consumers benefit from competitively priced poultry meat imports, the Minister may request the Competition Commission of South Africa, through the unit dealing with excessive pricing and price gauging and/or the National Consumer Council (“NCC”) (as the custodian of the Consumer Protection Act), to monitor poultry retail prices by publishing regulations (informed by section 120(1)d and section 8(3)(f) of the Consumer Protection and Competition Acts, respectively) to prevent firms from charging consumers ‘unconscionable, unfair, unreasonable and unjust prices’ and to

prevent them from charging 'excessive prices; and

- j) The temporary rebate will not apply to anti-dumping duties as rebating these duties would remove protection afforded to the domestic producers of poultry against unfair trade practices. The domestic poultry producers should rather be focused on competing against firms that do not make use of these unfair trade practices.