

Voluntary Report – Voluntary - Public Distribution

Date: March 13,2020

Report Number: SF2020-0010

Report Name: South Africa Increases Import Duties on Poultry

Country: South Africa - Republic of

Post: Pretoria

Report Category: Poultry and Products, Trade Policy Monitoring, Agricultural Situation

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Report Highlights:

On March 12, 2020, South Africa announced that the applied most favoured nation duties (MFN) on imports of bone-in chicken will be raised from 37 percent to 62 percent, and from 12 percent to 42 percent for boneless portions. The announcement comes more than one year after the International Trade Administration Commission of South Africa initiated its investigation in November 2018 at the request of the South African Poultry Association. The increases on the duties are effective as of March 13, 2020. The United States, Brazil and the European Union are the leading exporters of poultry to South Africa and could be impacted in some degree. While the MFN duty increases apply to chicken imports from the United States and Brazil, the European Union will not be subject to these increases due to their tariff free market access established under the Economic Partnership Agreement between the Southern Africa Development Community and the European Union.

Background

On November 30, 2018, the International Trade Administration Commission of South Africa (ITAC) published a notice in the government Gazette announcing receipt of the South African Poultry Association's (SAPA) application for an increase in the most favoured [sic] nation (MFN) rate of customs duties on frozen meat and edible offal of fowls *Gallus domesticus*. In its application, SAPA requested an increase in the general rate of customs duty on bone-in chicken portions (HS code: 0207.14.9) from 37 percent ad valorem to 82 percent. SAPA also applied for the existing duty of 12 percent ad valorem on boneless chicken cuts (HS code: 0207.14.1) to be increased to 82 percent as well, which is South Africa's bound duty rate under the World Trade Organization.

SAPA stated various reasons for its request for an increase of the customs duties on chicken meat, including:

- The Southern African Customs Union (SACU) is a globally efficient producer of chicken. Despite this, the SACU poultry industry has faced, and continues to face, enormous profitability challenges. These have resulted in downsizing in late 2016 and early 2017, resulting in job losses and a deterioration in SACU's food security position.
- The profitability challenges experienced by the SACU Industry are directly linked to increasing volumes of opportunistic imports of frozen chicken which significantly undercut the SACU industry.
- Dutiable imports of frozen chicken have increased drastically over the period 2015 to 2017. This has caused and threatens to cause the serious injury; and
- These low-priced imports limit the SACU industry's ability to increase prices in line with the increases in costs (price suppression) and reduce sales volumes and market share (as there is a preference for the lower priced imports). The SACU industry has limited storage capacity and export opportunities. This means that when these opportunistic imports enter the SACU market, the SACU industry is forced to lower its prices in order to sell stock and create storage capacity.

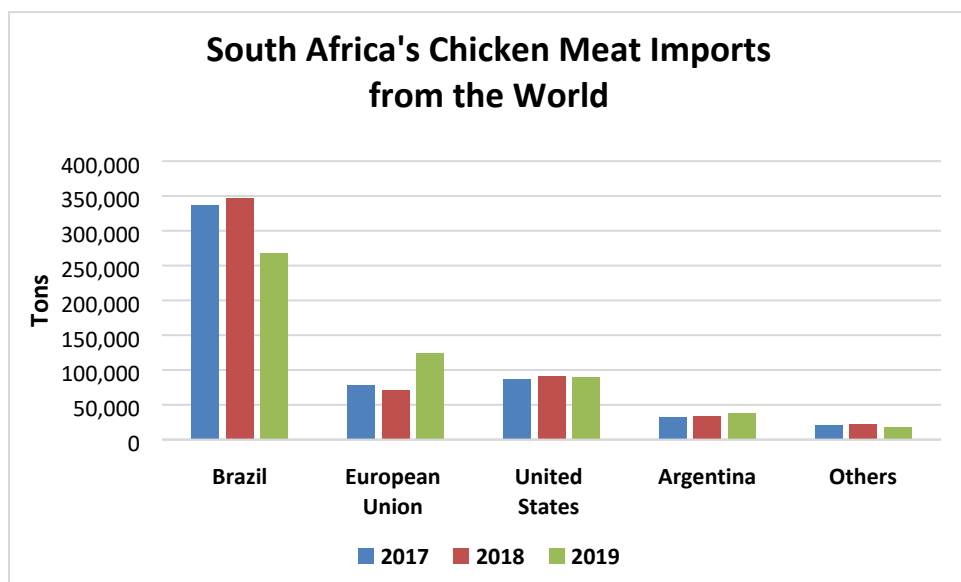
On March 12, the South African Revenue Service posted on its website the announcement of the increase in duties, setting the effective date of March 13, 2020. The increase in the import duties will be on the different cuts of bone-in chicken and boneless chicken. The bone-in chicken duties will increase from 37 to 62 percent, while boneless chicken duties will increase from 12 percent to 42 percent.

The increase on the MFN import duties does not apply to the European Union due to a Southern African Development Commission – European Union Economic Partnership Agreement (SADC-EU EPA), which exempts the European Union from import duties on all poultry products. The increases will affect all other trading partners subject to the MFN duty rate, including the United States and Brazil – two of the leading poultry exporters to South Africa.

Since 2016, the United States has shipped the majority of its poultry to South Africa under a tariff rate quota (TRQ) that was initially set at 65,000 metric tons. The TRQ applies to bone-in chicken portions only and has since increased to 68,590 metric tons. Exports above this volume are subject to a prohibitively high antidumping duty currently set at R9.40/kg, which was initially put into place in 2000.

South Africa last increased the import duty in August 2013 when ITAC recommended an increase of import duty on five poultry products: whole bird (HS0207.12.90), carcasses (HS0207.12.20), boneless cuts (HS0207.14.10), bone-in (HS0207.14.90) and offal (HS0207.14.20). At that time, this increase impacted Brazil predominantly, as the United States was not exporting to South Africa due to the antidumping duty and absence of the TRQ.

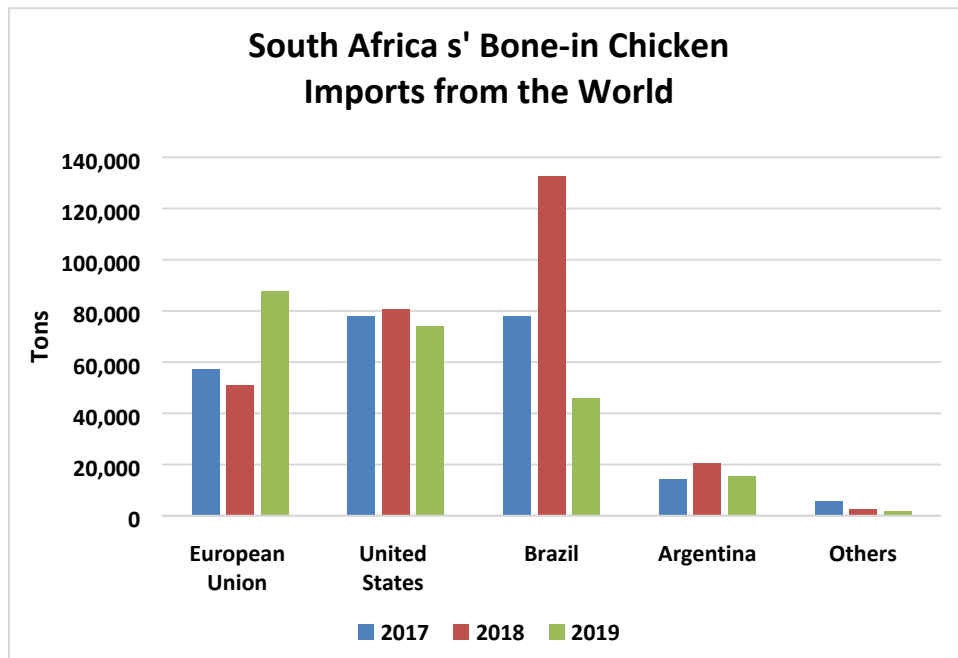
Table 1. South Africa's Chicken Imports from the World - 2017-2019 (Tons)



Source: Trade Data Monitor
(HS0207)

Table 1 above shows South Africa's imports of chicken meat from the world. On average, imports account for close to one-third of South Africa's consumption of chicken meat, due largely to a lack of sufficient domestic production. Brazil has been the leading exporter of chicken to South Africa since 2017, followed by the European Union, the United States and Argentina.

Table 2: South Africa's Bone-in Chicken Imports from the World - 2017-2019 (Tons)



**Source: Trade Data Monitor
(HS0207149)**

Table 2 above shows South Africa's imports of bone-in chicken from the world from 2017 to 2019. Collectively over that span, the European Union was the leading exporter of the bone-in chicken, followed by the United States and Brazil. In South Africa, there is a higher demand for bone-in chicken (dark meat) over breast portions (white meat), and therefore imports are predominantly comprised of bone-in chicken as well as mechanically deboned meat.

Projected Impact of Import Duties on the Chicken Trade

The increases in import duties is expected to grant the European Union a competitive advantage over other trading partners, such as the United States, Brazil and Argentina due to the duty-free access enjoyed under the SADC-EU EPA. Some of the market share enjoyed by these trading partners could shift towards the European Union depending on market conditions. However, although the European Union is not subjected to the MFN duties and the increases, its imports from certain member states are subject to other barriers in the South African market, including antidumping duties, a safeguard measure and/or sanitary and phytosanitary restrictions as a result of the recent Highly Pathogenic Avian Influenza (HPAI) outbreaks. Six EU member states have HPAI-related bans imposed on poultry exports to South Africa. Several poultry companies in Germany, the Netherlands and the United Kingdom are subjected to antidumping duties while all the EU countries are subject to a safeguard duty currently set at 25 percent. These restrictions have led to the overall decline in market share for the European Union. Nonetheless, the recent removal of HPAI restrictions on

imports from the Netherlands, the reduction of the EU-wide safeguard duty over the following three years and the new increases to the applied MFN duties suggest that the European Union is positioned to recapture the market share it lost, potentially at the expense of the United States and Brazil.

Attachments:

No Attachments.