Imports blamed for chicken industry's woes

By Amanda Visser

22 Apr 2013

South African chicken producers are taking up the fight against cheap imports again by asking for drastic increases in import duties.

Last year they received temporary relief from imports when stiff provisional payments were introduced by the International Trade Administration Commission (Itac) against Brazilian imports. It ended when the final determination of the anti-dumping duties were sent back to Itac by the trade and industry minister at the end of last year.

Some of the more cynical people in the sector question whether South Africa's hosting of the Brics (Brazil, Russia, India and China and South Africa) summit last month played a role in the government not wanting to take on a member of the bloc over imports. With thousands of jobs at stake in the poultry industry, producers have turned to Itac for protection far wider than that it got against Brazilian imports.

The South African Poultry Association says imports of frozen chicken have increased dramatically since 2008, even threatening the survival of South Africa's biggest chicken producers.

The association says imports of extremely low-priced frozen chicken meat grew from 97,565 tons in 2008, reaching 238,582 tons last year. Kevin Lovell, chief executive of the poultry association, says the situation is compounded by restrictions on South Africa's regional exports.

"If the application is not successful and the flood of low-priced chickens continues it may lead to 20,000 job losses," he claims. The industry employs 48,000 people with the five largest producers - Rainbow Farms, Astral Operations, Sovereign Food, Afgri Poultry and Supreme Poultry - employing more than 22,000 people between them.

Lovell fears a reduction in the food security position of the Southern African Customs Union (Sacu) could result from the imports, with lower rates of investment in the industry and a reduction in the contribution of the poultry sector to the gross domestic product (GDP) of member states.

Poultry's contribution to GDP

According to the association, poultry represents a quarter of the animal product contribution to GDP, which amounted to

R25bn in 2011, compared with R19.8bn in 2008. Profit margins at the five major producers had been reduced from double-digit figures in 2006 to margins ranging between 2.4% and 5.9% last year.

"The world's major poultry producers are targeting developing countries such as South Africa and others in the Sacu region to dispose chicken portions for which there is little or no demand in their domestic markets", Lovell says in his affidavit filed with Itac.

The association is asking for a general increase in the tariffs of carcasses, whole birds, cuts and offal, boneless cuts and bone-in portions. In the case of carcasses, it is asking for an increase of R9.84/kg up to the maximum bound rate of 82% agreed to in terms of the World Trade Agreement - from 27% at the moment.

In the case of whole birds the South African Poultry Association is asking for an increase of R11.07/kg, subject to a maximum rate of 82% when the currency conversion has been made.

The Association of Meat Importers and Exporters has fought back, saying the proposed tariff increases were draconian and would certainly lead to an increase of prices ranging from 30% to 50%. The association's chief executive David Wolpert says about 40 importers are affected by the application and would respond to Itac. He says the association will oppose the application.

According to Wolpert, 30% of the affected products are imported from Brazil, 50% from the European Union and the rest from Thailand, Argentina, the US and Canada. European Union products are not affected because of the free-trade agreement it has with South Africa.

Emotive submission

Wolpert says association statistics show imports have grown from 181,000 tons in 2006 to 237,000 tons last year. The fact that the South African Poultry Association is taking 2008 figures - in the midst of the economic crisis - was disingenuous, he says.

Donald MacKay, a director at XA International Trade Advisors, who has been closely involved in the chicken tariff applications, says the documents filed with Itac are quite emotive and selective with their information. He does not deny that the local industry finds itself in a tight spot, but says it is a little too convenient to attribute all of its woes to imports. MacKay says he is not convinced that the duty increases would solve all the problems in the industry.

According to Wolpert the poultry sector has suffered from substantial input cost increases - for electricity, animal feed and labour. Rainbow was facing a strike by members of the Food and Allied Workers Union at Rustenburg who were demanding a R700 wage increase, while Rainbow was offering R303.

Wolpert says the market share of importers is between 10% and 12%. "It is impossible that such a small market share could have such a huge impact on poultry production and prices."

The poultry association claims the import market is closer to 20% and acknowledges the effect of increased input costs, referring to electricity costs that it says have risen between 75% and 140% over the past three years while Brazil has seen it power prices drop by between 28% and 32%.

Lovell says the requested tariff increases will result in "some price increases", but the association claims that jobs will be saved and that an additional 11,995 direct and 14,892 indirect jobs may be created in the poultry and support industries.

"The increased tariffs would give breathing space to local producers so they can increase investment in the poultry sector," he says.