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SA needs to learn the clever way to slice a chicken

Cutting tariffs on poultry imports would have enormous benefits for local consumers

By **PAUL MATTHEW**

The local poultry industry has for too many years been allowed to use the import market as a scapegoat for its own failures, says the writer. Picture: 123RF.com

● We made a proposal to the government this week on how it can keep the price of a critical protein source, chicken, affordable for consumers. We proposed the removal of tariffs on chicken products, a moratorium on new tariffs and for chicken to be exempt from VAT.

South African consumers are facing a chicken price crisis due to rampant inflation; global food and commodity shortages; the state of our economy post-Covid; the impact of the war in Ukraine on global food security; the escalation in fuel, transport and electricity costs; rising trade tariffs; supply chain disruptions; and the fact that wages are decreasing and unemployment is increasing.

We believe that if these taxes are removed on chicken it could translate into a substantial reduction in the price, as long as retailers pass on the savings to consumers. Two of the most popular chicken products for lower-income households are bone-in pieces and offal. If tariffs were dropped, there could be a 33% saving on the delivered price of bone-in cuts into the Gauteng market. This is based on current international pricing levels. For offal, the delivered pricing levels into the Gauteng market could be reduced by between 18% and 20%. This would have a profound impact on consumers' ability to afford chicken.

People are struggling, a situation that is becoming more acute by the day. The government has shown that it recognises this, and that it is willing to make fiscal and policy sacrifices to help cash-strapped South Africans. In the past two weeks, the state announced a reduction in the fuel levy, as well as a decision to postpone increases in the Health Promotion Levy, or sugar tax, for a year. We applaud these decisions, and ask it to do the same for chicken consumers.

Not everyone, however, was happy with our proposal. While the South African Poultry Association is a keen proponent of VAT-free chicken to help struggling consumers, it does not support the removal of tariffs, which are essentially another form of tax. The reason it gives is that the chicken economy and jobs will be impacted, which is a comment I want to address.

In 2019, all parties, including the local industry, importers and the government, signed a poultry master plan. One of its key requirements is for the South African poultry industry to grow the export of local products. While there is enormous opportunity to do so, there has been very little progress, and that is a tragedy for SA, our economy, for the local industry, and most importantly, for the creation of jobs.

The local industry likes to say that it is efficient; but while it may be technically productive, and perhaps is becoming more so as it mechanises its operations, the inconvenient truth is that it is dismal at selling its product to a global market. Markets that lead the world in chicken exports, and even the smaller efficient export markets, balance their carcass – which is a term used to differentiate cuts by selling different pieces to markets that will pay a premium for them.

Chicken breast meat fetches a premium in Europe, so these markets sell their breast meat there, also at a premium. Same goes for wings. The US is the world's largest chicken consumer, but Americans really love their wings. This year, they consumed 1.42-billion wings during the Super Bowl game alone. So, clever export markets sell their wings to the US at a premium. But SA cuts up a whole chicken and puts it into a bag, selling all the pieces at the same price.

To say this is an opportunity missed is an understatement. SA has duty-free status in the EU, which means it pays no duties to sell its product there. The EU has welcomed SA with open arms, but we are not biting. Why? Because we don't have our house in order. The EU wants a certain quality of product that we just don't meet at the moment, and it doesn't appear that we are doing much to meet these standards.

Imagine a South African poultry sector that is a truly efficient and successful exporter, not only to the EU but to our own neighbours on this continent, where we have zero-duty trade concessions under the African Continental Free Trade Agreement. It would unlock significant value for the local industry, making shareholders happy; but it would also benefit exporters, the fiscus and SA's reputation as an efficient and committed trade partner, and create jobs.

For too many years the local poultry industry has been allowed to use imports as a scapegoat for its own failures. It is failing to produce jobs because it isn't very good at its own job, full stop. The country produces 85% of all chicken consumed in SA, and 75% of that is controlled by five big companies. The country doesn't produce enough to meet local consumption, nor does it produce enough of certain cuts required by the retail and restaurant market, such as wings and bone-in cuts, so imports are essential.

The local industry would have you believe that imports are destroying the local poultry industry, but this is a convenient tale aimed at persuading the government to impose additional tariff protections. All to the detriment of the consumer because, when tariffs are imposed on imported products, it gives the local industry licence to lift its prices to meet the raised tariff price.

SA's poultry sector is already one of the most protected in the world. Of all chicken consumed here, only 14.9% is imported chicken pieces, excluding mechanically deboned meat which is not produced in SA but is essential for the production of processed meat products. Based on data from the South African Revenue Service, chicken imports have dropped 41% between 2018 and 2021, with bone-in imports decreasing by as much as 53% over the same period.

In practice, tariffs amount to extra taxes on consumers. They have increased significantly in recent years, with threats of more to come. Tariffs on critical portions of meat (bone-in chicken portions) are now at an unsustainable level of 62%.

Our proposals to the government on tariffs and VAT are in the best interests of the consumer.

* Matthew is CEO of the Association of Meat Importers & Exporters