

Protection of poultry industry is key to short-term survival, but not the long-term answer

By [Chris Coombes](#)

30 May 2017

While the outbreak of avian flu in Europe may offer some relief to South Africa's poultry industry over the next few months, brooding over the possible outcomes of the current crisis continues - especially when it comes to the impact of European Union (EU) imports and chicken dumping on the industry. Calls for increased import tariffs, safeguard duties and a more protectionist stance have been both lauded by industry stalwarts and criticised by advocates of liberalised trade policy.



Chris Coombes, CEO, Sovereign Foods

While often-emotive calls for protectionism have been rejected by staunch proponents of free trade, citing increases in consumer prices and a breakdown of trade relationships as major concerns, fair-trade supporters have highlighted the importance of some form of protection to ensure the sustainability of South Africa's developing and emerging economy.

Both sides have convincing arguments.

Free trade supporters call for the free flow of products between nations and reject any form of trade barriers, including tariffs. Some, including AGOA, argue that imposing tariffs and duties on imported poultry restricts trade between South Africa and external markets, and places an unnecessary financial burden on economically disadvantaged South Africans by preventing access to competitively priced poultry.

In contrast, proponents of fair trade see current EU imports as an unfair trade practice and insist that protective measures are needed to prevent exploitation and to ensure the survival of South Africa's poultry industry.

Protective measures

Protective measures are not new to the industry. Following dumping and tariff investigations in 2012/13, the International Trade Administration Commission (ITAC) increased tariff duties on a number of frozen chicken products. A February 2017 Department of Trade and Industry (DTI) report highlighted tariff increases from 18% to 37% for bone-in chicken portions, and from 27% to 82% for whole birds - the maximum tariff allowed according to SA's commitments with the World Trade Organisation (WTO).

These increases applied to all imports from all countries, with the exception of EU and Southern African Development Community (SADC) trading partners who currently enjoy free-trade agreements with South Africa.

Although South Africa has free-trade agreements with the EU, both the Trade, Development, and Cooperation Agreement (TDCA) and the Economic Partnership Agreement (EPA) allow for the safeguarding of domestic industries if imports create significant disruptions and instabilities, job losses included.

As a result, recent dumping led to a provisional 13.9% safeguard duty on all EU imports, with further recommendations expected in the coming months.

While concerns about these protective measures continue to be raised, especially that they may strain relations with South Africa's biggest trading partner, the EU, other chicken-producing nations have themselves adopted somewhat protectionist trade policies to ensure the stability of their own agricultural sectors. This is especially seen in their market restrictions via tariffs and duties and significant domestic support measures.

Unequal support practices

In terms of domestic support, the EU Common Agricultural Policy (CAP) which provides support to EU farmers in the form of direct government payments and subsidies is a good case in point. With an Organisation for Economic Cooperation and Development (OECD) producer support estimate of 18.9%, these subsidies give EU exporters a substantial advantage over South African producers who only receive approximately 3.8% producer support.

According to the OECD, South Africa's current subsidy system does not allow for domestic market support interventions nor does it provide any export subsidies. Although subsidies for feed, diesel rebates, new-farmer support and land reform programmes do exist, they provide limited consolation for producers as economic and environmental instabilities continue to threaten the long-term sustainability of the industry.

Based on these unequal support practices it is not surprising that protectionist trade tariffs and safeguard duties have emerged as the most popular and most viable options for the short-term survival of South Africa's poultry industry.



Image Supplied

But what about the long-term?

While there is a need for immediate and ongoing government support – specifically when it comes to protecting against unfair trade practices – if and when the 'playing fields' are level, South African producers cannot expect to rely on the government to protect their interests indefinitely. This is especially if they are to succeed in the increasingly complex and ever-competitive global poultry market.

Producers need to look at alternative solutions to ensure the industry's long-term survival and to establish South Africa as a competitive global player.

Securing access to export markets

The first area of opportunity is exports. Only 1.4% of South Africa's poultry is produced for export. The weakening rand presents a unique opportunity to develop sustainable exports. Producers need to work rigorously with the Department of Agriculture Forestry and Fisheries (DAFF) to secure access to export markets – especially in Africa.

Poultry industry analyst, Terry Evans recently noted that by 2050, 25% - or one in four people in the world will live in Africa. That's a huge potential future market for South African poultry - especially as our main export markets currently only include Mozambique, Lesotho, Namibia, Zimbabwe, Zambia, Botswana, Angola, and Swaziland.

Access to the Middle Eastern markets is another avenue to be explored. The UAE and Saudi Arabia import almost all of their poultry. This is a significant market and should be considered by South African producers.

Value-added, niche products

South Africa has a very concentrated poultry industry focused specifically on commodity production. It has a few major producers specialising in fresh or frozen unprocessed chicken and chicken pieces. Commodity production will remain important but producers should consider value-added, niche products to expand market share and diversity, product reach and competitiveness.

Investing in research and development

Finally, public investment in research and development is urgently needed. The industry cannot be globally competitive if it is not working towards structural, capacity and efficiency improvements. In 2016 the Agricultural Research Council received a parliamentary grant of R782m, R137m less than in 2015. This is a far cry from the approximately €80 billion budgeted by the European Commission for agricultural research and innovation in Europe between 2014 and 2020.

Research is imperative for improving the competitiveness and profitability of South Africa's poultry industry. Investment in enhancing research capacity should be a priority of public and private industry players.

So, while Europe's poultry industry takes time to recover from its avian flu outbreak, South Africa must reassess its practices and search for innovative ways to safeguard the country's poultry success.

ABOUT THE AUTHOR

Chris Coombes, CEO, Sovereign Foods

For more, visit: <https://www.bizcommunity.com>