SOUTH AFRICAN POULTRY ASSOCIATION

2020 INDUSTRY PROFILE

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Founded 1904

Table of Contents

INTRODUCTION

The poultry industry remains the largest single contributor to the agricultural sector in South Africa. In 2020, some 18 % of the total agricultural gross value and 41 % of animal product gross value stemmed from poultry production. It is estimated that the industry provides direct and indirect employment to over 110 000 people; is the second largest consumer of maize; and supports many peripheral businesses (including the feed industry) and those downstream in the value chain.

Broiler farmers entered 2020 with a renewed sense of optimism, following the signing of the poultry sector Master Plan in November 2019; an EPA safeguard in place against imported EU bone-in portions; and an application to the International Trade Administration Commission (ITAC) to increase the *ad valorem* tariff on frozen chicken portions. Egg producers, on the other hand, started the year with an unfavourable supply and demand balance; stubbornly disappointing per capita consumption of eggs, and low farm gate pricing relative to the price paid by consumers at retail level. Of course, any predictions or forecasts for the year were turned on their heads by March, when the seriousness of the COVID-19 pandemic became alarmingly apparent to producers and consumers alike.

An initial Level 5 lockdown began on Friday 27 March and was extended to the end of Apr0il. South Africa eased into Level 4 lockdown from 1 May 2020, with approximately 40 % of workers returning to work under strict conditions. On 1 June, the economy opened further, under Level 3 regulations, with most interprovincial travel still prohibited and international borders remaining closed. Further concessions to the hospitality and beauty industries were announced in mid-June. South Africa's first wave of the pandemic peaked around the third week of July, and the country moved to Level 2 lockdown on 18 August. The sale of alcohol and cigarettes resumed and interprovincial borders re-opened. On 20 September, lockdown was eased further to Level 1, with the country's international borders opened (conditionally) on 1 October 2020. By December, South Africa was grappling with a second wave of infection, fuelled by complacent behaviour, super-spreader events (especially post-matric rave parties, and funerals) and a new, highly contagious variant of the COVID 19 virus. Daily peaks exceeded those experienced in July. On 28 December, the President pushed the country back into a modified Level 3 lockdown, banning alcohol sales, making mask wearing in public compulsory, and preventing indoor and outdoor gatherings. While vaccine programmes began in Europe and the US by late 2020, first doses would only be administered in South Africa from March 2021.

Surprisingly, for egg producers the hard lockdowns experienced through the first wave of coronavirus infections in 2Q 2021 resulted in a surge in demand for eggs and a welcome increase in prices. As essential service providers, poultry producers were able to continue operating under the hard lockdowns, but the broiler sector was not immune to the economic impact of the infectious control measures. Hospitality, quick-service and sit-down restaurant businesses closed for a large part of the year, forcing producers to find alternative markets for stockpiled frozen products. On the upside, disruptions in global supply chains brought the volume of imported poultry products down. While over 17 000 t/month of bone-in imports were imported through 1Q 2020, volumes averaged 12 440 t/month for the remainder of the year.

Broiler imports in 2020 were 10.0 % lower than the 5-year average (2015 – 2019) and local broiler meat production increased by 3.6 %. In a huge victory for the local broiler industry, the Minister of Trade, Industry and Competition announced in March 2020 that the *ad valorem* tariff on frozen chicken portions (bone-in and boneless) would be substantially increased.

The numbers above present an overly positive picture of the effect of the pandemic on poultry producers. The increased demand for eggs had peaked by mid-year and producer prices stagnated through to the Christmas period. At the same time, the layer feed price index increased by 15.2 % in 2H 2020. Inevitably, stock levels of frozen broiler products increased as the hospitality, restaurant and food service industries were disrupted - and aggressive price-cutting followed. Raw material costs have been driven higher by a weaker rand, increased demand for soya and maize in China, and unfavourable weather conditions in the mayor production regions. Stringent health and safety precautions have had to be introduced to allow farms and production plants to continue operating in a socially-distanced fashion, and the provision of hand sanitisers and personal protective equipment has placed further pressure on already reduced margins. Rising unemployment levels have eroded the disposable income of consumers and will continue to challenge sales of poultry products through 2021.

SAPA worked hard on behalf of members, non-members, cull buyers, industry suppliers and service providers to pave the way for them to be listed as critical suppliers for the designated essential services. SAPA general managers communicated extensively with government officials and the Consumer Goods Council of South Africa (CGCSA) to ensure that poultry producers could continue running their businesses and that there were no breaks in the supply chain.

In early April 2020, Government announced R1.2 billion rand in emergency funding to help small-scale farmers navigate the effects of the lockdown. Minister of Agriculture, Land Reform and Rural Development (DALRRD), Thoko Didiza, announced the relief which was to be channelled to small-scale producers of vegetables, livestock and poultry. Minister Didiza reported that over 55 000 applications were received. Poultry farmers were to be assisted with day old chicks, point of lay birds, sawdust, medications and feed.

The poultry industry stepped up to the plate as the lockdowns began to take their toll on food security in the country. Local producers continue to support children's homes, homes for the elderly, school feeding schemes and vulnerable communities with donations of broiler products, eggs, food staples and clean water. Producers also donate heavily to charitable organisations and are increasingly involved in supporting municipal function, and in offering training and bursaries to candidates from disadvantaged communities.

On 4 March 2020, Minister Dlamini-Zuma declared the ongoing drought a national state of disaster, in response to a "need to augment existing drought relief interventions". The three-month state of disaster was extended by a further month but was revoked on 16 July 2020 as good winter rains helped fill Cape Town dams to above 98 % capacity. However, parts of the country remained severely water-stressed by the end of 2020; notably the Eastern Cape and areas of Limpopo and KwaZulu-Natal. Nationally, dam levels averaged 68 % capacity in December 2020, up from 59 % in December 2019. The SAWS Seasonal Climate Watch report confirmed that the El Niño-Southern Oscillation (ENSO) was in a strengthening La Niña state

going into 2021, which should support above-average rainfall in the summer rainfall areas of South Africa. The 2019/2020 maize crop increased, year on year, by 35.7 % (15.3 million tonnes) and the domestic soybean harvest was up by 6.5 % at 1.246 million tonnes.

The third and fourth pillars of the Poultry Master Plan rest on government's commitment to improving national biosecurity and food safety measures. The 2020 Budget indicated a renewed determination on the part of government to revitalise veterinary and food safety capability in South Africa, with a hefty grant to DALRRD to fund improved laboratory capacity, border control of imports and exports, and veterinary and meat inspections. Funds have also been made available for the development and implementation of a livestock identification and traceability system, aimed at providing South Africa with the necessary credibility for improving market access. Government also promised to promote international market access for South African agricultural products, especially value-added products.

By September 2000, local producers had already invested approximately R1 billion towards the expansion of poultry production capacity, including a hatchery and processing facilities. Fifty new black contract growers are to be supported, and independent black farmers are to be mentored until they are fully integrated into the value chain. In November 2020, DALRRD successfully negotiated a new export certificate with the United Arab Emirates, which will encourage exports of poultry products from South Africa. The practice of labelling bags of imported chicken with multiple possible countries of origin is to be outlawed from September 2021.

Even before the arrival of the Covid-19 virus, the South African economy was in the doldrums. In 1Q 2020, South Africa's GDP contracted for a third consecutive quarter (- 2.0 %), and for a fourth in 2Q 2020; this time by an annualised 51 %. Stats SA were criticised for continuing to report on the basis of this misleading 'annualised GDP' during such exceptional times. Although undoubtedly in a deep recession, the economy was not halved over Q1 2020 levels and the downturn in the economy under Level 4 and 5 lockdowns would not be sustained over a full year. Year-on-year and quarter-on-quarter (not annualised), the contraction in Q2 2020 was closer to -17.1 % and -16.4 % respectively. Agriculture reversed four consecutive quarters of contraction to grow by 27.8 % in 1Q 2020 and bucked the trend in Q2 2020 to grow by 15.1 % (annualised). There was an inevitable rebound in economic figures in 3Q 2020, as lockdown was gradually eased. Quarter-on-quarter (not annualised) GDP grew at 13.5 % (+ 67 % annualised). Agriculture grew again by 18.5 % (annualised) in 3Q 2020. In 4Q 2020, GDP gained by 1.5 % on a quarter-on-quarter basis (6.3 % annualised) and agriculture by 5.9 % (annualised). For 2020 as a whole, South Africa's economy contracted by 7.0 % (Stats SA); the biggest annual fall in economic activity since 1946. The agricultural economy grew by 13.1 % in 2020; the only sector to do so. Sharply lower investments in both the public and private sectors will weigh on growth prospects in 2021. At the end of 2020, the South African Reserve Bank forecast domestic GDP growth of 3.8 % in 2021 and 2.4 % in 2022.

On 27 March, Moody's downgraded the country to below investment grade ("junk status") as the country began its Level 5 lockdown. Less than a week later, Fitch's credit rating agency downgraded South Africa further to BB, with a negative outlook. At the end of April, Standard and Poor reduced South Africa's long-term foreign currency rating from BB to BB-. South African government bonds were kicked out of the FTSE World Government Bond index and

from all funds which track this index and/or are obliged to invest in investment-grade bonds. Analysts feared up to R250 billion rand could exit the South African market but the exodus totalled only around R75 billion. Reserve Bank interventions, such as the purchase of government bonds and sharp cuts to the repo rate, supported local bonds. A R500-billion stimulus package was formulated to help the country survive the economic lockdown but will be funded in an environment of spiralling debt and reduced tax collection. In November, both Moody's and Fitch's pushed South Africa further into junk status, by downgrading the country's credit rating to BA2 and BB-, respectively. Both agencies left their rating outlook as 'negative'. An unreliable electricity supply, rigid labour market, challenging levels of debt and underperforming state-owned enterprises informed their decision to downgrade.

Against this backdrop, the SARB cut the lending rate by 100 basis points in March and April (to 4.25 %) and by 50 basis points in May (to 3.75 %). After three rate cuts in swift succession during lockdown, the SARB reduced the lending rate by a further 25 basis points in July (300 basis points for the year; to 3.50 %). The lending rate then held steady through to December, as food inflation remained steady and oil prices reasonably low.

South Africa's official unemployment rate in the fourth quarter of 2020 was 32.5 %, up from 29.1 % in 4Q 2019. The expanded unemployment rate, which includes discouraged work-seekers, increased from 38.7 % in 4Q 2019 to 42.6 % in 4Q 2020. Women suffer more than men in the job market, with an unemployment rate of 46.3 % compared to 39.4 % for men. The percentage of young people (15 – 34 years of age) not in employment, education or training was 46.1 % in 4Q 2020. This category had an expanded unemployment rate of 56.6 %. In total, 7.233 million people were unemployed in South Africa in late 2020, up from 6.726 million the previous year (+7.5 %). Inevitably, disposable income is constrained by this level of unemployment and the economic recovery remains too fragile to add many jobs to the market.

The national power grid has been "constrained and vulnerable" through much of 2020 as long overdue maintenance continued and unplanned outages occurred regularly. In January, the Eskom CEO, Jabu Mabuza, resigned because of failed electricity supply promises over the festive period and, in February, the new Eskom CEO, André de Ruyter, warned South Africans to expect a disrupted power supply for a further 18 months. Electricity load-shedding reached record levels in 2020, totalling 859 hours, and happened despite a significant drop in demand during the lockdown months. South African businesses are scrambling to get off the national grid, with banks seeing unprecedented investment in alternative power generation. Instability in the network is set to continue into 2021 as maintenance, break downs, and environmental regulations force 10 – 20 % of generating capacity offline.

The coronavirus pandemic slashed global demand for oil. On 20 April 2020, US oil prices dropped below zero for the first time ever. Production outstripped demand to the extent that there was nowhere left to store oil, forcing prices down as low as negative $ 38/barrel. Brent crude prices averaged $64 a barrel in 2019 (high $ 75; low $53) and just $41.69 a barrel in 2020 (EIA). South African petrol and diesel prices decreased by 10.5 % and 14.8 %, respectively, during 2020 but crude prices tracked steadily upwards through November and December 2020, resulting in increases at the pump for early 2021.

Lockdowns caused investors to flee emerging currencies, and, in addition, the rand suffered through two credit rating downgrades in swift succession in March. By 6 April 2020, US $1 cost R19.26; a record low for the rand. After that, the currency rode surprisingly confidently through South Africa's junk status; removal from the FTSE World Government Bond Index; warnings of deep recession and catastrophic 2Q GDP figures; load shedding; and volatility in world markets linked to the US election, Brexit and COVID second waves - to finish the year 24.1 % stronger than during Level 5 lockdown. However, it remained 3.7 % below the rand value on 3 January 2020 and, year-on-year, some 5.4 % lower than the beginning of 2019.

COVID 19 was not the only virus doing the rounds in 2020. The European Union was hard hit by outbreaks of highly pathogenic avian influenza in wild birds and commercial and backyard flocks throughout the year. Hungary has not exported poultry products to South Africa since 2017 and reported 269 cases of HPAI on commercial farms from March 2020, under three OIE events. These events were declared closed on 30 July 2020. Poland reported three HPAI events to the OIE in 1H 2020; all of which were declared resolved by 14 May 2020. Having declared the country HPAI-free in September, Poland suffered a new series of outbreaks which began slowly in 4Q 2020. Affected species included breeder and meat ducks, turkeys, laying hens and broilers. In early 2020, the Germans reported H5N8 HPAI in four separate events to the OIE. These events had been declared resolved and closed by 2 July 2020 but, between 7 and 18 December 2020, the Germans were forced to report H5N5 HPAI in one facility and H5N8 HPAI in eleven poultry facilities. In addition, there were almost 400 cases in wild birds in Germany in this period.

In November 2020, Denmark culled approximately 29 000 broiler breeders in response to an outbreak of H5N8 HPAI. Between 7 and 18 December 2020, Denmark reported 75 cases of HPAI in wild birds. On 9 December, H5N8 HPAI was reported in captive birds (all culled) and, on 1 January 2021, an additional outbreak was confirmed in farmed game birds in Jutland. In November 2020, Belgian farmers experienced the first outbreak of H5N5 HPAI in a commercial farm in almost three years (Western Flanders) and there were over a dozen cases of HPAI in wild birds. The Netherlands was amongst the worst hit of the EU countries, with over 50 cases of HPAI reported in wild birds and 9 cases on poultry farms. The affected farms included broiler breeders, broilers, laying hens and ducks - in the provinces of Friesland, South Holland, Utrecht, Gelderland and Groningen. Over 190 000 birds were culled in commercial flocks.

In November 2020, France reported two cases of HPAI in birds being sold at a garden centre and a pet shop. From then, French farmers culled hundreds of thousands of birds (mostly ducks) in a growing HPAI event. To the end of 2020, the UK reported 14 outbreaks of HPAI in commercial or backyard poultry flocks. Outbreaks were recorded in Cheshire, Herefordshire, Gloucestershire, Norfolk, Leicestershire, North Yorkshire, Worcestershire, Derbyshire and Dorset – and Orkney in Scotland. Most of the cases in the UK were H5N8 but there was one report of H5N1 HPAI in Norfolk. There were 241 cases in wild birds in England, Wales and Scotland to 20 December 2020.

Irish farmers were on high alert from November, as cases of HPAI were reported in wild birds in counties Cork, Limerick, Monaghan and Mayo. In December, five cases were found in a flock of free-range turkeys in County Wicklow (H5N8 HPAI).

There were eleven reported outbreaks of H5N8 in South African commercial ostriches in 2019. Only four outbreaks were recorded in 2020. There are concerns that the outbreaks in Europe will spread to Southern Africa eventually and farmers and state veterinarians will be watching the situation carefully.

Poultry producers, like the rest of the country's population, will be relieved to see the back of 2020. However, a lot of uncertainty remains as to how quickly the coronavirus pandemic will be brought under control. Once the majority of citizens has been vaccinated against COVID-19, it is hoped that South Africa and its farmers will be able to get back on a path to economic recovery.

THE SOUTH AFRICAN POULTRY ASSOCIATION

1.1 History

One of South Africa's oldest agricultural organisations, the South African Poultry Association (SAPA) started off in Kimberley in 1904 as a body of poultry hobbyists. The Association catered to the needs of the various poultry clubs by regulating the rules and appointing judges for the popular poultry shows and egg laying tests staged at the time.

Over the years, the poultry industry evolved from what was essentially a backyard industry, with thousands of people keeping small flocks and only a few large producers, to the mature, efficient and highly productive commercial operations we see today.

Responding to the needs of its members, SAPA served as the industry's collective voice to the public and to government. Strengthening its authority, credibility and legitimacy, a South African Poultry Breeders Register was established in 1926, and ten years later, government gave the assurance that it recognised SAPA as the official representative organisation of the country's poultry industry.

As the industry has changed, so too has SAPA adapted to meet the industry's changing needs. The Association is involved in a continuous process of identifying issues affecting the industry and taking positive steps to deal with these.

1.2 SAPA's mission

For years, SAPA has represented small scale, emerging and larger commercial poultry farmers in the following sectors: the broiler and egg industries, the breeding/day-old chick supply industry, and smallholder and developing farmers. From mid-2015, producers from the Chick Producers and the Developing Poultry Farmers Organisations were absorbed into their respective product value chains, falling under either the Broiler or Egg Organisation.

With renewed commitment from many broiler and egg producers in the wake of the 2017 avian influenza outbreak, SAPA was provided an opportunity to become a stronger representative body for the industry. The Egg and Broiler Organisations met early in 2018 and the result was a new organisational structure, with revised collection models (Chapter 10).

SAPA now consists of two independent organisations, each with its own board and general manager. The Broiler and Egg boards take full responsibility for their administrative functions and their general managers report to the board of directors.

The SAPA Board retains the governance and fiduciary responsibilities of SAPA. Technical committees (consisting of two work groups and two sub-committees) address issues of poultry health and welfare, food compliance, training, and research. The work groups and committees involve key stakeholders such as producer personnel, the Departments of Health (DoH) and Agriculture, Land Reform and Rural Development (DALRRD), the Consumer Goods Council of South Africa, the South African Veterinary Association, academics and consultants.

The objectives of the streamlined South African Poultry Organisation are as follows:

To establish and maintain national divisions of the Association in South Africa and enable members to co-operate effectively for the development of the broader poultry industry;

To co-ordinate the views, aims and efforts of the national Organisations in the interests of the broiler poultry industry in South Africa;

To advance and improve the broader poultry industry in South Africa by embracing and co-ordinating the objectives of the national Organisations and particularly by:

- Protecting the broader poultry industry from adverse legislation and any other aggression and by initiating, promoting and assisting with the promulgation of legislation and regulations which are beneficial to the broader poultry industry;
- Encouraging poultry education, conducting and/or assisting in investigational work of a practical and scientific nature and the organisation of seminars and courses;
- Facilitating and providing guidance in respect of the transformation of the broader poultry industry in line with applicable government policies, objectives and legislation;
- Forming public private partnerships with government bodies and other public bodies as may be required from time to time;
- Representing the Broader Poultry Industry on appropriate international bodies and forums for purposes of developing global regulatory and trade frameworks which are to the benefit of the Broader Poultry Industry;
- Publishing literature, journals, pamphlets, and circulars dealing with all matters pertaining to the broader poultry industry; and conducting communications on behalf of the industry;
- Establishing Codes of Practice in relation to the broader poultry industry;
- Promoting the consumption of poultry products in South Africa;
- Assisting in the opening up and maintaining of export markets for South African egg and poultry meat products;
- procuring the compilation of statistics using information received from Members and the broader poultry industry, for purposes of maintaining suitable databases for use in the furtherance of the aims of the Association;
- acting as arbitrator in the settlement of any dispute between Members which may arise in any matter pertaining to the broader poultry industry, in accordance with and subject to the rules;
- dealing with any matter which may be in the interests of the broader poultry industry, the Association and/or its Members.

1.3 The Broiler Organisation

The SAPA Broiler Organisation represents commercial broiler producers and associated breeder farmers and hatchery operations with the intention to serve the interests of the broiler industry on a national basis. The Broiler Organisation is funded by a voluntary levy.

The general manager of the Broiler Organisation is Izaak Breitenbach.

1.4 The Egg Organisation

The Egg Organisation operates as an independent subsidiary of the South African Poultry Association. The purpose of the Egg Organisation (and its committee) is to improve the egg industry and promote it at a national level. This entails a critical evaluation of the methodology of control structures, achieving a higher level of operational input, liaising with government on crucial matters, liaising with consumer bodies, and striving to build a stronger image for the egg industry on an ongoing basis. Progress in the industry can be measured by an increase in egg consumption per capita in South Africa.

Membership of the Egg Organisation had declined over recent years and it became clear that the only way to fund the organisation would be through a statutory levy. An application was made to the National Agricultural Marketing Council (NAMC) and supported by the producers of more than 66 % of the country's eggs. The application was successful and a statutory levy on table eggs was gazetted in mid-2018, coming into force from 27 July 2018. All egg producers and packing stations contribute 1.5 c/dozen eggs traded.

The levy is collected by the Red Meat Levy Administrator. The administrator can be contacted on (012) 348 2160. The levy is spent on the administrative functions of the Egg Organisation, along with transformation initiatives, statistics, training, marketing and consumer education and awareness projects. Dr Abongile Balarane is the new general manager of the Egg Organisation, with effect from May 2021.

1.5 Representation of the industry

The membership of SAPA's two organisations grew by 29 % in 2020:

Broilers	89
Eggs	150 (97 individual producers and 53 members of co-operatives)

Please note that these figures include the former members of the DPFO and CPO.

SAPA introduced a new category of membership in 2020 for organisations in allied industries. During the year, 19 associate members joined SAPA, and the aim is to grow this membership to 30 by the end of 2021. These members pay monthly contributions in return for access to poultry statistics and other benefits, such as preferential advertising opportunities.

Broiler pricing reports, distributed by SAPA's statistics team every month, were generated from data submitted by 59.8 % of the broiler industry (on the basis of kilogrammes of edible broiler

meat and products sold (1.15 million tonnes recorded from total annual commercial production of 1.92 million tonnes)).

SAPA communicates with its members via its website, bulk emails and the bi-monthly *Poultry Bulletin*, edited by Melinda Shaw (available from 2021). Information on SAPA's website is available to both members and non-members.

1.6 Developing poultry farmers

Small, medium and micro enterprises represent an important vehicle to address the challenges of job creation, economic growth and equity in our country. From 2003, the Developing Poultry Farmers Organisation (DPFO) catered for the needs of smallholder and emerging farmers by addressing issues affecting this growing sector of the poultry industry. The organisation also fulfilled a dynamic capacity building and advocacy role, empowering provincial structures and developing partnerships with the state over time. Unfortunately, funding of the organisation became problematic and, from 2015, the organisation was absorbed into the Broiler and Egg Organisations as part of SAPA's strategic restructuring. However, industry transformation remains a priority for SAPA (see Chapter 10.1).

1.7 Engagement with stakeholders

It is through partnerships with the Departments of Agriculture, Land Reform and Rural Development (DALRRD), Economic Development, and Health that the industry can solidify its position in the local marketplace, defend itself against imports, and expand export markets. SAPA hopes to continue working closely with these departments, the media and the provincial and local governments.

After successfully petitioning the International Trade Administration Commission of South Africa (ITAC) to increase the interim 13.9 % safeguard on EU bone-in portion imports to 35.3 %, SAPA again petitioned ITAC to raise the *ad valorem* tariff on bone-in and boneless chicken portions to 82 % (the maximum allowable under WTO rules). The tariff on frozen bone-in chicken portions, imported on tariff lines 0207.1491 – 1499, was increased from 13 March 2020 to 62 % (from 37 %). The general tariff on frozen boneless chicken, imported on tariff lines 0207.1411 – 1415, was increased from 12 % to 42 % (SARS tariff amendment; Notice R.309). Attention has now shifted to Brazilian and certain EU imports. SAPA has lobbied ITAC to impose anti-dumping duties on imports of broiler meat from Brazil, Poland, Ireland, Denmark and Spain and has sought to demonstrate the material damage to the local industry, resulting from these imports. Sunset reviews of the anti-dumping duties against companies in the Netherlands, the United Kingdom and Germany were initiated. The duties expired on 26 February 2020.

DALRRD began rolling out the Agricultural Policy Action Plan in 2016/2017 (APAP; Chapter 9). The poultry value chain, the feed industry, and the maize and soya industries were part of the plan and were therefore beneficiaries. The plan aligned DALRRD and other government funding with national strategic objectives. Transformation was one of the objectives. President Zuma's "Nine Point Plan" to revitalise the flagging economy included RAAVC - revitalisation of

agriculture and the agro-processing value chain. Officially launched in February 2017, Operation Phakisa for Agriculture, Land Reform and Rural Development was yet another government initiative. Operation Phakisa was derived from the Malaysian Big Fast Results methodology that has been successfully used to achieve rapid economic transformation. SAPA participated in a 5-week Operation Phakisa laboratory in the planning stages and was involved in the development of five initiatives under the livestock work-stream. Progress, or lack thereof, in these initiatives is discussed in Chapter 9.

In November 2019, the Minister of Agriculture, Land Reform and Rural Development, Thoko Didiza and Minister of Trade and Industry, Ebrahim Patel, witnessed the signing of the long-awaited Poultry Master Plan. The Master Plan is a joint initiative between poultry producers, meat importers (AMIE), organised labour, and government. This joint vision aims to support growth and transformation in the local industry (Chapters 6 and 9).

SAPA continues to engage with the South African Bureau of Standards (SABS) to develop local standards for the welfare of laying hens (see Chapter 8.3).

The Egg Organisation collaborated closely with DALRRD in finalising amendments to regulation R725 ('Regulations regarding the grading, packing and marking of eggs destined for sale in the Republic of South Africa') relating to the Agricultural Product Standards Act, Act no. 119 of 1990. Regulation R725 was repealed and the updated regulations, now known as R345, were gazetted for implementation on 20 March 2020.

SAPA is partnering with the Department of Trade, Industry and Competition (DTIC) in the development of a master plan for the egg sector value chain, which will provide strategic intervention areas for the egg industry.

SAPA participates in global organisations such as the International Poultry Council, the International Egg Commission and the Animal Welfare Working Group of the World Organisation for Animal Health. SAPA also promoted collaboration with the National Agricultural Marketing Council (NAMC), Proudly South African, the NAHF and other agricultural commodity organisations.

1.8 Supply of information to the industry

As part of its service to the industry, the South African Poultry Association regularly distributes statistical information to its members and makes this information available to non-members through its website.

Leading Edge Software have provided statistical services to SAPA since February 2015.

The reports circulated are listed below. In addition, the SAPA team produce a bi-annual report for subsistence and small-scale commercial farmers, and an annual Industry Profile.

Monthly

- Broiler pricing report
- Egg pricing report
- Broiler trade report (tariff lines and country)
- Source data spreadsheets for eggs and broilers
- Broiler production report
- Egg production report
- Egg packaging report

Quarterly

- Key market signals report for eggs and broilers (trade and pricing)
- Avian influenza surveillance monitor
- Cull traders report
- Feed ingredient report

Members and non-members are encouraged to submit monthly production figures to SAPA. The data collected includes the total volume and value of fresh and frozen broiler products and of individual broiler "portions" sold, such as whole birds, bone-in portions, offal, etc. The number of day-old broiler parents placed, and the number of broiler chicks hatched, are also recorded. On the egg producers' side, information is collected on the number of day-old pullets placed, egg production volumes and average prices for eggs, feed and cull hens. The confidentiality of this process is ensured through the involvement of a team of auditors who deal with the raw data. Thus, any or all information, data, know-how, documentation, materials and other communications, written or oral, which are disclosed or provided to SAPA or its designees by a producer are regarded as confidential information belonging to that producer and cannot be disclosed to any other producer, individual or organisation.

Many local and international businesses and organisations, banks, researchers and government departments request the poultry statistics contained in this, and other, SAPA reports. The data are used in decision-making processes, in prioritising investments, in research projects, annual reports and trade applications, etc. Accurate statistical information is of benefit to all role players, so an appeal is made to producers (whether SAPA members or not) to help increase the sampling pool. Please email cynthia@silverpath.co.za to find out more.

2. THE POULTRY INDUSTRY IN SOUTH AFRICA

Approximately 74 % of the birds in the South African poultry industry are used for meat production, while the remaining 26 % are used in the egg industry. The South African broiler industry went through a period of substantial growth between 2004 and 2008, averaging over 7 % per annum. From 2009 to 2014, growth in the industry slowed down markedly to below 1 % per annum. Based on tonnes of meat produced, including spent birds and non-commercial production), the industry grew by 4.7 % in 2015, and then contracted by 3.0 % in 2016 and by a further 0.9 % in 2017. With maize prices dropping, broiler production in South Africa increased by 5.3 % in 2018, 3.9 % in 2019 and 3.7 % in 2020. In the 10 years from 2010 to 2020, growth has averaged around 1.6 % per annum. To put these numbers in perspective, annual population growth between 2004 and 2008 was 1.4 %; and between 2010 and 2020 was around 1.58 % per annum.

The growth period to 2008 was associated with increased demand for product and well-contained input costs. During the past ten years, production costs have increased, disposable income of consumers has declined and the importation of poultry meat products at low prices has eroded the demand for locally produced broiler products. Whilst importers point to the growth from 2018 through 2020 as evidence of a healthy domestic industry, they are not looking at the longer-term picture. Compared to production in 2015, as the drought years started, broiler production has increased by only 8.9 % over a five-year period (average 1.8 % per annum). In the egg industry, growth (in terms of the number of laying hens housed and egg production) has averaged approximately 2.5 % and 4.5 % per annum, respectively, since 2010.

2.1 Gross value

The gross value of primary agricultural production from poultry meat for 2020, as recorded by DALRRD, was 49.37 billion (+ 5.1 % on 2019 levels). The gross value of egg production was recorded at R10.57 billion (+ 2.7 %). Combined, the gross poultry farm income for 2020 was R59.94 billion, showing a yearly increase of 4.7 %. According to DALRRD estimates for 2020, total production of poultry meat, including spent hens from the broiler and layer sectors, was 1.873 million tonnes. The total production of shell eggs in 2020 was 0.562 million tonnes (DALRRD).

Broiler and egg producers are, in rand value, the largest sector of South African agriculture at 18.0 % of all agricultural production (down from 19.9 % in 2019) and 41.1 % of all animal products (down from 41.5 %). The 18.0 % contribution from poultry products breaks down into 14.8 % from poultry meat and 3.2 % from eggs. Our nearest competitor, the beef industry, contributed 11.3 % to turnover of all agricultural production and 25.8 % of animal products.

The total gross value of animal products was R145.90 billion and the total gross value of agricultural products was R332.95 billion in 2020. Total animal products contributed 43.8 % to the gross value of total agricultural products. The gross value of ostrich feathers and products was R0.70 billion in 2020 (up from R0.34 billion in 2019); this is 0.2 % of agricultural production and 0.5 % of total animal products.

2.2 Feeding the nation

The poultry industry prides itself on the fact that it feeds the nation, as more poultry products are consumed every year than all other animal protein sources combined. The South African poultry industry dominates the animal products sector, providing 66.1 % (up from 65.5 % in 2019) of locally produced animal protein consumed in the country (excluding milk; DALRRD).

The per capita consumption of poultry meat and eggs in 2020 was 38.93 kg and 9.29 kg, respectively, with a combined per capita consumption of 48.22 kg (including backyard consumption).

Per capita consumption of beef, pork, and mutton and goat were 16.8 kg, 5.2 kg, and 2.9 kg respectively (source: DALRRD). Per capita milk consumption was 38.2 kg per person.

The gap between the total consumption of poultry meat and eggs and the total consumption of other types of meat (Figure 1) has widened over the past ten years.

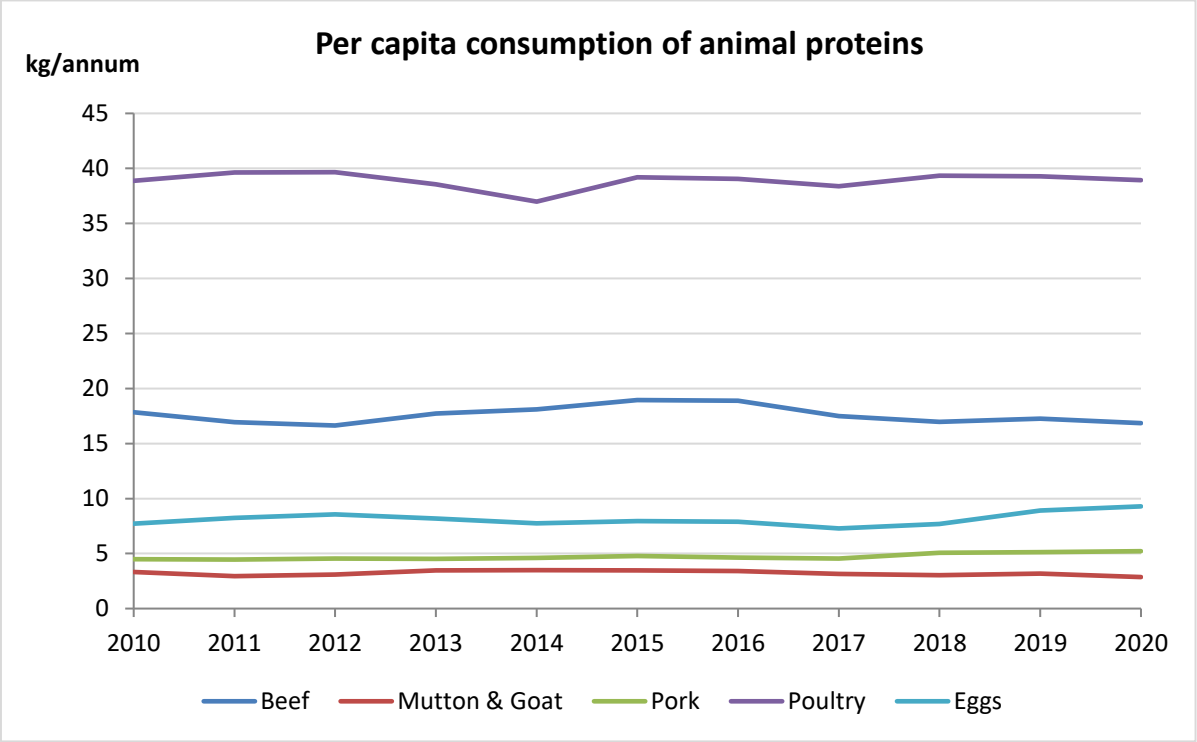


Figure 1. *Per capita consumption of protein sources from 2010 to 2020 (DALRRD)*

During 2020, the total consumption of poultry meat and eggs (according to DALRRD) was 2.924 million tonnes; 94.8 % more than the combined 1.501 million tonnes of beef, pork, mutton and goat consumed over the same period. Of this, 2.340 million tonnes were poultry meat products (including imports), and 0.583 million tonnes were eggs and egg product.

2.3 Price comparison of protein sources

On a rand per kilogramme basis, broiler meat and eggs remain the most affordable of animal protein sources, with the exception of milk.

The average beef producer price at the abattoir (carcass price, excluding the fifth quarter) for class A2 / A3 was R48.16 per kg in 2020 (+ 7.1 % on 2019), while the abattoir selling price for class C2/C3 beef was R42.01 (+ 5.6 % on 2019). The average price for pork (all classes) was R25.22 per kg in 2020 (+ 0.4 %).

The total realisation producer price for broilers (less all discounts, rebates and secondary distribution) was R23.52 per kg in 2020 (+ 2.7 %; SAPA). It should be noted that the broiler price is for finished product, whilst the other meat prices are ex-abattoir.

The average producer price of eggs in 2020 was R19.93 per kg (R14.37 per dozen; all sizes; SAPA). The egg producer price increased by 3.8 % compared to the 2019 price (R19.20).

The average 2017 to 2020 prices of animal proteins are given in Figure 2 and monthly prices from 2016 are shown in Figure 3.

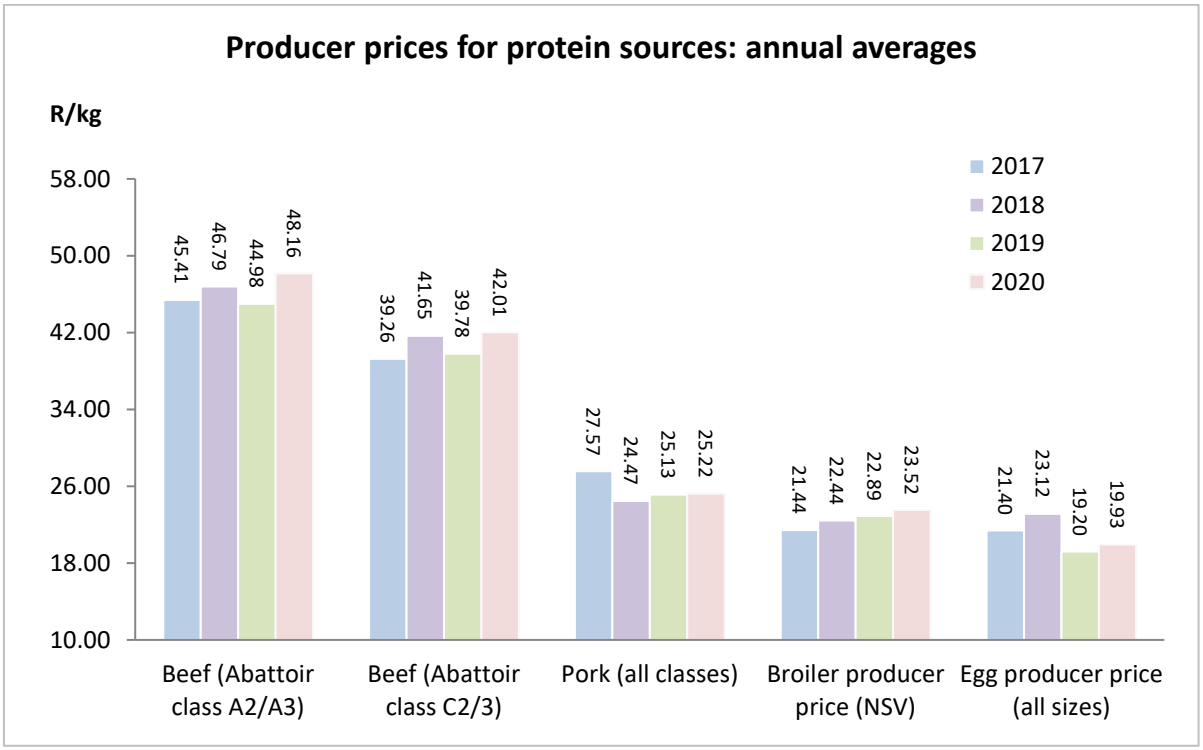


Figure 2. *Average annual producer prices for different protein sources between 2017 and 2020 (Stats SA; SAPA)*

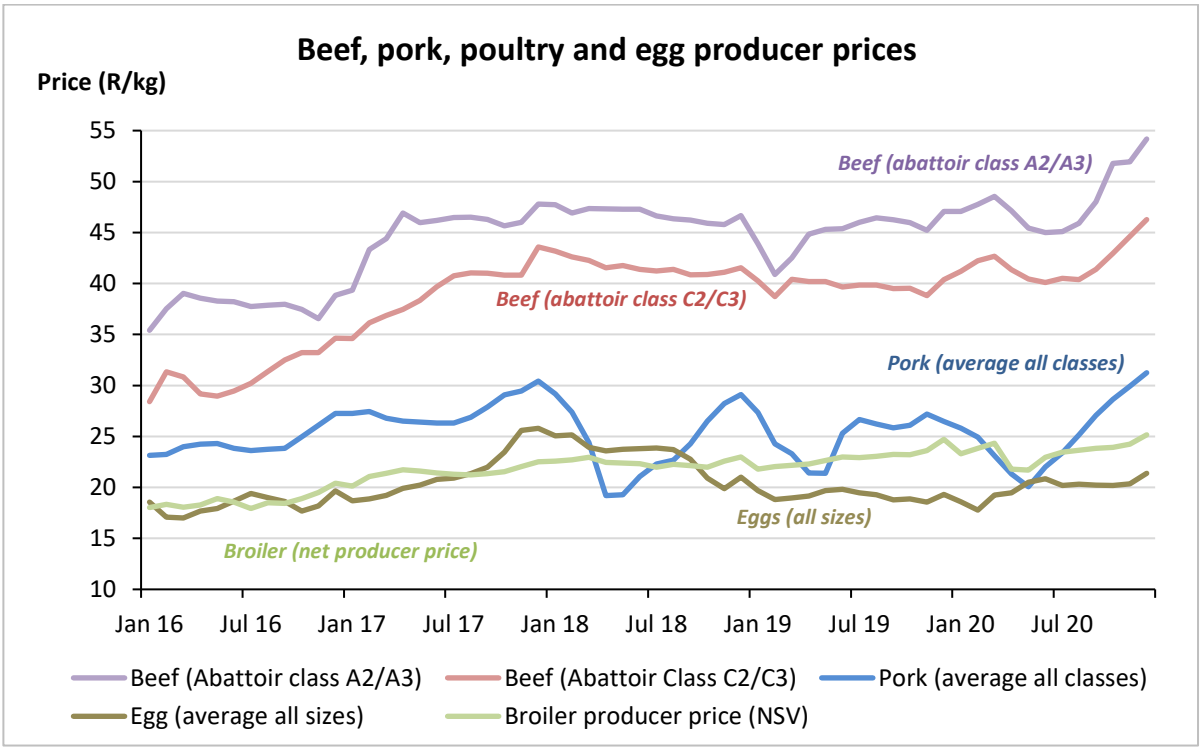


Figure 3. *Monthly beef, pork, broiler and egg producer prices (source: AMT, SAPA)*

Changing views on cholesterol and the increasing popularity of high protein/high fat diets have fuelled a resurgence in the consumption of eggs in the developed world. South African consumers lag in recognising the cost-effectiveness of eggs as a high-quality protein source.

For decades, doctors, scientists and government agencies warned against diets high in cholesterol. However, since a 2015 revision of the recommendations of the US Dietary Guidelines Advisory Committee (DGAC), cholesterol is no longer considered "a nutrient of concern for over-consumption". For most people, dietary cholesterol has a much smaller effect on blood levels of total cholesterol and harmful LDL cholesterol, than does the 'mix of fats' in the food eaten. Research shows that an egg a day does not increase heart disease in healthy individuals. In fact, the anti-oxidant selenium found in eggs, along with the easily digestible, high-quality protein and vitamins (A, B_{12}, D, riboflavin and folate), may lower the risk of heart problems.

In 2018, eggs found themselves in the medical news again when a study by Northwestern University in the US seemed to suggest that the intake of eggs was associated with an increased risk of heart disease and stroke. The study, published in the Journal of the American Medical Association, looked at the diet and medical history of almost 30 000 people and concluded that eating a single egg a day would increase cholesterol levels and the risk of stroke death by 17 %. However, critics dismantled the paper, citing problems with the methodology and the conclusions drawn. In particular, if the overall cholesterol intake is taken into account, the significance of eggs as a contributor to death drops out of the analysis. The author has conceded that total cholesterol intake is what people should really focus on, along with healthy lifestyle choices and cutting out cigarettes.

Nutritional studies are notoriously difficult to conduct because of differences in diet, patient behaviour, compliance, etc., so the jury is still out on whether cholesterol is actually bad for us. The acceptability of eggs in a healthy diet is just as contested. In 2018, a trial published by Oxford University (in the British Medical Journal) suggested the complete opposite of the Northwestern study: that eating an egg a day could reduce cardiovascular death by 18 % and haemorrhagic stroke death by 28 %. This study looked at the dietary habits of over half a million Chinese adults over a four-year period. Although the Chinese diet is very different from Western diets (blurring interpretation), this study suggests a protectionary role of eggs in the Chinese adults surveyed. Certainly, the American Heart Association believes that eating an egg a day (or two egg whites), is a perfectly reasonable thing to do - providing you exercise, follow a healthy lifestyle and cut out cigarettes.

2.4 Poultry feed: maize consumption

The total maize crops for the 2014/15 and 2015/16 seasons were only 9.95 and 7.78 million tonnes, respectively. More than 2 million tonnes of maize were imported in the 2015/2016 season; the first time that imports had been necessary in seven years. As the drought broke in the maize-growing regions, the total maize crop for 2016/17 reached a record 16.74 million tonnes – and South Africa regained its status as a net exporter of maize. In the 2017/18 season, the maize crop dropped 25.3 % to 12.51 million tonnes and there was a further 9.9 % reduction in output in the 2018/2019 season (11.275 million tonnes). The drop in production in these two seasons is largely a reflection of reduced plantings in 2017/18 and late rains which delayed planting in 2018/19. The 2019/2020 maize crop, at 15.3 million tonnes, was 35.7 % higher than the 2018/2019 crop. White maize was recorded at 8.55 million tonnes (55.9 %) and yellow maize at 6.75 million tonnes (44.1 %; Crops Estimate Committee).

The 2020/21 harvest is expected to be about 4.1 % above last year's crop (Crops Estimate Committee).

The total South African consumption of maize for 2019/20 was 11.11 million tonnes, of which 5.45 million tonnes was white maize and 5.66 million tonnes was yellow maize. The South African poultry industry is the biggest non-human consumer of locally produced maize (AFMA) and, in 2020, maize contributed R40.03 billion to the gross value of agricultural products, compared to R28.18 billion in the previous year (source: DALRRD).

2.5 Poultry feed: sales of complete feed

According to AFMA estimates, a total of 6.73 million tonnes of animal feed was manufactured by its members in 2020. The poultry industry consumed 4.37 million tonnes, of which 2.791 million tonnes were broiler feed, 1.026 million t layer feed, 0.536 million t breeder feed and 0.014 million t ostrich feed. In total, a massive 64.9 % of AFMA's animal feed sales went to the poultry industry (Figure 4).

National feed production during 2019/20 (April to March) was 11.961 million tonnes, a 3.9 % year-on-year increase in feed sales. AFMA sales represent 58 % of the national feed produced (AFMA).

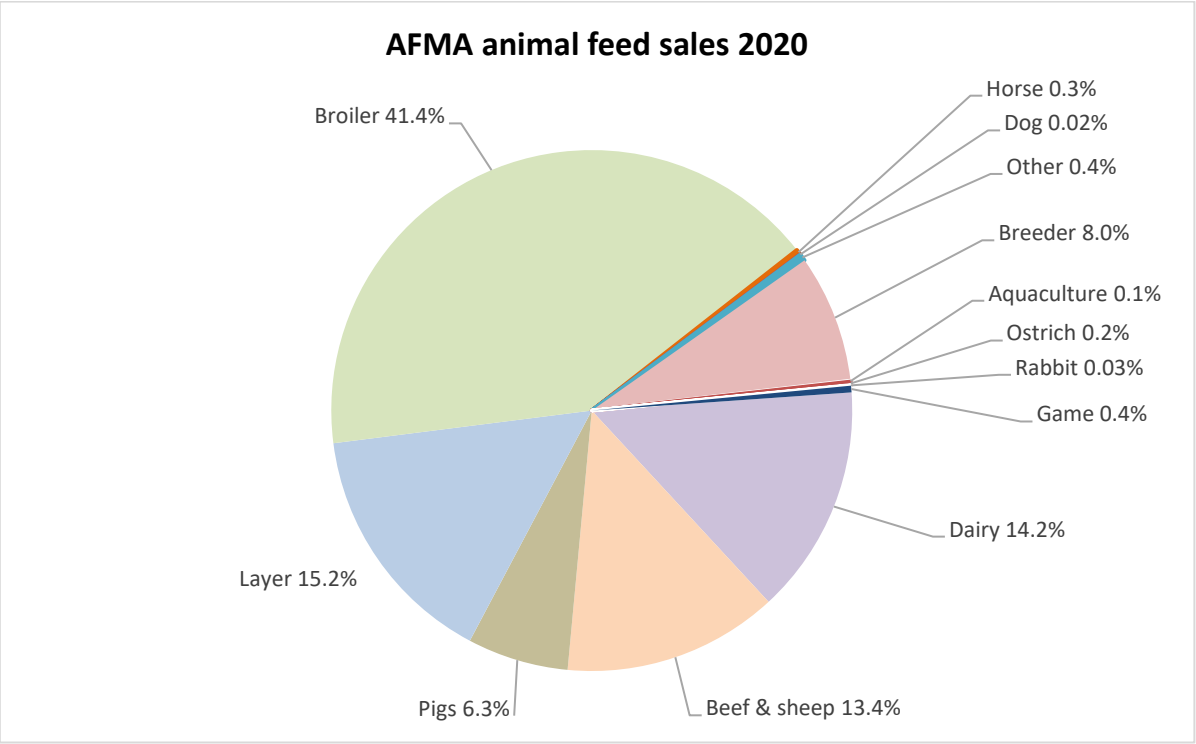


Figure 4. *Animal feed sales by AFMA members in 2020*

A total of 5.698 million tonnes of maize was used for animal feed (South African Grain Information Service) in the 2019/20 season. This comprised 0.629 million tonnes of white maize (11 %) and 5.069 million tonnes of yellow maize (89 %).

2.6 International price competitiveness

Although chicken consumption (tonnes) has increased by around 25 % in the period 2010 to 2010 (SAPA), local production has only increased by 17 % in the same period. Broiler imports, mostly from the Americas and the EU, increased by 160 % between 2009 and 2019, and by 88 % between 2010 and 2020. Importers argue that imports are meeting a demand which local producers simply cannot meet; while local producers claim that imports are driving small producers out of business, killing investment and preventing bigger businesses from making full use of their production capacity. The EU repeatedly attacks the South African industry as inefficient and uncompetitive. So, how competitive *is* the South African broiler industry internationally?

There is little doubt that South African producers compare favourably with global competitors in terms of production efficiencies. The University of Wageningen has demonstrated this over several years. It is production *costs*, particularly feed costs, which reduce our competitiveness. Feed costs account for between 65 and 73 % of total live broiler production costs in most countries. Because of the country's relatively high levels of protein imports and a free market for maize exports, any increases in global maize and soya prices impact South African feed costs. Increases in feed prices are often not matched with increased prices for local broiler

products. High feed costs keep the domestic broiler price above import parity price even for non-dumped tariff lines and render South African producers vulnerable to imports. When global feed prices are high, or the local maize crop fails, even a depreciating rand cannot protect the local market from cheap poultry imports.

Whilst in a year of good harvests, South African poultry producers may also enjoy export parity prices for maize, soya prices have tended towards import parity. This situation may change as South Africa's domestic soybean production increases.

As is the case with the EU, transport, storage and other costs push up the price of protein-rich raw materials in South Africa. In addition, higher feed costs result in higher day-old chick prices. Therefore, South African poultry farmers have not been technically inefficient producers; there has simply been an insufficient supply of locally grown, affordable feed inputs. Amongst our competitors, Brazil, Argentina and the US are net exporters of both maize and soybeans. Figures from the Bureau for Food and Agricultural Policy's "Competitiveness of the South African Poultry Industry" report (2019) suggest that, in 2017, the € cost per kilogramme live weight was approximately 18 % higher in South Africa than Brazil (increased from 13 % in 2015). It is safe to label differences in feed costs as the major contributor to higher broiler production costs in this country. However, feed costs in South Africa, when the maize harvest is good, *are* lower than in Europe (BFAP). Here, structural differences in the market for broiler meat also come into play (see below).

In a study on the competitiveness of the EU poultry sector (LEI Wageningen UR, 2019), EU *feed-related* production costs in 2017 were 15, 16 and 3.5 % higher than feed-related production costs in the US, Brazil and Argentina, respectively. Total production costs in the EU were higher than those in the US, Brazil and Argentina by 28, 31 and 13 %, respectively (2017). Compared to South Africa, the US and Argentina enjoyed production costs around 7 % and 2 % (respectively) below those incurred by South African producers in 2017. Brazilian and Ukrainian producers were able to produce chicken for 15 % and 10 % less than their South African counterparts, respectively.

Compounding the effect of feed price on the local cost of broiler production and our vulnerability to imports are the global differences in consumer preferences for chicken meat. Production costs in the EU ranged from 6 % above South African levels (Poland) to 23 % in Denmark. The Netherlands, France, Germany and the UK produce chicken at 17 %, 22 %, 15 % and 19 % above South African production costs, respectively (2017 data; BFAP/Wageningen). Despite this, the EU nations are able to export hundreds of thousands of tonnes of broiler meat to South Africa every year. Whilst the local market prefers "brown meat" (bone-in portions, such as leg quarters, drumsticks, wings, thighs, etc.), the EU and US consumer has a strong preference for "white meat" (largely breast meat) and boneless portions. Chickens, of course, grow as a single bird, with a leg and a wing to match each portion of breast meat. This means that, if the premium earned for white meat is sufficiently high in an exporting nation, the remainder of the carcass can be disposed of into receptive export markets, at reduced prices. The premium earned on the breast meat helps to cover the costs of production so that the "waste" cuts can be sold below the production cost per kilogramme of a whole bird. Imports of "below cost" or "at cost" portions into a country put downward pressure on local prices, effectively removing any premiums which might be

available for preferred cuts in that country. South African producers should be able to realise higher prices for dark meat cuts but are unable to do so in the face of large volumes of imported cuts from the EU and, more recently, from the US and Brazil.

Figure 5 below illustrates how the amount of bone-in chicken imports, as a proportion of total poultry imports, has changed over the past 10 years.

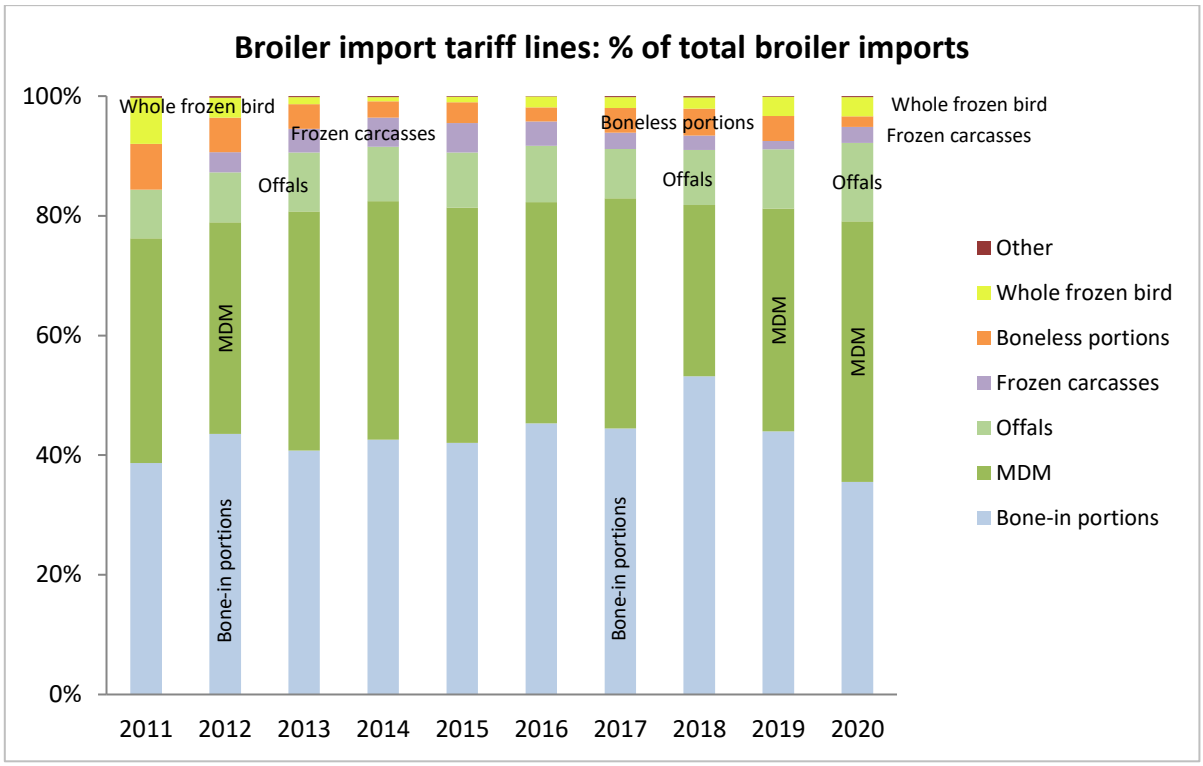


Figure 5. *Annual broiler imports according to tariff line, expressed as a percentage of total broiler imports*

It can be seen that broiler imports into South Africa comprise mostly bone-in portions and mechanically deboned meat (MDM). The proportion of whole frozen birds (82 % tariff) in the imports decreased in recent years to 2015 and then increased slightly between 2016 and 2020. The proportion of boneless chicken portions decreased to 2016 but increased between 2017 and 2019. An increase in the general tariff on boneless portions in March 2020 (12 % up to 42 %) has reduced imports of boneless portions by almost 60 %, year on year. The proportion of bone-in portions (37 % tariff; except for EU) steadily increased over more than a decade to 2018 and exceeded 40 % of total imports from 2012 to 2019. Even with outbreaks of avian influenza disrupting trade in European poultry products, bone-in portions still accounted for over 44 % of total imports in both 2016 and 2017, 53 % in 2018, and 44.0 % in 2019. The dip in 2019 may be attributed to European HPAI outbreaks and the EPA safeguard duty (30 %). In 2020, the increase in the general tariff from 37 % to 62 %, HPAI related trade bans, and COVID 19 cargo disruptions reduced imports of frozen bone-in portions to 35.5 % of total broiler imports.

With anti-dumping legislation in place against the US on tariff lines 0207.1491 to 1499 (frozen bone-in chicken imports), almost all these bone-in imports originated from the EU until 2016.

However, under the terms of the African Growth and Opportunities Act (AGOA), a unilateral trade concession between the US and Africa which was renewed in 2015, South Africa was forced to allow 65 000 tonnes/annum of US frozen bone-in chicken portions into the country from January 2016. This quota is free from the R9.40/kg anti-dumping duty payable on US bone-in imports and has increased to 69 972 tonnes from April 2020. South Africa now applies a tariff of 62 % to imports of frozen bone-in portion to all exporters except the EU, EFTA and SADC nations (so the US continues to pay this, even on the AGOA quota tonnes).

The EU enjoyed duty-free access to the South African poultry market under the Trade, Development and Co-operation Agreement (TDCA), until February 2015 when anti-dumping duties (on bone-in portions) were imposed on several companies based in the UK, the Netherlands and Germany. The International Trade Administration Commission (ITAC) accepted that imports of frozen bone-in portions from these three countries were causing downward pressure on domestic prices and that these imports were essentially being dumped. The Commission determined that the local industry has been unable to pass-on increases in input costs (feed and electricity) to consumers because of competition from dumped imports.

When these measures did nothing to stem the flow of bone-in imports, SAPA applied to ITAC again and, in December 2016, an interim anti-dumping tariff of 13.9 % was introduced on bone-in portions from all EU exporters. This was increased to 35.3 % in September 2018 for 4Q 2018 and 1Q 2019. This duty was reduced to 30 % from March 2019 and 25 % from March 2020. It will reduce further to 15 % from March 2021 and, unless HPAI-related trade bans continue to afflict EU exporters, this level is unlikely to deter dumping of bone-in portions on our shores.

Given that the South African industry struggles to remain globally competitive at the whole bird level because of feed ingredient imports, it is clear that it is not possible to compete against imports of what are, in fact, by-products from the US and EU.

The chicken to maize price ratio is an important indicator of profitability in the poultry industry. A favourable chicken to maize price ratio and more effective measures to counter dumping would support expansion in the local industry. This ratio reached record lows in South Africa in 2012 (when the US drought pushed feed prices up) but stabilised through 2013 and became favourable through much of 2014. In 2015, the chicken:maize price ratio declined steadily through the year because of drought conditions and a weakening rand; dropping below 2012 lows as the drought continued into 2016. The record-breaking maize harvest in 2017 improved the chicken to maize price ratio (although still 40 % below the level seen in 2004/5), which spurred expansion in the industry (BFAP). The chicken to maize price ratio decreased off these 2017 - 2018 levels by almost 15 % in 2019 and continued to drop through 2020, as maize prices firmed. Although the chicken:maize price is becoming less favourable, the weak rand and additional measures in place against US, EU and Brazilian exports, may still support growth in the local poultry industry, at least in the short term. BFAP forecast that the chicken:maize price ratio will reach an equilibrium over the period 2023 – 2028, somewhere between the unfavourable levels of 2012 – 2016 and the favourable ratio experienced in 2017. Last year, BFAP suggested long-term production growth would become constrained to around 1.1 % per annum (as the EU safeguard is phased out, and if highly pathogenic avian influenza levels should remain under control in the EU) – but they have lifted this prediction to an annual

average of 1.6 % over the next 10 years, because of the increase in *ad valorem* tariffs on imported chicken portions and additional trade-related commitments in the poultry master plan.

The updated University of Wageningen and BFAP reports on the competitiveness of the EU and South African poultry industries can be found at:

> https://www.avec-poultry.eu/wp-content/uploads/2018/12/WUR-report-2018-116-Competitiveness-EU-poultry-meat-PvanHorne_def.pdf
>
> http://www.bfap.co.za/wp-content/uploads/2018/08/BFAPBaseline-2018.pdf
>
> https://www.bfap.co.za/wp-content/uploads/2020/04/Final-Baseline-2019.pdf

While cheap imports may benefit consumers if the cheap import prices are passed onto consumers, (which does not always seem to be the case), they also adversely affect the ability of domestic producers to earn profits commensurate with acceptable rates of return. Thus, these producers cannot sustain the investment required to grow their operations.

Lack of growth in a sector which is a large employer in the country contributes to high unemployment levels. If returns on investment are inadequate over a number of years, this will result in either the closure of the business or an under-usage of existing capacity. While the poultry industry has the capacity to significantly increase employment opportunities in South Africa, import companies do not employ many staff. The Bureau for Food and Agricultural Policy's 2020 Baseline report estimates that poultry imports will account for about 25 % of domestic chicken consumption by 2029; down from a projection of 29 % in recent years.

For a compelling read on the effect of predatory imports on a country's industry, read www.biznews.com/sponsored/2017/02/14/eu-dumping-sa-chicken-industry/. Paul Dillon, of the Fair Play Movement, explains how dumpers price their products just below those of local producers but considerably above the imported price. This effectively prevents local producers from reacting (by raising prices) to input cost drivers such as escalating feed costs during drought years.

The role of the retailer in allowing this predatory behaviour is also outlined and emphasised. Unlike predatory pricing campaigns between brands, this undercutting can go on indefinitely because the cost of the imports is so low that the profits made by the retailers and dumpers will always be high and sustainable. Inevitably, smaller local operations will cease trading and employing; consolidation will occur; and, eventually, even highly efficient, large-scale operations will begin cutting production and retrenching labour.

Import protection aside, the obvious approach to improving the price competitiveness of the South African broiler industry is to develop the country's capacity for growing and processing soybeans and maintaining a strategic stock of maize to limit price progression towards import parity levels. Both the Bureau for Food and Agricultural Policy and the Department of Agriculture, Land Reform and Rural Development have alluded to the soybean development strategy in their Baseline reports and Agricultural Policy Action Plan (Chapter 9), respectively, and this capacity has steadily increased since APAP was introduced. In the 2020 season, South African soybean farmers continued to make big strides towards national self-sufficiency

in soybean production, with the crop estimated at 1.246 million tonnes (up from the 2019 crop; Crops Estimate Committee). Soybean meal imports are expected to drop from contributing over 80 percent to local consumption a decade ago, to contributing around 25 % percent to local consumption in the 2019/20 season (FAS USDA).

3. SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC) OVERVIEW

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
TOWARDS A COMMON FUTURE

The SADC member states are Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, eSwatini (Swaziland), Tanzania, Zambia and Zimbabwe (Figure 6). The SADC Secretariat has its headquarters in Gaborone, Botswana.

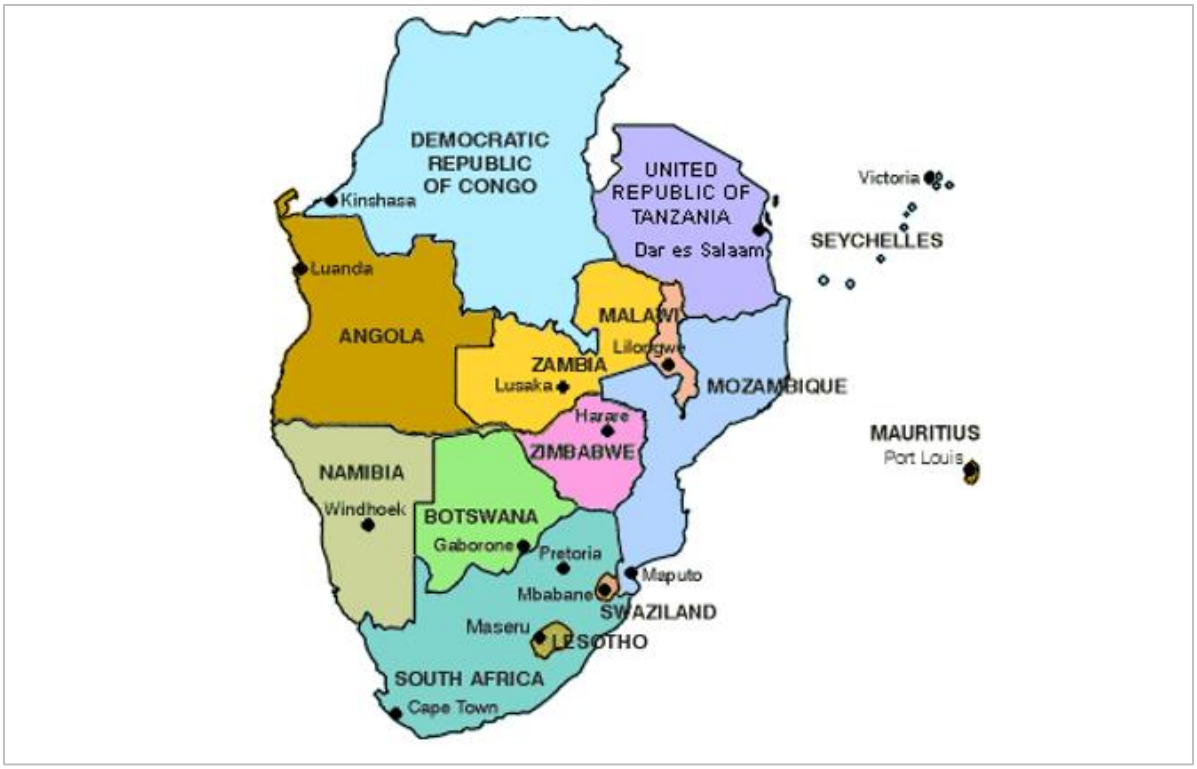


Figure 6. *The Southern African Development Community countries*

The **SADC Vision** charts the direction for the development of the region. A declaration, "Towards the Southern African Development Community", adopted in Windhoek, Namibia on 17 August 1992 by Heads of State or Government, called upon all countries and people of Southern Africa to develop a vision of a shared future, a future within a regional community.

The SADC Vision is to build a region in which there will be a high degree of harmony and rationalisation, to enable the pooling of resources to achieve collective self-reliance and improve the living standards of the people of the region. The main objectives of the Southern African Development Community (SADC) are to achieve economic development, growth,

peace and security; to alleviate poverty; enhance the standard and quality of life of the peoples of Southern Africa, and to support the socially disadvantaged.

These objectives are to be achieved through increased regional integration, built on democratic principles, and equitable and sustainable development.

3.1 SADC and poultry production

Reliable access to adequate food is a fundamental human right and essential for well-being. SADC member states face challenges ranging from scarce or unpredictable food supply to situations of over-supply. Factors such as weather and climate, labour intensive or dated agricultural methods, and health issues which affect agricultural productivity all impact on the region's ability to be self-sustaining in terms of food production. SADC member states address these serious obstacles to food security through the Livestock Unit of the Food, Agriculture and Natural Resources Directorate (FANRD). The FANR Directorate is one of five directorates grouped together under Regional Integration, along with Trade, Industry and Finance; Infrastructure and Services; Social and Human Development and Policy Planning and Resource Mobilisation.

The Food, Agriculture and Natural Resources *Priority Areas* include food availability, access to food, promotion of improved safety and nutritional value of food, and institutional framework strengthening and capacity building.

The Food, Agriculture and Natural Resources Directorate's key functions include:

- Development, promotion and facilitation of agricultural policy harmonisation, including collection of data to monitor progress;
- Ensuring sustainable food security policies and programmes;
- Development, promotion and harmonisation of phytosanitary, sanitary, and animal husbandry methods and policies;
- Promotion of trade in agricultural products.

The Livestock Technical Committee, made up of the Directors of National Livestock and Veterinary Services, meets annually to discuss issues of regional co-operation and integration. Its policies and directives are coordinated by the Livestock Unit, which also works on addressing sanitary and phytosanitary (SPS) issues in relation to trade.

One of the most important SADC projects from a poultry production perspective is the Trans-boundary Animal Diseases (TADs) project. This project, which was implemented in five SADC Member States (Angola, Malawi, Mozambique, Tanzania and Zambia), is designed to strengthen regional institutions in order to identify, diagnose and control the serious socio-economic impacts of trans-boundary animal diseases and to make livestock a tradable commodity. The project is also addressing management of trans-boundary animal diseases, including Newcastle Disease and Avian Influenza.

Concerted regional efforts are required to control and manage animal diseases in the SADC region as SADC subscribes to the OIE principles of zoning and compartmentalisation, in order

to enhance regional and international trade in livestock and livestock products. SADC aims to make significant progress towards the goal of managing, controlling and (where possible) of eradicating trans-boundary animal diseases, through improved capacity for detection, identification, monitoring and surveillance of the diseases.

SAPA is the secretariat for the SADC Poultry Liaison Forum which meets at least twice per annum in a member country to share issues relevant to the region. The purposes of the Liaison Forum are:

- to allow SADC countries to get to know each other so that difficult issues can be discussed, and a middle ground found on technical and trade-related matters;
- to share common issues relating to the poultry industry, so that members may benefit from information shared;
- to develop a combined view that will allow all members, via the Forum, to work with the SADC Secretariat in Botswana when necessary - and especially the Joint Technical Committee.

Issues regularly discussed at these Forums include the effect of imports on local industries; illegal movement of poultry products across SADC borders; raw material prices and infrastructure issues (e.g. erratic electricity supplies); government regulation of poultry and subsidiary industries; and disease control.

Antimicrobial Resistance (AMR) Control Strategy

In December 2019, the Southern Africa Development Community (SADC) joint technical committee, with support from the WHO, OIE and FAO, validated a Regional AMR Strategy that is aligned to the global AMR action plan. The Control strategy will be implemented once ratified by Ministers from all member states. This was due to happen in 2020 but, because of the COVID-19 pandemic, will now be concluded in 2021.

Antimicrobial resistance is seen as not just a global health and security threat but also in terms of potential disruption to the food supply chain and reversal of GDP gains made over several decades in the SADC region. The SADC AMR strategy will ensure that SADC member states co-ordinate and leverage with each other in effectively addressing AMR.

3.2 The SA poultry industry's contribution to regional poultry production

Commodity: chicken meat (FAO)

The total production of chicken meat in the SADC countries during 2019 was 2.38 million tonnes (Table 1; latest available dataset on FAOstats); down from 2.41 million tonnes in 2018. While the accuracy of these figures may be questionable, they do offer an insight into regional production trends over the last decade.

There was substantial growth in broiler production levels in Angola, Malawi and Mozambique in the 10 years to 2019, and good growth in Madagascar, Mauritius, South Africa, eSwatini (Swaziland) and Zambia. However, with the exception of South Africa, this growth stemmed from a very low base, coupled with low per capita consumption. There thus remains huge scope for increasing both regional production of broiler meat and per capita consumption of the product.

The 2019 table illustrates that South Africa has been losing market share in the region, as neighbouring countries develop their industries. However, South Africa still dominated regional production of chicken meat in 2019, accounting for 75.8 % of total production in the SADC bloc (FAOstats). Malawi, Tanzania and Mozambique were the next biggest producers, but each accounted for less than 6 % of the total regional production of broiler meat.

Contraction of the industry occurred in Botswana, the Democratic Republic of Congo, Lesotho, Namibia, the Seychelles and Zimbabwe over the decade 2009 to 2019.

Table 1: *The production of chicken meat in the SADC member countries in 2019* (FAOstats).

	Production		% Growth	% Total production		Population
SADC Country	**2009**	**2019**	**(10 yr)**	**2009**	**2019**	**2019**
Unit	Tonnes	Tonnes	%			M
Angola	15 660	49 034	+ 213	0.9	2.1	31.83
Botswana	5 836	2 403	- 58.8	0.3	0.1	2.30
Dem. Republic Congo	10 760	10 406	- 3.3	0.6	0.4	86.79
eSwatini (Swaziland)	5 200	6 229	+ 19.8	0.3	0.3	1.15
Lesotho	1 920	1 764	- 8.1	0.1	<0.1	2.13
Madagascar	37 520	50 037	+ 33.4	2.1	2.1	26.97
Malawi	21 337	135 725	+ 536	1.2	5.7	18.63
Mauritius	44 200	51 000	+ 15.4	2.5	2.1	1.27
Mozambique	39 796	76 080	+ 91.2	2.6	2.2	30.37
Namibia	11 200	10 866	- 3.0	0.6	0.5	2.50
Seychelles	607	560	- 7.7	<0.1	<0.1	<0.10
South Africa	1 387 599	1 808 207	+ 30.3	78.8	75.8	58.56
United Rep. of Tanzania	78 168	79 332	+ 1.5	4.4	3.3	58.01
Zambia	40 000	50 712	+ 26.9	2.3	2.1	17.86
Zimbabwe	61 870	52 115	- 15.8	3.5	2.2	14.65
Total for SADC	**1 761 673**	**2 384 530**				**353.0**

It is not easy to calculate per capita chicken meat consumption in the SADC region because of limited statistics on production and trade. However, based on FAO trade and production statistics for 2018 (the most recent trade estimates), total production of “chicken meat” in the

region at that time was 2 405 902 tonnes, total imports amounted to 1 014 559 t, and exports to 58 391 t. Using a 2018 population estimate of 345.29 million people, per capita consumption of chicken meat is approximately 9.74 kg (2018). However, it is likely that some of the imports moved internally within the region, for example ex-South Africa. Based on local production figures alone (ignoring trade), as collated by the FAO, per capita consumption would be approximately 7.0 kg (2018) and 6.8 kg (2019).

Commodity: hen eggs (FAO)

The total production of hen eggs in the SADC region was 853 379 tonnes during 2019 (the latest year available from FAOstats; Table 2). Based on these figures, ignoring any imports/exports and given an average egg size of 58 g, the average per capita consumption of hen eggs in shell was 41.7 eggs per annum in 2019.

Per capita consumption ranged from approximately 2 eggs per person per annum in the Democratic Republic of the Congo and Angola to approximately 166 eggs per year in South Africa, if production figures are accepted.

Table 2: *The production of chicken eggs in the SADC member countries in 2019* (FAOstats).

	Production		% Growth	% Total production		Population
SADC Country	**2009**	**2019**	**(10 yr)**	**2009**	**2019**	**2019**
Unit	Tonnes	Tonnes	%			M
Angola	4 930	5 100	+ 3.4	0.8	0.6	31.83
Botswana	4 264	3 670	- 13.9	0.7	0.4	2.30
Dem. Republic Congo	8 710	7 603	- 12.7	1.3	0.9	86.79
eSwatini (Swaziland)	1 050	1 009	- 3.9	0.2	0.1	1.15
Lesotho	1 650	996	- 39.6	0.3	0.1	2.13
Madagascar	16 150	20 593	+ 27.5	2.5	2.4	26.97
Malawi	20 250	23 108	+ 14.1	3.1	2.7	18.63
Mauritius	10 000	12 466	+ 24.6	1.5	1.5	1.27
Mozambique	21 871	50 000	+ 129	3.4	5.9	30.37
Namibia	3 175	2 638	- 16.9	0.5	0.3	2.50
Seychelles	1 271	564	- 55.6	0.2	0.1	<0.10
South Africa	404 000	564 000	+ 39.6	62.0	66.1	58.56
United Rep. of Tanzania	79 957	81 450	+ 1.9	12.3	9.5	58.01
Zambia	45 000	55 702	+ 23.7	6.9	6.5	17.86
Zimbabwe	29 760	24 480	- 17.7	4.6	2.9	14.65
Total for SADC	**652 038**	**853 379**				**353.0**

With per capita consumption in countries such as the US, Russia, Mexico, Japan and China exceeding 220 eggs per annum and, in some cases, approaching an egg a day, there is considerable scope in the SADC region to increase local per capita consumption. The egg continues to be a cheap source of high quality protein when compared to other animal proteins.

As with broiler production, South Africa dominated the egg industry in the SADC region in 2019; accounting for 66.6 % of total production (FAOstats). Mozambique increased its capacity by 129 % in the 10 years to 2019. Angola, Madagascar, Malawi, Mauritius, Tanzania and Zambia also grew their egg industries over the ten years to 2019 without reducing South Africa's share of the overall market.

4. DAY-OLD CHICK SUPPLY INDUSTRY

4.1 Overview

The day-old chick industry supplies inputs to both egg and broiler businesses. Pure lines are imported at great-grandparent or grandparent level. Most imports are at grandparent level, with some parent level imports. No commercial level day-old chicks or fertile eggs may be imported under normal circumstances.

The broiler industry in South Africa predominantly makes use of two breeds: the Cobb 500 and the Ross 308. The Arbor Acres breed holds a much smaller share of the market. The international breed companies for each of these breeds have granted the distribution rights to the parent stock to only three companies in South Africa. These companies supply parent stock to integrated and non-integrated broiler breeder operations, where the parent birds are reared until they are ready to start producing fertilised eggs. These fertile eggs are then transferred to hatcheries where the eggs are hatched to produce day-old broiler chicks, which are sold to independent broiler growers or are used in-house by fully integrated companies.

Since it requires a significant capital investment and specialised knowledge to start up and run a day-old chick business, the industry consists mostly of large producers. Only a few of the broiler day-old chick producers are not integrated businesses.

The day-old broiler chick industry can be profitable but is exposed to the same risks as the rest of the poultry industry: high feed costs, market-related risks and disease outbreaks put pressure on margins.

A small percentage of the day-old chicks produced are exported to neighbouring African countries. There is a reasonably large export market for hatching eggs and most of the exports are done via a local company that is well connected to export markets.

The industry is spread over the whole of South Africa with higher concentrations of producers in Gauteng, the Cape, KwaZulu-Natal and North West regions.

The commercial layer industry makes use of the following breeds: Dekalb (Amberlink), Hyline (Silver Brown and Brown) and Lohmann (Lite). Producers use the Hyline W36, a Leghorn-type bird, to produces white shelled eggs for a limited, niche market.

The major suppliers of day-old pullets to large and small egg producers are independent operations. Some form part of an integrated business. Day-old layer pullets and fertilised eggs are also exported to other parts of Africa. The majority of the day-old layer chick suppliers are currently situated in Gauteng, North West and the Western Cape.

As with the broiler day-old chick suppliers, entry-level costs of this sector of the poultry industry are high, requiring substantial inputs of capital and skill to start such a business. This industry can be profitable but is also very vulnerable and profitability is highly dependent on feed price levels and the absence of disease challenges.

The following factors influence the day-old chick industry:

- It is a time-consuming process, due to the lag time in expansion of commercial chick numbers: at least 18 months are required from pure lines and six months from parent stock.
- The Livestock Improvement Act stipulates pure line imports.
- A quarantine period of eight weeks from day-old applies to all imported live chicks.
- During the whole rearing period, it is critical to control the mass of parent females, especially between 18 and 24 weeks of age. If birds are not fed according to breed standards, the number of fertile eggs and overall profitability will be lower.

Figure 7 illustrates the poultry meat process from breeding stock being imported to the first commercial product produced:

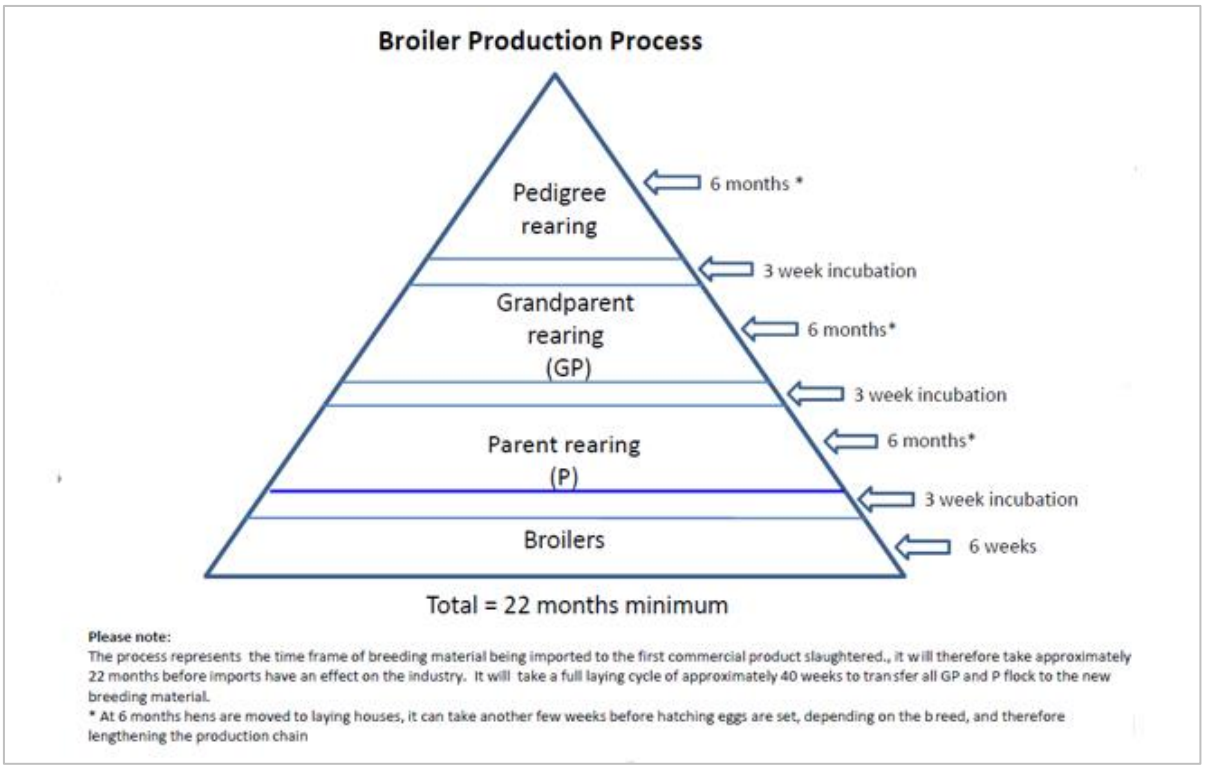


Figure 7. *The broiler production process, from importation of breeding stock to slaughter*

Figure 8 illustrates the egg production process until the first descendant starts laying eggs. The egg industry does not import and rear pedigree layers. Grandparents are imported.

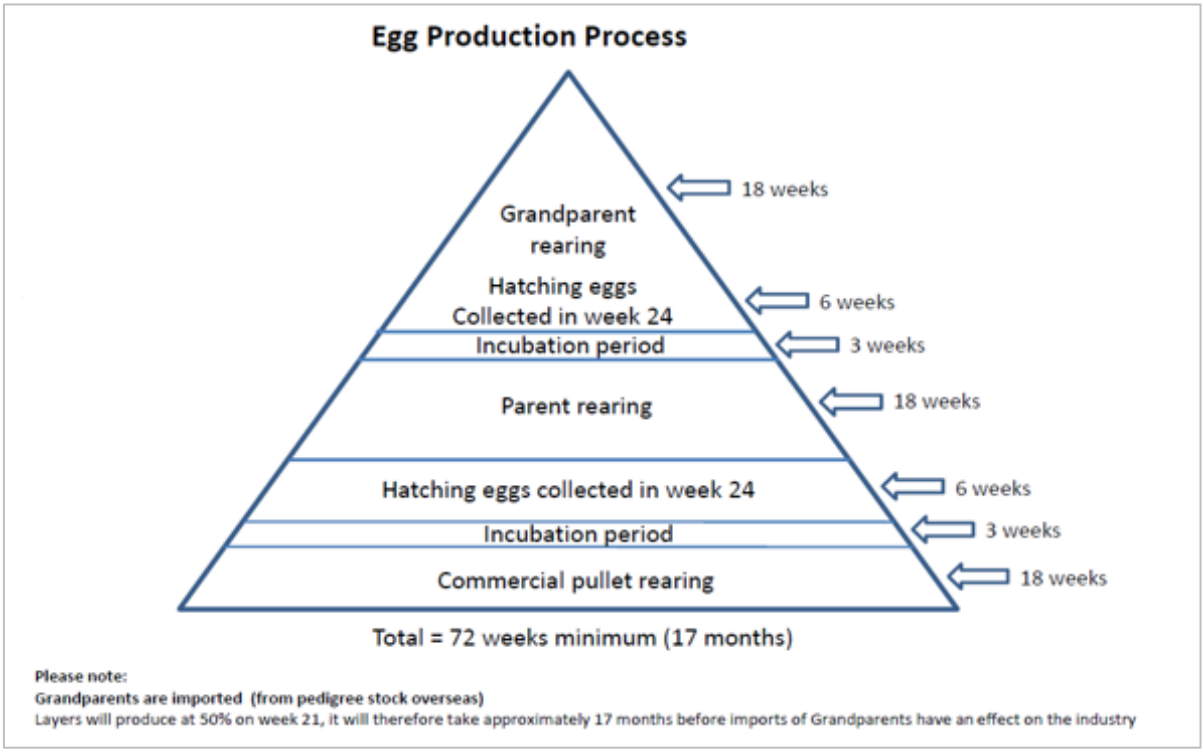


Figure 8. *The egg production process, from rearing of grandparent stock until point of lay*

4.2 Production: Chick placement numbers per annum

Layer breeders

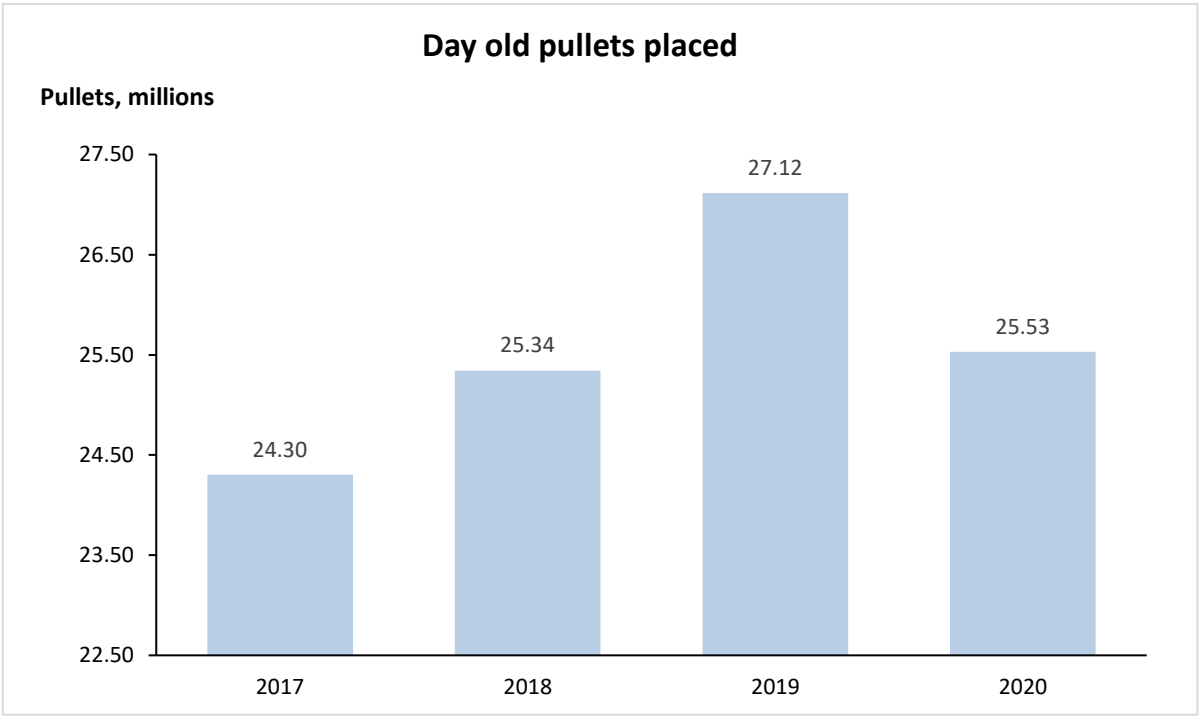


Figure 9. *The total day-old pullets produced per annum in South Africa*

In 2020, there were an estimated 7 400 layer breeding birds in grandparent operations (which produce layer parents), and between 210 000 and 290 000 layer breeding birds in parent operations producing layers. There are no pure lines or great-grandparents in South Africa.

From the breeding stock, 25.53 million day-old pullets were produced, a decrease of 5.8 % compared to 2019 (Figure 9, above). The large growth in hatchery output seen in 2018 and 2019 occurred in response to the loss of laying hens during the highly pathogenic avian influenza (HPAI) outbreak of 2017.

In terms of feather colour, 64.7 % of the day-old pullets hatched were silver strains (up from 57.7 % in 2019) and 35.3 % were brown strains.

Broiler breeders

The average number of parent males and females in rearing during 2020 was 4.494 million per week (Table 3), from an estimated grandparent and great-grandparent stock of 205 100. This is an increase of 628 000 parent birds (+ 16.2 %) compared to 2019. Most of this increase can be explained by the later age at transfer to breeder laying farms in the forecasting model.

A total of 9.741 million day-old female parent pullets were placed in 2020; 285 900 (+ 3.0 %) more than in 2019. Based on the number of parent pullets placed, an average broiler breeder flock of 6.725 million hens was estimated for 2020 (Table 3; Figure 10). This showed an increase of 10 700 birds (+ 0.2 %) compared to 2019.

An average flock size of 6.871 million breeder hens was forecast for the first four months of 2021. Note in the figure below, the national flock size (green line) is the average number of birds at any point in time; whereas the blue and pink lines represent the annual placement of parent pullets and production of 20-week old parents.

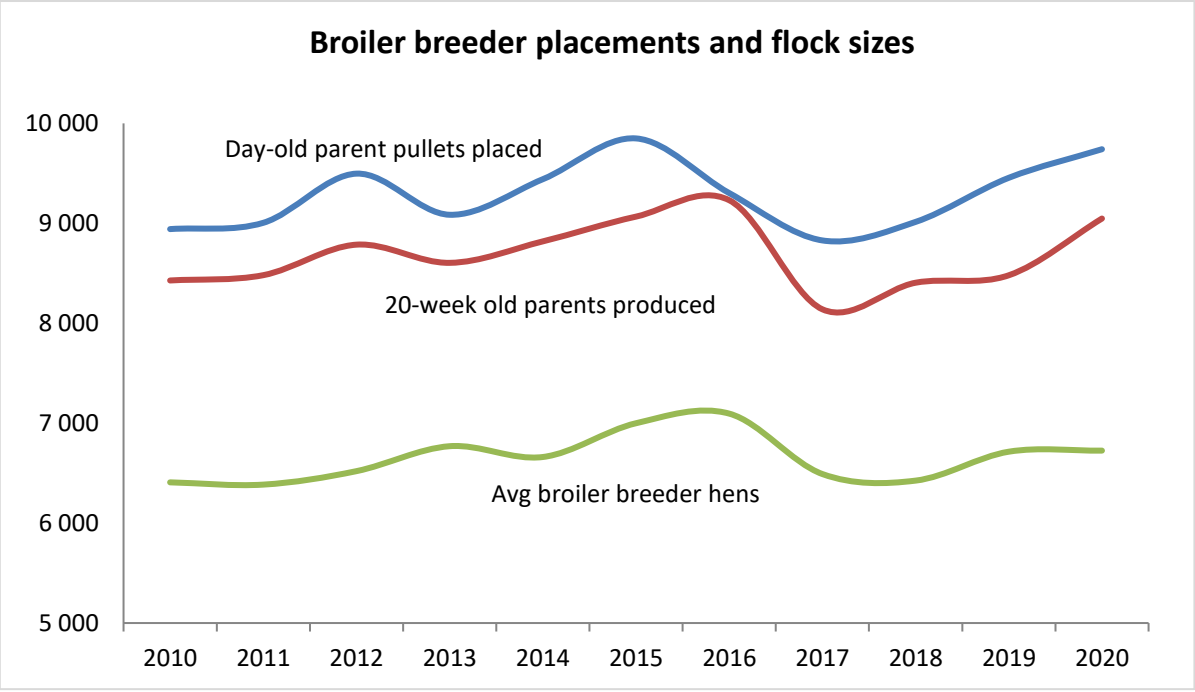


Figure 10. *Number of day old and 20-week parents placed per annum and average size of the national broiler breeder flock*

Table 3: *The broiler flock in South Africa (2020)*

Year	Av. broiler parents (m)		Breeding stock (m)	Day-old broiler chicks produced (m)	
	in rear	in lay	av. / week	av. / week	total / annum
2019	3.867	6.715	10.581	20.660	1 079
2020	4.495	6.725	11.220	21.581	1 127
% change	+ 16.2	+ 0.2	+ 6.0	+ 4.5	+ 4.5

Note: The number of breeding birds in Table 3 includes males and females; "m" = millions

In total, 1 127 million broiler chicks were placed during 2020; 48.0 million (+ 4.5 %) more than in 2019 (Figure 11).

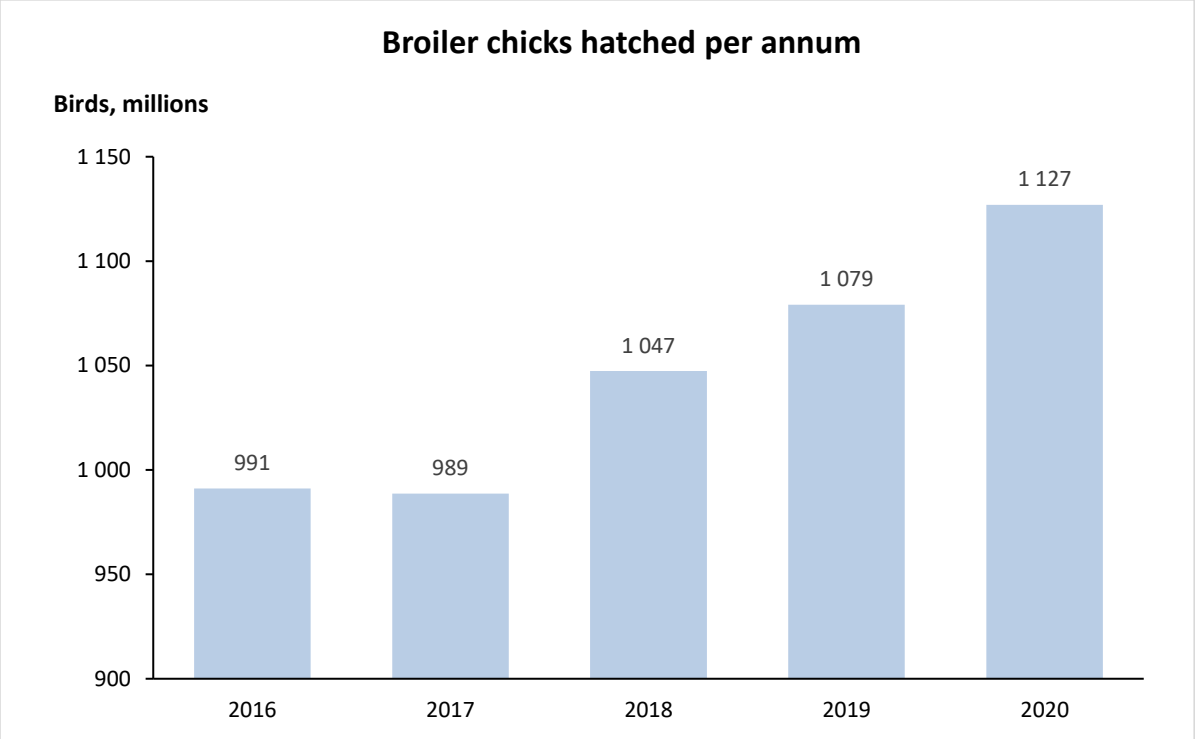


Figure 11. *Broiler chicks hatched per annum.*

4.3 Genetic progress

Genetic improvements in the biological performance of laying hens and broilers are demonstrated in Table 4.

The table shows how parameters used in the egg and broiler model have changed over the past few years (laying hens, 2013 - 2018) and since the 1960s (broilers).

Table 4: *Genetic progress in a) laying hens:*

Trait	2013	2018
Eggs per hen per annum	309.5	314.1
Kilogrammes feed per kg eggs	2.31	2.15
% hen-day production	84.8	86.0
Age at depopulation (weeks)	72/74	78

b) broilers:

Trait	1968	1998	2004	2018
Slaughter age (d)	62	42	38	33
Live mass (kg)	1.18	1.79	1.82	1.85

4.4 Feed usage (broiler breeders)

In terms of feed usage, broiler breeding stock consumed 526 027 tonnes during 2020 (Table 5).

Table 5: *Feed usage (tonnes) in parent and breeding operations*

Year	Parent rearing	Parent laying	Total broiler breeding stock	
	t/yr	t/yr	t/yr	t/week
2019	98 573	417 038	515 611	9 888
2020	104 423	421 604	526 027	10 061
Change	+ 5 850	+ 4 566	+ 10 416	+ 172
% Change	+ 5.5	+ 1.1	+ 2.0	+ 1.7

5. EGG INDUSTRY IN SOUTH AFRICA

5.1 Overview

In 2019, producers were dogged by an imbalance between supply and demand. They could not have foreseen that a global pandemic and associated lockdowns would boost demand for eggs in 2020 and firm egg prices for much of the year. As people were forced to stay at home and found time to indulge in cooked breakfasts and baking activities, the demand for eggs rocketed, stocks diminished rapidly, and egg prices climbed to a peak in June. Although demand dropped as lockdown restrictions eased, domestic consumption of shell eggs increased by 4.4 % in 2020, pushing per capita consumption to a national high of 159 eggs per person per year. There remains an alarming gap between what the producer and retailer receive for a dozen eggs. Farm gate egg prices increased by 4.0 % on an annual basis, while retail prices climbed by 24.6 %. The retail mark-up on producer prices was 62.8 % in 2018, 92.7 % in 2019 and 131 % in 2020. Feed prices have increased by over 4.8 % compared to last year and will put margins under severe pressure in 2021 – increases accelerated steeply in 2H 2020.

SAPA played an important role in disseminating information released by government to all egg producers so that strict COVID-19 protocols were put in place on farms and at pack stations. Equally importantly, SAPA was able to convince government that live bird markets, originally banned, should be allowed to continue as long as social distancing measures were followed. This was essential for the sale of cull hens at the end of laying cycles.

Three years have passed since the 2017 HPAI outbreaks. South African producers invested in biosecurity and, despite surging cases in Europe and Asia, there was no resurgence of the virus in winters 2019 and 2020. There were no reported outbreaks of HPAI in commercial layer flocks this year, but four outbreaks of subtype H5N8 were reported in commercial ostrich flocks: (source: OIE; see Chapter 8.2). Ostrich farms continue to pose a biosecurity concern for the wider poultry industry.

Just over 1.28 million laying hens were added to the national flock in 2020 and South Africa is self-sufficient in table egg production. Imports increased by 6.3 %. Imports of processed egg products, such as albumins and dried yolks, decreased by 15.8 % but consignments of fertile eggs from the United States pushed total imports above 2019 levels.

Egg exports (*Gallus gallus domesticus)* dropped by 21.3 % in 2020, as borders closed in response to the COVID-19 epidemic. Exports still represent less than 2 % of local egg production. It will be important for the egg industry to capitalise on the increased consumption seen in 2020 and work to grow sales further, through advertising and social media campaigns. Eggs remain the cheapest source of high-quality animal protein, vitamins and minerals when compared to beef, pork and chicken.

Work on an analytical report of the egg value chain was completed during the year. The report is the first phase of the development of the egg sector Master Plan. The aim of the master plan is to identify specific intervention areas needed to grow and transform the industry and to create employment opportunities, building on the gains made in 2020.

5.2 Turnover

With a gross turnover of R10.57 billion at producer level, eggs remain the fourth largest animal product sector in South African agriculture, after poultry meat, beef and milk (source: DALRRD). The turnover decreased by 2.7 % compared to 2019, after an annual increase of 9.9 % the previous year. Eggs' share of the gross value of animal products was 7.2 % and of all agricultural production 3.2 %, down from 7.5 % and 3.6 % the previous year.

The total value at retail level was R25.85 billion for 2020. About 764 million dozen eggs were sold in South Africa in 2020 through various channels.

5.3 Production

Laying flock

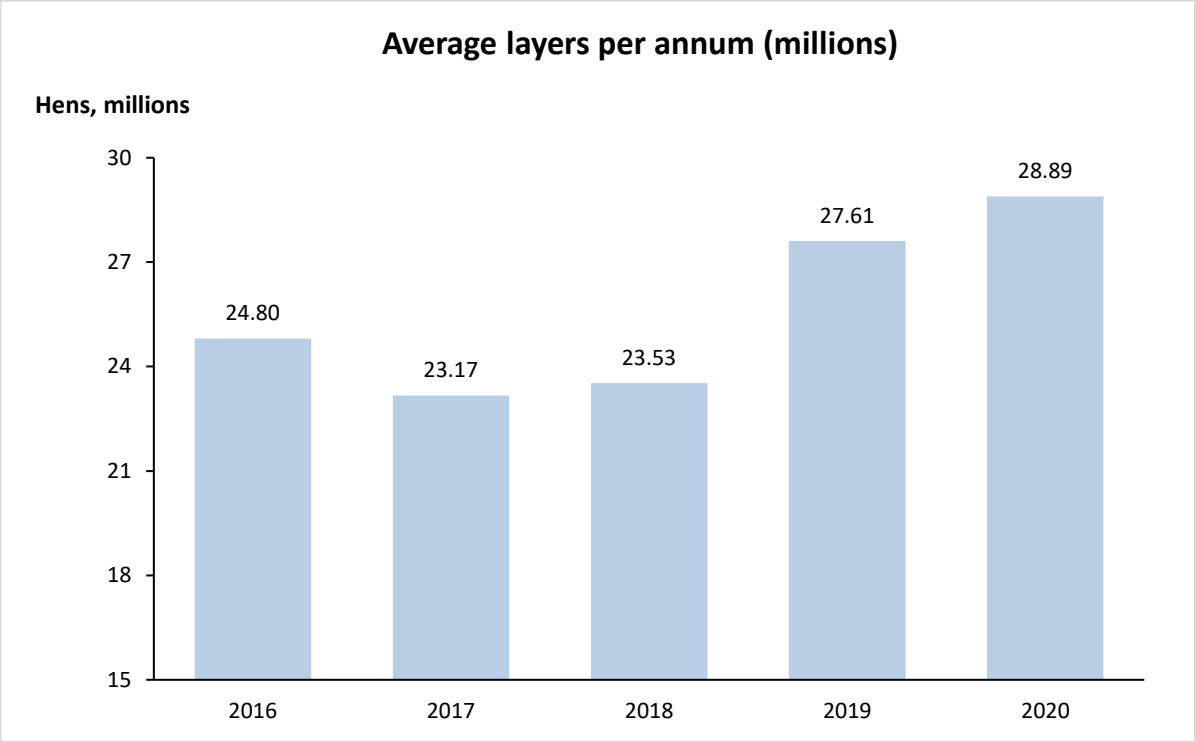


Figure 12. *The national layer flock since 2016 (millions)*

The forecasting model used to predict bird numbers and egg volumes was adjusted in 2019. The laying cycle was extended from 74 to 78 weeks of age and new breed standards were applied to the model. These changes resulted in an increase in the estimated size of the national laying flock, the number of cases of eggs produced, and the mean egg weight.

The national laying flock increased by 4.6 % in 2020, from 27.61 to 28.89 million hens (Figure 12). The large growth in bird numbers in 2019 was due to changes in the forecasting model, as discussed above, and an increase in actual day-old pullet production. The abnormally high egg

producer price in 2018 played a role in driving the stocking of layer farms to capacity plus the expansion of facilities.

Egg production

There was a dramatic drop in egg production in the second half of 2017 because of HPAI-related culls in a number of large flocks (Figure 13). In 2018, as farms were repopulated, egg production increased steadily. In 2019 and 1Q 2020, rising hen numbers resulted in a surplus of eggs in the market. A dramatic surge in demand for eggs during the initial stages of the COVID-19 lockdown (from March 2020) helped to balance supply and demand.

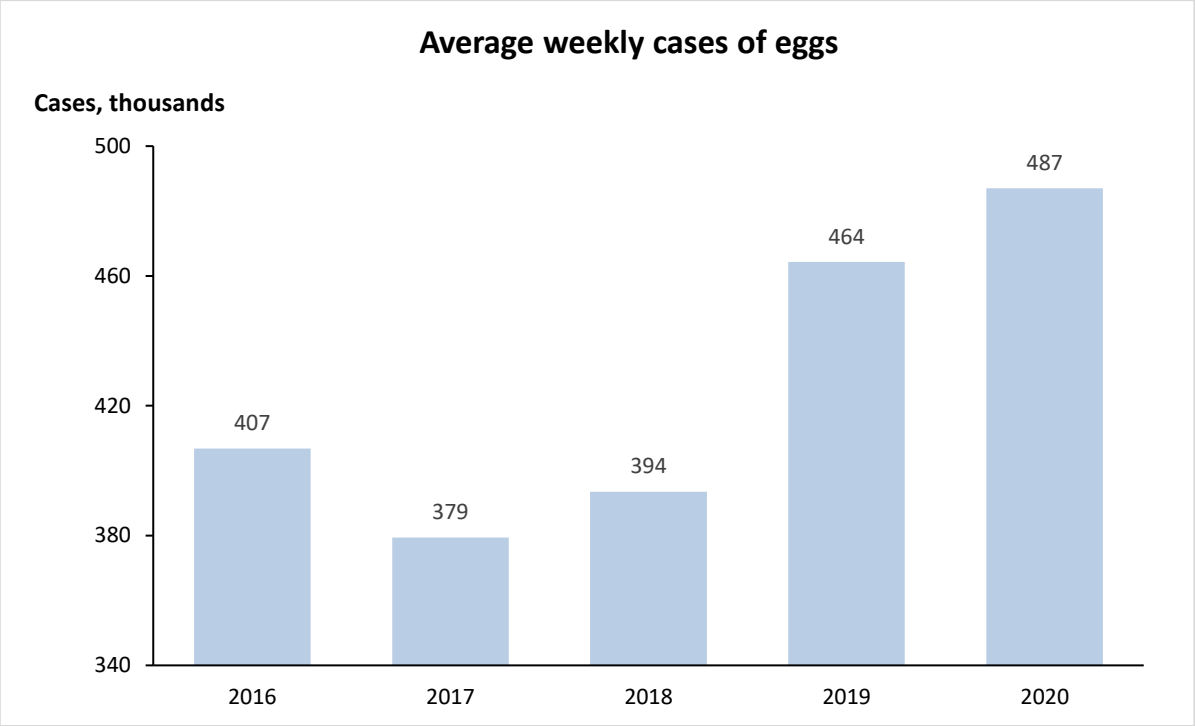


Figure 13. *Cases of eggs produced annually in South Africa (thousands)*

Table 6: *Bird numbers (millions) and egg production (million cases) for 2019 and 2020*

Year	DOPs	LRPs	Laying hens		Cases of eggs	
	Placed	Placed	Av. no.	Depopulated	Av./week	Total
2019	27.117	25.465	27.610	21.570	0.464	24.214
2020	25.534	24.350	28.888	23.806	0..487	25.456
Change	- 1.583	- 1.114	+ 1.278	+ 2.237	+ 0.023	+ 1.242
% Change	- 5.8	- 4.4	+ 4.6	+10.4	+ 4.9	+ 5.1

DOP = Day-old pullets LRP = Layer replacement pullets

The average number of cases produced per week was 486 900, an increase of 22 600 cases (+ 4.9 %) per week. Total egg production in 2020 amounted to 25.46 million cases, or 763.7

million dozen eggs; an increase of 5.1 % compared to 2019. Table 6, above, summarises bird numbers and egg production and shows the changes for 2020 compared to the previous year. The 5.8 % reduction in day-old pullets placed reflects attempts to correct the imbalance between supply and demand this year.

Figure 14 depicts the relationship between egg volume and the producer and PPI-deflated producer prices for eggs (PPI: producer price index; Stats SA).

In late 2015, year-on-year increases in producer prices were pleasingly high, as egg prices tracked other protein sources upwards, in the midst of the drought. Year-on-year increases in producer prices dropped again from January 2016, recovered through the autumn and winter months and dropped back to neutral territory by December 2016 (i.e. 4Q 2016 producer prices were no higher than 4Q 2015).

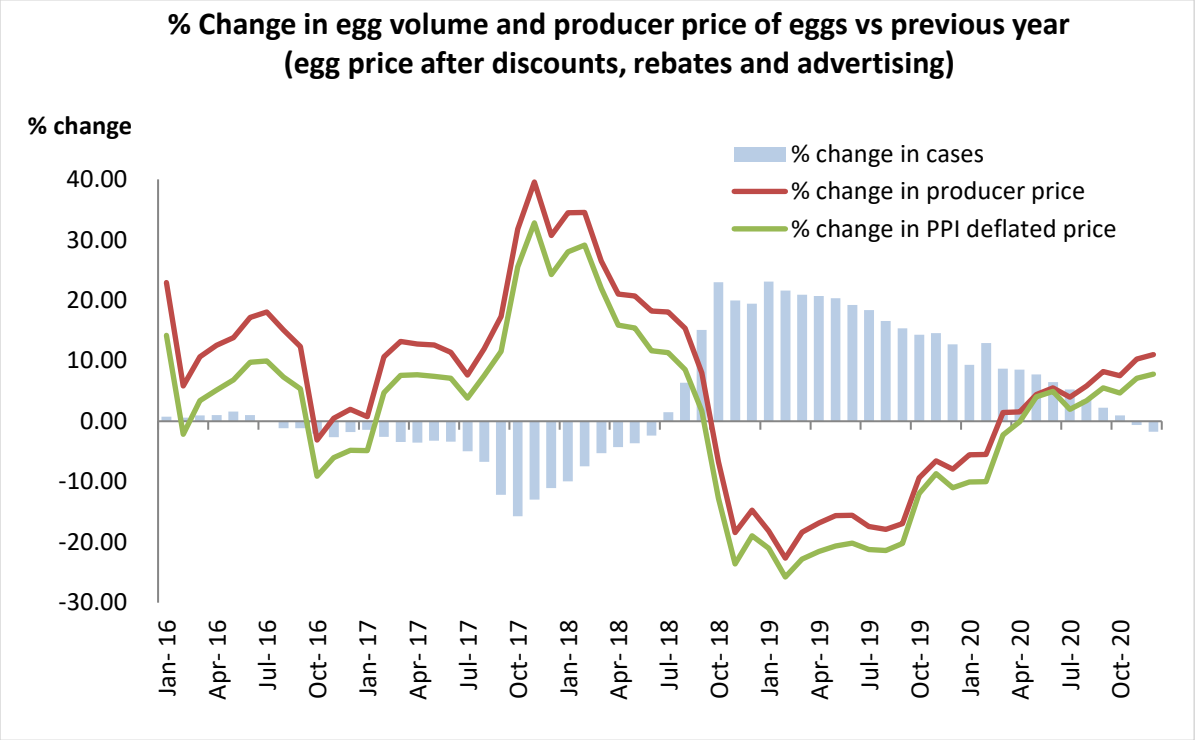


Figure 14. *Percentage change in egg volume and producer price (egg price after discounts, rebates and advertising)*

Supplies tightened in 1H 2017 and producer prices firmed compared to the previous year. As avian influenza hit the national flock in mid-2017, egg shortages pushed producer prices much higher than in 2H 2016. As egg supplies began to recover in early 2018, year-on-year increases in the producer price began to decline, although prices remained very much higher than in the previous year.

Oversupply issues, exacerbated by unexpected imports of shell eggs from Brazil, began to arise from mid-2018. By October 2018, production was 20 % higher than in October 2017 because of successful repopulation of HPAI-affected farms. By December 2018, producer prices were almost 15 % below the inflated prices realised in December 2017. Through 2019,

producer prices were inversely proportional to egg volumes. Volumes in January 2019 were 23.9 % higher than in January 2018 and producer prices were 21 % lower. By December 2019, the annual increase in egg volumes had moderated to + 12.7 % and producer prices were 7.9 % below December 2018 prices.

Supply and demand were better balanced in 2020. As the number of cases of eggs produced has steadily dropped below the number produced last year, producer prices have increased over last year's prices. This year-on-year increase, seen from March 2020 onwards, has not been as high as in 2017/2018, when the national flock was being rebuilt after the HPAI epidemic.

The average number of point-of-lay pullets placed is expected to decrease by 4.8 % during the first four months of 2021, compared to the same period in 2020.

A flock of 27.6 million hens is projected for April 2021; a decrease of 1.96 million hens (- 6.6 %) compared to April 2020. Consequently, egg production is expected to decrease by 7.0 % (an average of 34 970 cases per week) to an average of 462 300 cases per week in April 2021, compared to the same month a year ago.

5.4 Producer and retailer egg prices

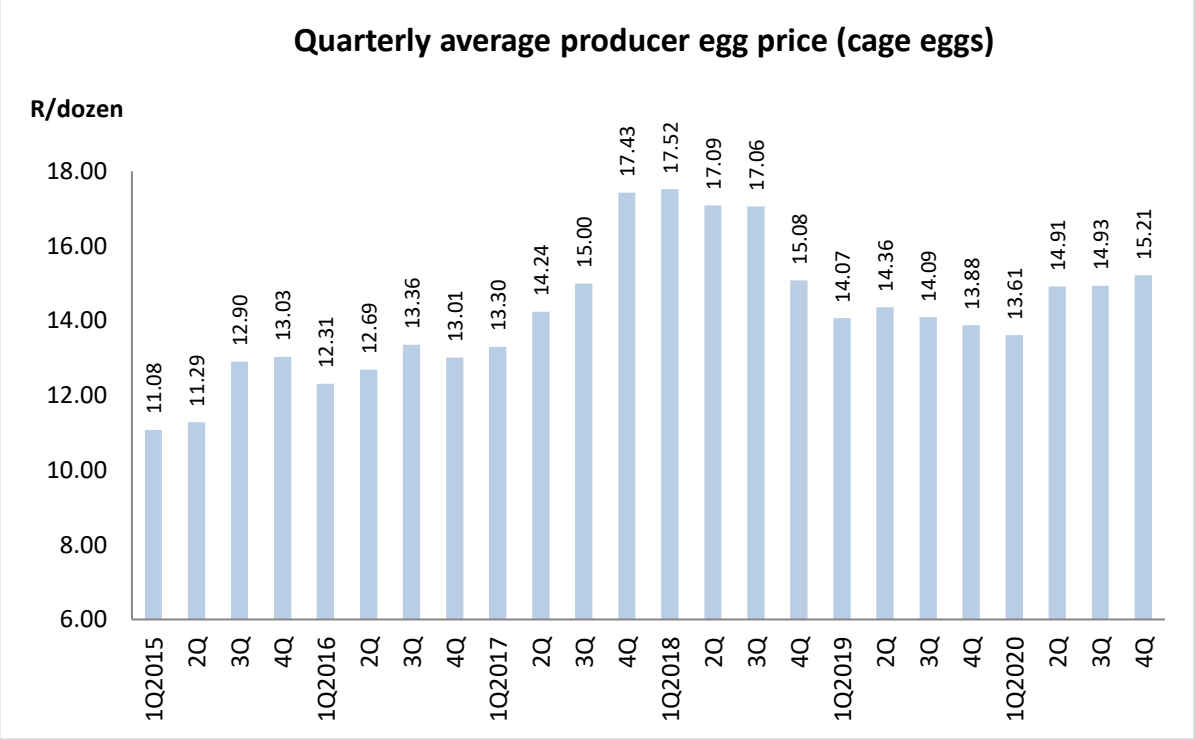


Figure 15. *Quarterly weighted producer egg prices (caged birds) from 1Q 2015*

The average *producer* egg price (caged) for 2020 was R14.67 per dozen; an increase of 4.0 % from the average price for 2019 (R14.10; SAPA). Graded eggs have averaged R15.18 per dozen and ungraded eggs have sold at R12.81 per dozen. During 2020, 79 % of eggs were sold graded and 21 % ungraded.

The average retail price for eggs, size large, was R33.95 per dozen in 2020 (Stats SA). In 2020, the retail price increased by 24.6 % from 2019 prices (compared to the 4.0 % increase in producer prices). Using SAPA producer prices, the mark-up on graded eggs was 123 % in 2020. The mark-up on all eggs (graded and ungraded) was 131 %, compared to 93 % in 2019. Quarterly producer egg prices, for caged production, are shown in Figure 15, above.

5.5 Feed usage and cost

Layers, in all stages of the production cycle consumed 1.322 million tonnes of feed in 2020 (SAPA). These figures exclude breeder rations. Of this total, layers in rearing consumed approximately 0.15 million tonnes and hens in lay consumed approximately 1.17 million tonnes. The feed usage for layers and pullets in 2020 is summarised in Table 7 below.

According to the Animal Feed Manufacturers Association (AFMA), national sales of layer feeds to their members amounted to 998 523 tonnes from 1 January to 31 December 2020, a 1.3 % decrease from 2019 levels.

Table 7: *Feed usage in the egg industry in 2020 (source: SAPA)*

	Feed usage (tonnes)			
	Rearing per annum	Laying per annum	Total per annum	Total per week
2019	157 284	1 115 512	1 272 796	24 410
2020	149 716	1 171 982	1 321 697	25 278
Change	- 7 568	+ 56 470	+ 48 901	+ 869
% change	- 4.8	+ 5.1	+ 3.8	+ 3.6

Global maize and soybean prices and the rand:dollar exchange rate drove domestic feed prices up as 2020 ended. The layer feed price indicator includes distribution, but excludes medication, additives and VAT. The movement in the feed price is shown in Figure 16.

Year-on-year percentage changes in the feed price index and the egg producer price are presented in Figure 17 (below). In 2016, feed prices only started to reduce relative to 2015 prices from July onwards, but egg prices also tracked downwards from mid-year so that, by 4Q 2016, egg prices were back to 4Q 2015 levels. As feed prices in 2017 continued to drop relative to 2016 prices, egg prices firmed nicely in 1H 2017 compared to the same period in 2016. When avian influenza hit the national flock in mid-2017, egg prices increased dramatically compared to prices in 2H 2016, whilst feed prices remained much lower. Egg farmers who did not suffer culling losses during the outbreak benefitted from the egg shortages experienced in the second half of 2017.

Although egg prices dropped steadily through 2018 as farms restocked, prices remained strongly above 2017 prices until mid-year when an oversupply (exacerbated by unneeded imports of shell eggs from Brazil) sent egg prices into negative territory, year-on-year.

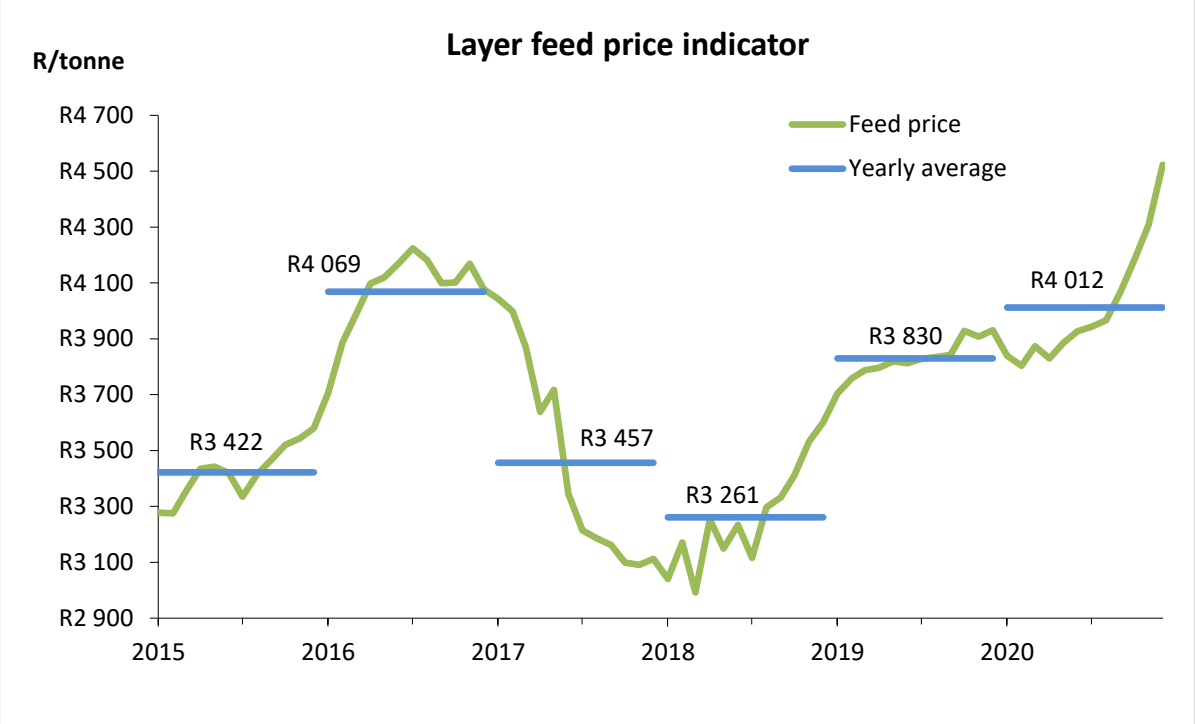


Figure 16. *The layer feed price indicator since January 2015*

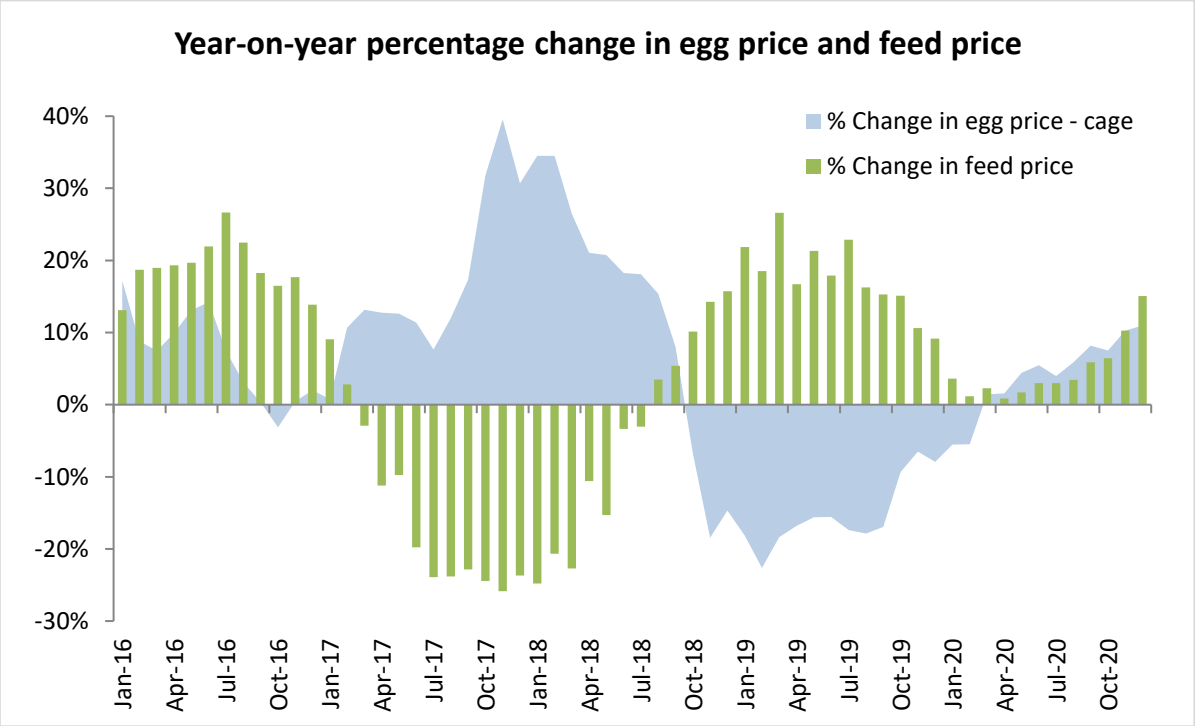


Figure 17. *Year-on-year percentage change in egg feed price and producer price*

Feed prices climbed steadily through 2018 but remained below 2017 prices until mid-year. From August 2018, right through 2019, feed prices exceeded 2017/2018 prices; for the most part by more than + 10 %. Conversely, monthly producer prices from August 2018 were

consistently lower, year-on-year; regularly over 10 % down. This gap was at its widest in March 2019, when feed prices were 26.6 % higher than in February 2018, but producer egg prices were 18.4 % lower than the previous year. By December 2019, feed prices were 9.2 % higher than in December 2018, but producer prices were stubbornly 7.9 % below the price realised twelve months earlier. From March 2020, as the hard lockdown began, egg prices moved back into positive territory, year-on-year, and remained that way through to December (+ 11.0 %). Feed prices remained higher than the same month in the previous year right through 2020 but, for the period April to October 2020, producer egg prices were slightly higher than the year-on-year feed price increases. This situation was reversing by year end, with feed prices in December 2020 15.1 % higher than in December 2019.

5.6 Consumption

The per capita consumption for 2019 was 159 eggs or 9.73 kg, compared to 152 or 9.30 kg per person in 2019 (source: SAPA). This is the highest per capita consumption recorded in South Africa, beating the previous high of 152.5 eggs consumed per person in 2012.

While the population increased by a mid-year estimate of 1.4 % (Stats SA), the total consumption of eggs increased by 4.4 % (Figure 18). Abundant supply and lower prices encouraged increased consumption in 2019 and a lockdown baking frenzy helped increase egg sales through a difficult trading period in 2020.

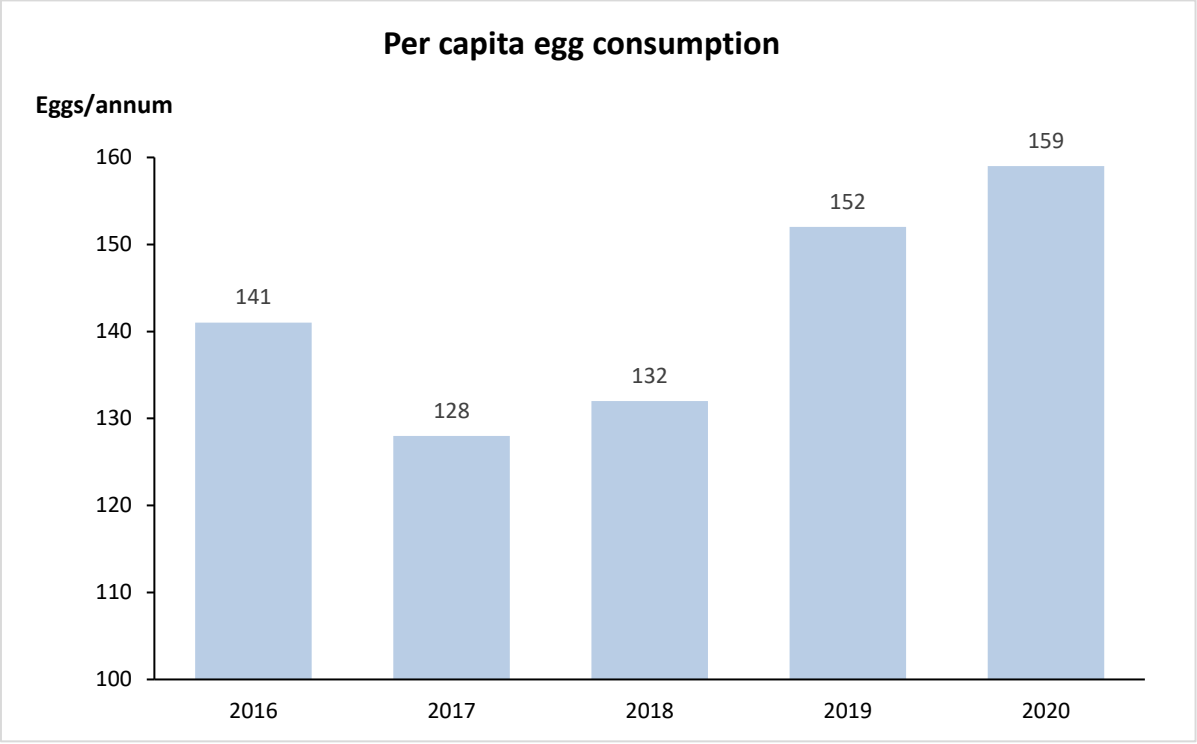


Figure 18. *Per capita egg consumption in South Africa from 2016*

The annual per capita consumption of eggs for some of the top egg-eating nations is shown in Figure 19, for 2019.

Considerable scope exists for increasing the per capita consumption of eggs in South Africa, particularly when taking into account the price competitiveness as a protein source compared with other animal proteins.

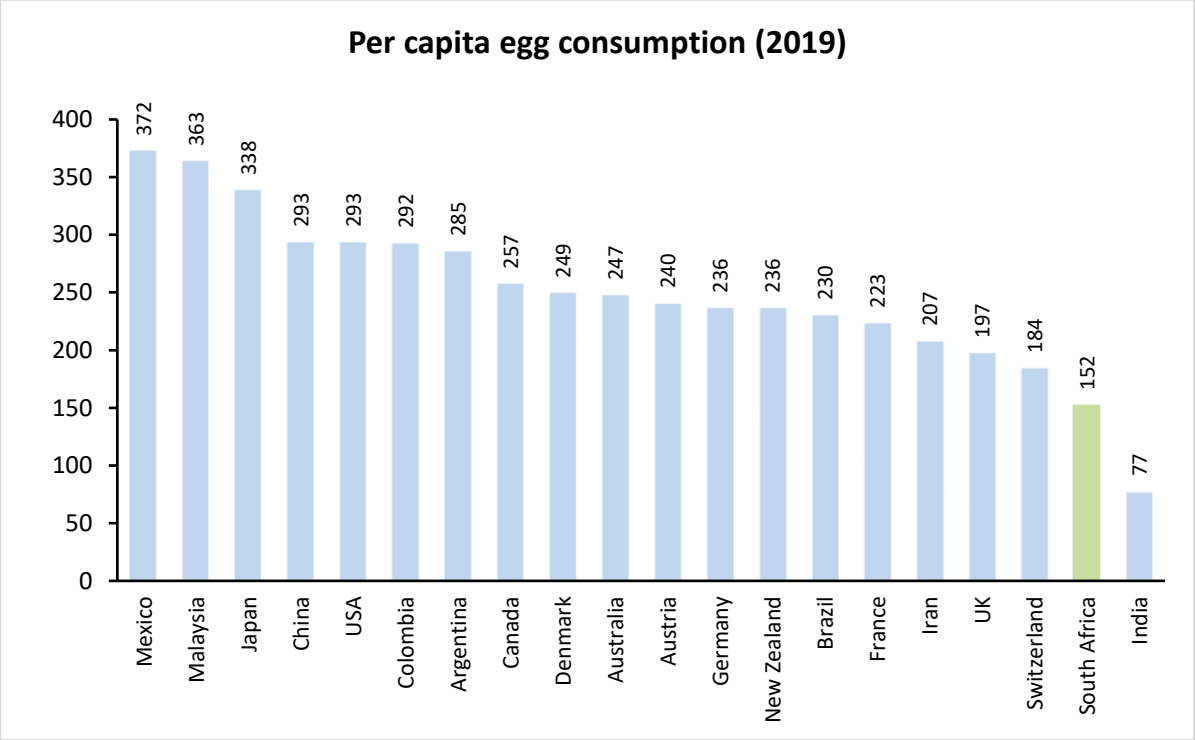


Figure 19. *Global per capita consumption of eggs in 2019 (per person per annum; source: IEC/media)*

5.7 Trade

Egg exports

Egg exports for 2020 totalled 12 582 tonnes (*Gallus gallus domesticus*), a decrease of 21.3 % compared to 2019. The total value of all egg exports was R335.7 million (- 6.3 %; Table 8). Please note that fertile eggs exported under tariff code 0407.1990 and fresh shell eggs exported under tariff code 0407.2990 have been included under *Gallus gallus domesticus* (chicken) exports in this analysis. These two tariff codes relate to poultry species other than chicken, but it is highly unlikely that the South African egg industry exported any significant volumes of fertile or fresh eggs from other species. This is likely to be a clerical error on the part of exporters and, despite requests from SAPA, the Revenue Service is not prepared to investigate the matter.

Of the 12 582 tonnes exported, fertilised eggs accounted for 4 610 tonnes (36.6 % of total exports) at an FOB value of R203.1 million.

Besides fertile eggs, 7 972 tonnes of shell eggs and egg product were exported, at an FOB value of R132.6 million. This total breaks down into 7 895.8 tonnes of fresh shell eggs (62.8 %

of total exports; FOB R132.1 million) and 76.5 tonnes of dried and liquid processed egg products (0.6 % of total exports; FOB R0.52 million).

Table 8: *Annual egg exports in 2020 (source: SARS)*

Product (*Gallus gallus domesticus*)	Value (R million)	Quantity (tonnes)	% of exports
Fertilised eggs for incubation	203.1	4 610.0	36.6
Shell eggs (fresh and preserved)	132.1	7 895.8	62.8
Egg product (yolks, raw pulp, albumins)	0.52	76.5	0.6
liquid egg product	*0.27*	*65.3*	
dried egg product	*0.25*	*11.2*	
Total exports	335.7	12 582	100.0

The bulk of the egg products exported were liquid (65.3 tonnes; 85.4 % of total egg products). Liquid egg products comprised 52.8 tonnes liquid egg yolks; 12.4 t raw egg pulp (chicken and other); and 0.12 t egg albumins. Dried egg products totalled 11.2 tonnes (14.6 % of total egg products); of which 10.1 t were dried egg (not yolks); 0.2 t dried yolks; and 0.8 t dried egg albumins.

The FOB value of liquid egg products was R0.27 million and the FOB value of dried egg products was R0.25 million.

The main countries of destination during 2020 were Mozambique (82.0 % of exports), Swaziland (13.0 %), Botswana (3.1 %) and Lesotho (1.1 %).

Hen egg exports continue to operate from a low base, being only 1.4 % (7 972 t) of total egg production (562 148 t) in South Africa in 2020; down from 2.1 % in 2019.

Egg imports

Total imports of chicken eggs, including fertile eggs, shell eggs and egg products (liquid and dried), increased from 703 tonnes in 2019 to 745 tonnes in 2020 (+ 44 t; + 6.3 %). Imports had a free-on-board value of R66.9 million (+ 11.9 %). National self-sufficiency in table eggs was restored in 2018, as the local industry quickly recovered from the 2017 HPAI outbreak. No imports of fresh shell eggs were recorded in 2020, but 18 kilogrammes of preserved eggs in shells were imported.

Dried egg products (including albumins) accounted for 78.6 % of egg imports into South Africa in 2020. Imports of eggs and egg products (587 tonnes; no fertile eggs) represented 0.10 % of total egg production (562 148 tonnes) in 2020.

Imports of fertile eggs reached 160 tonnes in 2020, up from 6.0 tonnes in 2019. Fertile eggs represent 21.4 % of total imports and were almost all imported from the United States.

The main countries of origin of egg imports were Italy (177 t; 23.8 %), the Netherlands (168 t; 22.5 %); United States (160 t; 21.4 %; almost all fertilised); France (106 t; 14.2 %); Denmark (68 t; 9.2 %), Argentina (51 t; 6.8 %) and Belgium (15 t; 2.0 %).

5.8 Provincial distribution of layers on layer/layer breeder farms

In a recent Avian Influenza (AI) surveillance survey, the location of layer farms was recorded. The survey covers layer breeders, day-old pullets, layers in rearing and layers in lay.

Table 9 gives the provincial distribution of layer farms (breeder, rearing and in-lay).

A total of 239 farms reported in the AI survey, of which 33 were layer breeder farms, 34 were layer rearing farms and 172 were commercial laying hen farms. We continue to try to improve the representation of producers in this survey for disease control and management purposes.

Table 9: *Provincial distribution of layers in South Africa (2020)*

Province	Layer birds	% of total layer birds
Eastern Cape	923 283	3.0 %
Free State	4 671 878	15.2 %
Gauteng	7 493 328	24.4 %
KwaZulu-Natal	3 096 668	10.1 %
Limpopo	1 676 658	5.5 %
Mpumalanga	2 905 851	9.4 %
North West	3 372 955	11.0 %
N & W Cape	6 621 469	21.5 %
GRAND TOTAL	**30 762 090**	100 %

5.9 Regulatory issues

In February 2017, it was announced that the Agency for Food Safety and Quality (AFSQ) had been appointed by DALRRD as the assignee to inspect poultry abattoirs, production units and egg packing plants under the Agricultural Product Standards Act, No. 119 of 1990. AFSQ is an independent company dedicated to ensuring the safety and quality of food products produced in or imported into South Africa. On 15 April 2020, DALRRD gazetted new fees of R0.0007 per egg produced or packaged, that is, R0.0084 (0.84 cents) per dozen eggs produced or packed per month. In addition, producers are charged per hour on farm and for transport and additional laboratory costs. The inspection fees were valid from 1 April 2020.

Work on the egg value chain was completed during the year, following intensive consultations between members of the Egg Board and the Department of Trade, Industry and Competition's consultant. A collaboration between government and industry, the report is a first step in drawing up a master plan for growth and development of the egg industry. Egg producers who are members of SAPA will be invited to a participatory process as soon as it is opened by government.

SAPA continued to engage with the South African Bureau of Standards (SABS) to develop local standards for the welfare of laying hens (see Chapter 8.3). A draft standard entitled 'Welfare of chicken (*Gallus gallus domesticus*)' (SANS 1758:201X) will be published in January

2021 for public consultation. The Egg Organisation is also collaborating with the IEC and the OIE to develop a chapter on layer hen housing and welfare (Chapter 8.3).

New amended regulations for the grading, marking and packing of table eggs were gazetted on 20 March 2020. The new regulations are known as Regulation R345 and replace Regulation R725 relating to the Agricultural Product Standards Act, Act no. 119 of 1990. They are available in gazette No. 43108 as published by DALRRD. SAPA acknowledges the cooperation of all stakeholders who provided input and comments during the review.

5.10 Challenges and prospects for the South African egg industry

Farm gate prices were soft through 2019, as the size of the national flock increased by 17.4 %. Rising feed costs put producers under increased pressure going into 2020. An unexpected boon in sales through the COVID-19 related lockdowns provided some respite for egg farmers as the year progressed, but the increase in feed prices has been relentless. Between September and December 2020, feed prices climbed by 11 %, while the difference between Q3 and Q4 farm gate prices was less than + 2.0 %. Retailers continue to take mark-ups in excess of 100 % on eggs despite the product having a long shelf-life with little or no need for refrigeration. The size of the national flock is forecast to drop by about 4 % by April 2021, compared to April 2020. Producers will hope that an improvement in the supply and demand balance will firm prices in 1Q 2021.

Local demand for eggs increased by 4.4 % in 2020 to 159 eggs per person/year, a new record high for South African egg consumers. Consumption is still disappointingly low compared to consumption in many developed and developing countries. The world average for per capita consumption is approximately 210 eggs. The Mexicans eat a staggering 368 per person per year (IEC, 2018). Recent research on cholesterol and the increasing popularity of high protein/high fat diets (which have resulted in an uptick in the consumption of eggs elsewhere in the world) have not increased the local appetite for eggs as dramatically. South Africa's consumption of eggs in 2016 (before the HPAI outbreak) was 32 % higher than in 2001; However, consumption of chicken meat increased by 80 % in the same period. The reasons for South Africa's relatively low consumption include:

- Preference for white meat over eggs, when money permits;
- Unfounded cardiovascular/cholesterol fears;
- Insufficient advertising (egg consumption does not increase with affluence as with broiler meat);
- Lack of understanding of nutritional value of eggs as a high-quality protein source/their value for money in this regard;
- South Africa's climate (less "cold morning" breakfasts served annually);
- Concerns about allergies (eggs are amongst the top eight food allergens, but many children grow out of this allergy);
- Food safety concerns (Salmonella; campylobacter);
- Constrained consumer spending;
- Welfare concerns.

In some African cultures (including eSwatini, Uganda and West Africa), the eating of eggs by women and female children over a certain age (usually about 6 years) is taboo. There is a belief that eating eggs may make women sterile or advance puberty. There is evidence that such concerns also exist in local cultures. If this is the case, then a large potential market for eggs is lost to a set of beliefs that has no basis in science. The newly published 2020 – 2025 Dietary Guidelines for Americans confirm that eggs provide critical nutritional support for prenatal health, infant development and brain function. The guidelines highlight the importance of choline in brain health and recommend eggs as a first food for babies to reduce risk of developing an egg allergy.

It is estimated that for every 10 000 tonnes of eggs or egg products exported, over 300 jobs would be created in the egg industry. There is scope to increase consumption of South African eggs and egg products both at home and abroad. Advertising campaigns and innovative marketing have been used effectively in the US and UK to increase consumption of eggs. Celebrity endorsements and food-fads can be used to great effect in promoting quality products. Social media is undoubtedly a powerful tool in influencing consumer behaviour and a growing number of free-range farmers in the UK are using Twitter and Facebook accounts to advertise and reassure their customers about bird welfare and food quality. The egg industry in South Africa joined the party in 2020, with the April launch of the SAPA Facebook page, *EGGcellent Food*. During the year various egg recipes and egg-related competitions were posted on the page. In addition, advertorials were published in popular magazines with national distribution. The page will be a useful tool to reinforce in the public's mind all that is good about eggs (selenium, vitamins A, $B_{12,}$ D, riboflavin, folate, high quality protein, choline, etc.) and to further dispel any lingering cholesterol concerns and cultural egg-eating taboos.

Eggs serve more than a dozen functions in food manufacturing and cookery, including adhesion, gelatinisation, coagulation, binding, aeration and foaming, emulsification, humectancy (moisture content control), tenderisation, texture, nutrient fortification, reducing crystallisation, leavening, thickening, glazing, coating and clarification. They also add to the flavour, richness, colour and shelf-life of a product (thanks to anti-microbial properties) and can be used to adjust pH (eggs are alkaline in nature). Eggs are a hard act to follow and, while nothing could ever beat the real thing, food scientists are developing alternatives to shell eggs and getting alarmingly close to producing something that looks and tastes like scrambled eggs. San Francisco based *JUST Inc*. is producing a liquid "egg" product from mung beans, and *Crack'd Egg* launched their pea protein-based alternative into UK retail stores in December 2020. Chinese fast-food company Dicos, which has about 2 000 outlets across the Chinese mainland, recently moved to replace almost all eggs on the menu of 500 stores with plant-based *Just Egg*. The product is said to use 98 % less water than the animal alternative and have a much smaller carbon footprint. The fast-food retailer is making the move for environmental reasons and to appeal to flexitarians – meat-eaters who are trying to reduce their consumption of meat and to eat more sustainably. The producer claims to have sold the vegan equivalent of 100 million eggs in 3 years. As meat and egg alternatives become more mainstream, producers of all animal proteins will need to work to keep their products competitive and to demonstrate their sustainability and superior nutritional value to consumers.

Last year saw the cage-free egg revolution, which started in the United States in 2015, spread to Asia. Supermarket giant Tesco followed Subway, Marks and Spencer's, Carrefour and Aldi in adopting a cage-free policy across their Asian operations. In Europe, Nestlé reached its cage-free egg targets and called on EU policymakers to phase out enriched cages in all European laying hen facilities. Unilever and Mondēlez International (one of the world's largest snack companies) added their voices to this call. Laws have been passed in California, Oregon, Washington, Massachusetts, Rhode Island, Michigan and Colorado that will require all eggs produced and/or sold within a state to come from cage-free laying systems. Similar legislation is under consideration in Maine, Arizona and Hawaii. In November 2016, McDonald's South Africa pledged to transition to sourcing eggs from only cage-free producers by 2025. After pressure from local activists, it is reported that the Famous Brands group will transition to sourcing 50 million eggs a year from cage-free egg suppliers by 2025. The Famous Brands' stable includes Wimpy, Mugg & Bean, House of Coffee and Steers. Good news for producers is that researchers at agricultural universities (especially in the US) are starting to construct facilities that will allow them to support farmers with research into cage-free production and help make this type of production cost-effective.

Both French and German authorities have resolved to outlaw the killing of male chicks from the end of 2021. It is hoped that by this time a solution to the problem of hatching unneeded male chicks should have been found. Identifying and disposing of eggs containing male chicks before the hatchery stage of production remains the Holy Grail of poultry welfare research. German start-up, Seleggt, has offered its *in ovo* sexing technology for free to hatchery operations in Germany as they work to speed up the process and increase the accuracy to reduce sexing costs. The patented technology, "Seleggt", which can sex eggs within 9 days of fertilisation, uses a chemical marker to detect a hormone only present in "female" eggs. Eggs can be sexed with 98.5 % accuracy. Meanwhile, Australian scientists have tackled the welfare issue in a different way, which does not require a hole to be drilled in the eggshell. Genetic engineering is used to modify the hens' genome so that they produce male-chromosome eggs which "glow" under laser light. In 2020, speciality chemicals company, Evonik, invested further in Dutch biotechnology start-up *In Ovo*, which is now ready to commercialise its patented technology to sex male chicks. In the US, a petition circulated calling on the government to force hatcheries to make use of *in ovo* sexing technologies to put a stop to gassing or maceration of billions of day-old chicks every year. Animal rights groups in India have also demanded an end to the practice. UK hatcheries use inert argon gas to euthanise the chicks. In the UK, zoos and private collectors of reptiles and raptors use all the chicks disposed of by the egg industry. Egg farmers around the world will be better placed to advertise an ethical and wholesome product once this practice is replaced with technological alternatives.

The cage-free revolution and humane disposal of male chicks are no longer "horizon issues" for South African producers. The World Organisation for Animal Health (OIE) has, over the past few years, been drafting welfare standards for the keeping of laying hens. A draft document was sent to member countries for comment by December 2018. This draft proved controversial as it called for the provision of both nest boxes and perches in production systems. This would effectively exclude conventional cages. Although the standards are not legally binding, member countries have agreed in principle to write the standards into domestic law. SAPA submitted inputs through the Chief Director of Animal Production and Health (DALRRD). The

OIE standard will eventually impact on local producers. Businesses may face negative consequences if they do not recognise, evaluate and respond to global trends effectively and in good time. Some local producers are already restructuring their businesses to take advantage of changes in the global industry.

In last year's Industry Profile, the growing popularity of 'flexitarianism' and its effect on increasing egg sales in the UK was reported. Flexitarians eat a largely plant-based diet, with small amounts of meat and limited refined foodstuffs. Many turn to eggs to ensure an adequate intake of high-quality protein, suggesting an opportunity for egg and dairy farmers to promote their high-quality protein products as part of a flexitarian diet. With 2020 dominated by the COVID-19 pandemic, the usefulness of real eggs in a balanced diet has once again been in the spotlight. While there are no magic bullets in the fight against COVID-19, good nutrition and a healthy dose of sunshine can do much to strengthen the body's immune system. In the UK, where a disproportionate number of Black, Asian and minority ethnic (BAME) patients have succumbed to COVID-19, influential scientific bodies (including the Royal Society, the Scientific Advisory Committee on Nutrition, the National Institute for Health and Care Excellence and Public Health England) have been reviewing the importance of vitamin D in surviving a coronavirus infection. People with darker skins take longer to produce vitamin D, because melanin blocks UV light, and people spent less time outdoors during the stricter months of lockdown. It is difficult to get sufficient vitamin D from food alone, so time in the sun is important. However, eggs are a very good source of vitamin D and producers would do well to make sure the public remembers this as the world goes through repeated waves of infection.

In the first half of 2019, two contradictory scientific reports were published on the association between egg consumption and cardiovascular disease (CVD) and early death. The first, published in March in the Journal of the American Medical Association, reported on data from almost 30 000 Americans tracked over a thirty-year period. The research team, from the Northwestern University's Feinberg School of Medicine in Chicago, concluded that "higher consumption of dietary cholesterol or eggs is significantly associated with higher risk of incident CVD and all-cause mortality, in a dose-response manner". The interpretation and findings of this study have been criticised. Human nutrition studies are fraught with difficulties and limitations. In this case, participants' egg consumption was based on dietary recall and assessed only once. The study is contradicted by a Finnish study reported in the American Journal of Clinical Nutrition in May 2019. The Finnish researchers found that consumption of up to one egg a day was not associated with increased risk of stroke. In May 2018, Chinese researchers, working with data from around half a million patients, concluded that an egg a day could *reduce* the risk of stroke. Nutritionists and sport scientists are largely in agreement – the nutritional value of eggs is high and should be exploited in a balanced diet. Eggs should be eaten in combination with other healthy foods (not smothered in trans fats) and consumed in moderation.

As farmers start to move towards carbon neutral egg production, producers, retailers and food journalists also need to advise consumers on how to eat sustainably. Britons reportedly threw away an estimated 720 million eggs in 2018, because of an overly cautious approach to "best-before" dates on egg packaging. Many of these eggs would still have been perfectly safe to eat; their freshness easily tested by placing each egg in a bowl of cold water. Eggs which are

not fresh, float. As eggs approach their ‘best before’ date, their shelf life can be expanded further by freezing cooked or raw egg, by coating the eggshell with mineral oil, or by pickling them in white or apple cider vinegar, with flavouring. There’s no excuse to throw any eggs away because of ‘best before’ or ‘use by’ stamps.

6. THE BROILER INDUSTRY IN SOUTH AFRICA

6.1 Overview

Despite a bumper maize harvest, 2020 was a tough year for commercial broiler producers. The harsh lockdown implemented at the end of March closed down the quick serve restaurant and hospitality sectors, resulting in an oversupply of frozen finished product and overstocked inventories. Companies were forced to rethink product offerings and aggressively cut prices in 2H 2020 in promotions designed to reduce frozen stocks.

Feed price is the most important determinant of profitability in poultry operations, constituting upwards of 65 % of the cost of a live broiler. The 2019/2020 maize crop was 35.7 % higher than the 2018/2019 crop but maize prices have stayed stubbornly close to the export parity price. Strong domestic maize prices are supported whenever global and sub-Saharan demand for maize is high. The second half of the year saw a steep increase in maize prices as forecasts for the US crop reduced, and demand for maize imports in China increased dramatically. The weak rand made South African maize even more attractive and did little to help the situation for local broiler producers. The 2020/21 harvest is expected to be about 4.1 % above last year's crop (Crops Estimate Committee) – but global demand for both maize and soya is likely to remain high and keep domestic feed prices high through 2021.

Where the feed price index increased by 9.0 % year-on year, producer prices for broiler meat increased by only 2.8 % in 2020. Sales volumes were flat, input costs rising, unemployment levels rising, municipal infrastructure crumbling and the electricity supply faltering. All contribute to a hostile trading environment, in which consumer spending remains more constrained than ever.

Even with the new challenges presented by COVID-19 in 2020, there have been glimmers of hope for the poultry industry this year. On 6 November 2019, Minister of Agriculture, Land Reform and Rural Development, Thoko Didiza and current Minister of Trade and Industry, Ebrahim Patel, witnessed the signing of the long-awaited Poultry Master Plan. The Master Plan is a joint initiative between poultry producers, meat importers (AMIE), organised labour and several government departments, including the Department of Trade, Industry and Competition (DTIC) and DALRRD. This joint vision of players from along the length of the poultry value-chain identifies five pillars which should support growth and transformation in the local industry - if properly implemented.

The five pillars are:

- To expand and improve local poultry production, which will simultaneously increase job creation in the maize and soya industries. Expansion will be coupled with skills development amongst the workforce and black economic empowerment;
- To drive domestic per capita consumption of poultry products, and promote affordability of local broiler products;

- To develop opportunities for producers to export poultry products, through assistance with the necessary food safety and veterinary certification processes;
- To introduce a stricter regulatory environment within the broiler production value chain (both local and imported meat); to improve product labelling and traceability and reduce issues with illegal thawing of frozen product, classification, under-declaration of imported value, etc.
- To protect the local chicken industry from unfair trade practices through appropriate measures.

A detailed timetable of target deadlines formed part of the Master Plan, but the Covid-19 pandemic inevitably created new priorities for government and the business sector through 2020. Implementation of the plan may have been slowed but, by September, local producers had already invested approximately R1 billion of the R1.7 billion pledged towards growing poultry processing capacity by 2022. Completed projects included the expansion of hatchery and processing facilities which led to the creation of 428 jobs. It is envisaged that by 2022 there will be a further 8.7 % increase in broilers produced for slaughter per week, on top of the growth achieved in 2020.

On the transformation and empowerment front, SAPA and broiler producers continued to work on the establishment of 50 new black contract growers, in addition to the 70 who are already active. Intensive support is being given to 25 independent black farmers with the aim to assist them to achieve their full potential and become integrated into the value chain.

Trade negotiations took place with the EU, countries in the Middle East, and SADC and SACU states. Saudi Arabia and the United Arab Emirates (UAE) were identified as strategic countries for exports. In November 2020, it was announced that the UAE had agreed to allow chicken imports from South Africa after DALRRD negotiated a new export certificate.

The decision by ministers to outlaw the practice of labelling bags of imported chicken with multiple possible countries of origin was welcomed as a significant victory for food safety. The dispensation will be withdrawn in September 2021.

For the poultry sector Master Plan to succeed, it is imperative that locally produced chicken makes up a greater proportion of consumption. A ‘buy local’ campaign was launched by FairPlay, Proudly South African and trade unions in 2020 to promote the consumption of domestic chicken, with the objective of stemming job losses in the industry. The campaign was aimed at retailers, wholesalers and consumers. It is hoped that an increase in production capacity will also stimulate demand for locally grown and manufactured poultry feed and require further investment in new poultry processing facilities.

Of course, it is the decade long flood of cheap poultry imports which has underpinned a lack of growth in the local poultry industry over the same period. The fifth pillar of the Master Plan recognises the need to protect South African broiler producers from unfair trade practices. Given the importance of the poultry sector to domestic employment and food security, it is not surprising that the Government moved to increase the general tariff on both bone-in and

boneless portions (SARS tariff amendment; Notice R.309) from 13 March 2020 (DTIC). The general tariff on frozen bone-in chicken portions, imported on tariff lines 0207.1491 – 1499, was increased to 62 % (from 37 %) and the general tariff on frozen boneless chicken, imported on tariff lines 0207.1411 – 1415, was increased from 12 % to 42 %. The industry had applied for tariffs of 82% under both categories of product.

Reaction to the increase was mixed but was, of course, cautiously welcomed by local poultry producers. Long before the announcement was made, importers used scaremongering tactics in the press to suggest that chicken prices would soar if tariffs on bone-in and boneless portions were to be increased. In a Daily Maverick article, figures supplied by EBIESA claimed prices of a 2 kg bag of IQF portions would increase from R129 (current Stats SA retail price was R67) to R162. The importers have calculated this increase by taking the 25 % nominal increase in the tariff and applying it to the existing price of IQF chicken in South Africa. This simplistic calculation does not consider that only about 10 % of the bone-in portions consumed by South Africans come from countries which will be affected by the increased tariff. Bone-in portions imported from the EU are not subject to this general tariff; and nor is local production. The effect of the tariff amendments on bone-in portions should be less than 2 %, depending on whether the Americas continue to export at existing levels and how much market share the EU is able to secure through HPAI-related trade bans. The ITAC-approved tariff increases apply **only** to imports on bone-in and boneless portions from certain nations; they do not apply to mechanically deboned meat, whole birds, fresh chicken, carcasses or offals; and do not apply to imports from the EU. It will be interesting to see, as trade normalises post-COVID 19, whether imports will actually drop and provide an opportunity to increase local production and employment.

The International Trade Administration Commission (ITAC) analysis of the effect of dumped poultry products on the local industry found no evidence that the imported chicken was sold cheaply through to retail level – the importers' claim that they help cash-strapped consumers is erroneous. Food safety concerns around imported products centre on a lack of traceability, vague or non-existent labelling, and special dispensations allowing imports to slide into our ports without adherence to the same health regulations as local products. A very succinct summary of why ITAC found evidence of "dumping" and recommended that the general tariff on frozen chicken portions be increased can be found below:

https://www.iol.co.za/business-report/opinion/opinion-will-tariff-enable-broiler-industry-to-fulfil-its-role-42154144

As noted above, the increase in the general tariff applied to bone-in and boneless portions does not apply to EU exporters, because of the economic partnership agreement (EPA) which exists between South Africa and the EU. During 2020, SAPA submitted an application to ITAC for anti-dumping duties against Brazil and four EU countries, namely Poland, Ireland, Denmark and Spain. Dumping margins as high as 209 % on frozen bone-in portions have been alleged in SAPA's application, and the industry has been able to prove material injury as a result of the dumping of poultry products in South Africa by these exporting nations.

In 1Q 2015, final anti-dumping duties of between 3.86 % and 73.33 % were gazetted against imports from UK, Dutch and German suppliers. These duties are now the subject of a sunset review, as they expired in February 2020. From July 2016, SAPA pushed ITAC for further safeguard measures against EU bone-in imports. The Commission eventually acknowledged that the domestic industry suffers the threat of serious disturbance from imports and that the main cause of this disturbance is EU bone-in portions. In December 2016. the Minister imposed a safeguard tariff of 13.9 %, and later introduced a final EPA safeguard tariff of 35.3 % on EU bone-in portions, effective March 2019. The final safeguard tariff remains in place for 3 years, at annual levels of 30 %, 25 % and 15 %; expiring in March 2022.

The European Union (EU) has for years used its economic partnership agreements to dump highly subsidised agricultural products into African countries, with devastating consequences. The chicken industries in Ghana, Côte d'Ivoire, Senegal and Cameroon have essentially been destroyed by imports. Our own government, meat importers and the EU continue to claim that local producers are inefficient, even when this has been roundly disproved by an updated University of Wageningen study (see Chapter 2.6). Wageningen University and the Bureau for Food and Agricultural Policy recently updated a 2015 evaluation of the competitiveness of South African broiler producers in comparison with their EU, US and South American counterparts. It will come as no surprise that South African broiler farmers can produce a kilogramme of meat more cost effectively than EU producers. In turn, US and Brazilian producers produce chicken more cost-effectively than SA producers, but benefit from cheaper feed costs and farmer subsidies.

The EU's executive arm has denied that the EU is dumping chicken and has accused the local industry of suffering from structural problems that affect its competitiveness. It blames South Africa for unfairly protecting its chicken industry with import duties that mask its inability to compete in global markets. The reality is that EU poultry producers benefit from direct and indirect subsidies, assistance with exports, and quota protection. There are also animal health and welfare measures to provide the EU with additional phytosanitary protection from imports. A report by Paul Goodison, from the Danish Institute for Trade and Development (Initiativet for Handel og Udvikling), entitled '*The impact of EU poultry sector policies on sub-Saharan African countries'* confirmed that EU chicken exports have undermined efforts to develop local production in an increasing number of sub-Saharan African countries. In the article, he discussed the benefits which accrue (even if indirectly) to EU poultry farmers from the EU's Common Agricultural Policy (CAP). Goodison argues that although poultry consumption in the sub-Saharan region increased by 99 % in the decade from 2004, much of this increased consumption was in the form of frozen imports (at 44 % in 2014). Local industries did not enjoy the growth that might have been expected and hoped for. Imports in this same decade increased by 209 %. The EU trade regime, based on import quotas, allows a level of cross-subsidisation of poultry exports and, since most of the exported product is essentially "waste" product in European markets, the price received for this product needs only to exceed the cost of transportation minus the cost of alternative disposal methods (rendering/incineration, etc.) to make exportation financially viable. Importantly, Goodison stated that although EU support measures are compatible with current interpretations of World Trade Organisation Rules, this does not mean that these cheap imports have no effect on poultry producers in sub-Saharan Africa. European poultry exports thus have the potential to undermine African government and

private sector efforts to develop local poultry industries as part of rural development, food security and job creation programmes. The promotion of agriculture and rural development has been a focal point in EU development co-operation activities in the sub-Saharan area. European trade policy coherence thus seems to be lacking – on the one hand, they claim to be in partnership with sub-Saharan countries in helping to grow local production while, on the other hand, they are "systematically eliminating tariff and non-tariff barriers to EU poultry meat exports". Where WTO rules and EU trade policies run counter to development aims, EU negotiators need to be reminded of the EU's legal obligation for policy coherence so that trade complements rather than decimates important African industries.

6.2 Turnover

The gross value of primary agricultural production from poultry meat (inclusive of all types of poultry) for the period 2020 was R49.37 billion, reflecting an annual increase of 5.1 % (source: DALRRD).

Poultry production is the largest product sector in agriculture in South Africa, ahead of all other animal sectors (beef production (R37.60 billion), milk (R18.7 billion) and eggs (R10.6 billion)) and ahead of all field crop and horticultural sectors. The maize sector, for example, had a gross value of R38.95 billion in 2020 and deciduous and citrus fruit were valued at R22.5 and R30.7 billion, respectively.

Poultry meat's share of the gross value of all agricultural production was 14.8 % (down from 16.4 % in 2019), and of all animal products 33.7 % (down from 33.9 % in 2019).

6.3 Production

A total of 1.018 billion broilers were produced for slaughter in 2020; 51.7 million (+ 5.1 %) more than in 2019 (Table 10).

Table 10*: Summary of key results: broiler production*

Forecast period	Day-old parent pullets placed	Breeder hens	Broiler chicks placed	Broilers slaughtered (based on actual chicks)
	/year	Average	/year	/year
2019	9 455 263	6 714 566	1 079 094 000	1 017 926 000
2020	9 741 154	6 725 258	1 127 126 000	1 069 646 000
Change	285 891	10 692	48 032 000	51 700 000
% change	+ 3.0	+ 0.2	+ 4.5	+ 5.1

Based on the number of day-old parent pullets placed to December 2020, the size of the breeder flock is expected to increase by 2.3 % to 6.88 million during the first four months of 2021. The forecasting model predicts a potential production of broilers to July 2021 of 22.8 million slaughtered per week. These figures do not take exports into account, nor the possibility

that some fertile eggs may not be incubated if the industry attempts to adjust to a situation of oversupply.

6.4 Producer and retailer broiler prices

The weighted average producer price for broilers (NSV; less all discounts, rebates, advertising spent, secondary distribution, VAT, etc.) of R23.52/kg was 2.8 % higher in 2020 than in 2019 (R22.89/kg; Figure 20).

If the price is adjusted for CPI (meat; base = 2016) to estimate the annual producer price in *real terms*, then the average producer price in 2020 decreased by 2.2 % compared to 2019.

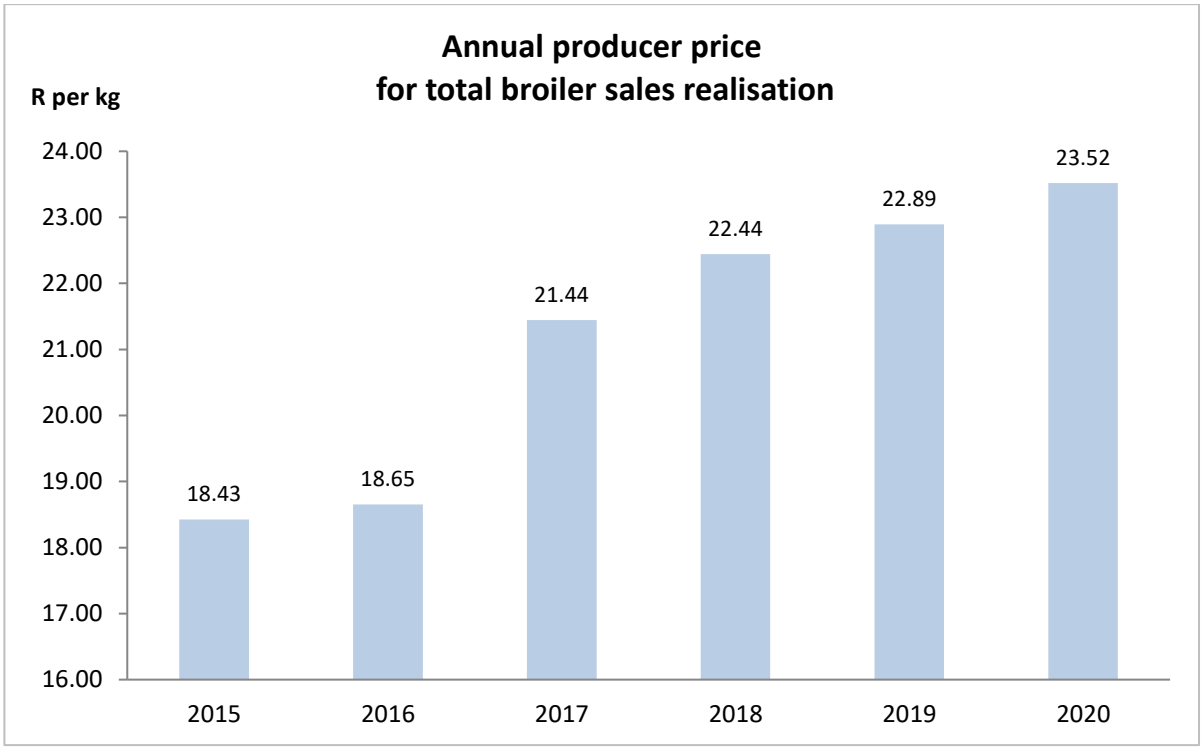


Figure 20. Annual producer prices for total broiler sales realisation (NSV; *source: SAPA)*

The average retail price for whole fresh chicken was R48.47 per kg in 2019 and for 2020 was R56.61 per kg (+ 16.8 %; Stats SA). In 2020, the average mark-up between producer and retail prices was 108 % for whole fresh chicken (up from 78.6 % in 2019). Given that producer prices for whole fresh chicken only increased by 2.7 % in 2020, the retail pricing data collected (probably remotely) by Stats SA during 2020 could be called into question.

The average retail price for fresh chicken portions was R62.03 per kg in 2019 and R72.35 per kg in 2020 (+ 16.6 %; Stats SA). The mark-up from producer to retailer through 2019 was + 90.2 % and in 2020 was 121 %. Again, retail pricing collected by Stats SA on fresh chicken portions seems high, when producer prices only increased by 0.4 % in 2020.

The average retail price for 2 kg IQF bags was R32.94 per kg (Stats SA) in 2019 and R35.58 in 2020 (+ 8.0 %; Stats SA). The average mark-up on 2 kg IQF bags in 2020 was 55.9 %. The producer price for IQF portions was R22.82/kg (+ 4.6 % on 2019 prices).

6.5 Feed usage and cost

The average broiler index feed price for 2020 was R6 124 per tonne; an increase of 9.0 % in comparison with 2019. This followed a year-on-year increase of 9.5 % in 2019. The broiler feed price index includes distribution, but excludes medication, additives and VAT. The movement in the index feed price is shown in Figure 21.

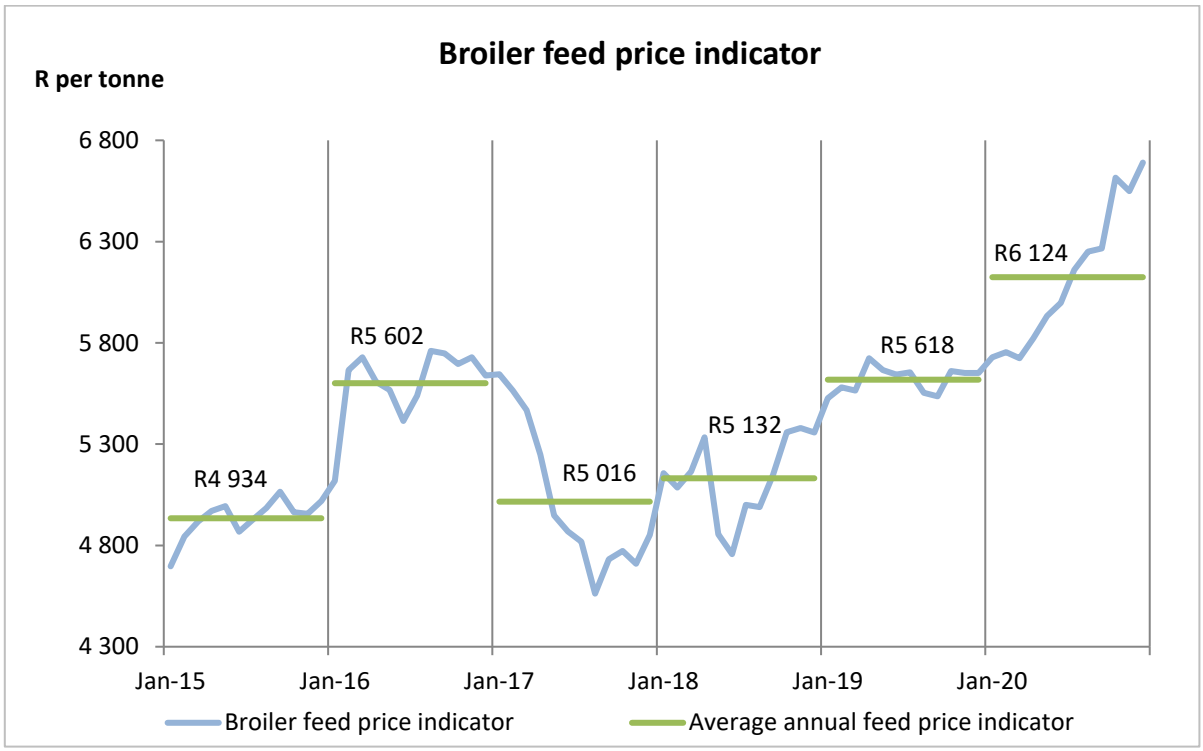


Figure 21. *Broiler feed price indicator (average across feed phases) from 2015*

The year-on-year percentage changes in broiler feed price and chicken price are shown in Figure 22. From January 2014 to 3Q 2015, producers enjoyed strong year-on-year changes in broiler prices which were in excess of + 5 %. This applied even where annual feed prices were in positive territory (e.g. March to August 2014). From August 2014 to end July 2015, broiler producers enjoyed higher year-on-year percentage increases in the producer price than the year-on-year changes in the feed price.

With the drought biting, the situation deteriorated for broiler producers from August 2015, with annualised increases in feed prices outstripping increases in broiler revenues through to January 2017. In this period, year-on-year percentage increases in broiler producer price moved into negative territory between March and July 2016.

Year-on-year increases in feed prices moved into negative territory from February 2017 as the effects of the drought eased; and remained there until the end of 1Q 2018. The year 2017 was thus a good one for broiler producers, with year-on-year changes in producer prices exceeding + 15 % for several months.

Year-on-year increases in feed prices returned to positive territory in 3Q 2018 and have remained there through to end of 4Q 2020. The index for feed price exceeded + 5 % every month from August 2018 to December 2019 and exceeded + 10 % in October, November and December 2018, and May to August 2019. From September 2019, year-on-year feed prices dropped steadily to a low of + 1.7 % in April 2020. Since then, feed prices have climbed steeply. Year-on-year increases exceeded + 10 % in August and September 2020, and climbed above + 15 % in October, November and December 2020. In 4Q 2020, year-on-year increases in feed prices averaged +17.1 %.

During this same period from 3Q 2018, increases in broiler prices dropped back below the + 5 % level in 2Q, 3Q and 4Q 2018 and moved into negative territory (average negative 3.2 %) in 1Q 2019. This situation eroded profits. From May 2019 to March 2020, year-on-year increases in broiler prices moved back into positive territory, averaging + 5.4 % against an average year-on-year increase in feed price of 8.5 % for the same eleven months. In 2Q 2020, annual increases in broiler prices slipped back into negative territory, with difficult trading conditions under COVID-19 lockdown. A degree of recovery from this position was experienced in 3Q and 4Q 2020, as lockdown regulations were eased, but year-on-year increases in broiler prices have stayed stubbornly at + 2.5 % through 2H 2020, compared to an average year-on-year feed price increase of + 14.3 % from July to December 2020.

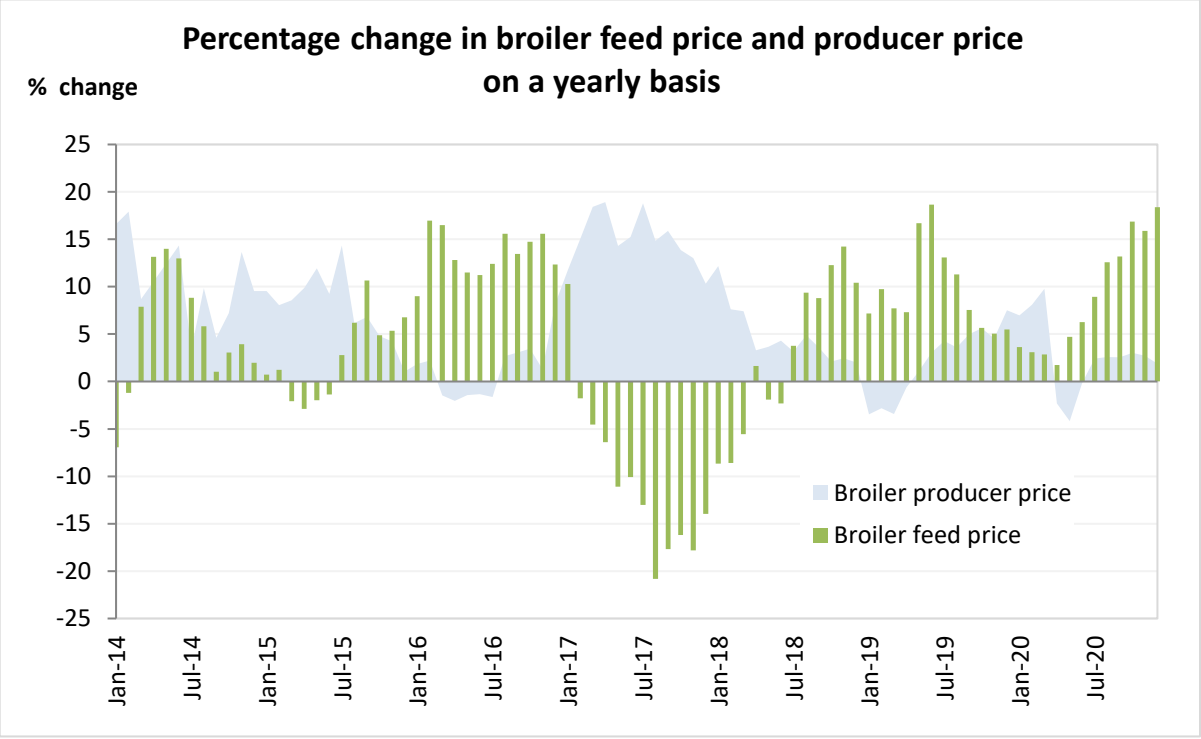


Figure 22. *Year-on-year percentage change in broiler feed price and producer price*

In 2019, approximately 3.31 m tonnes of feed were used by the broiler industry. Approximately 2.79 million tonnes of feed were used to grow broilers, while the remaining 526 027 tonnes were used in the broiler breeder industry. The feed usage for broiler breeders and broilers is summarised in Table 11.

Table 11: *Feed usage for broiler breeders and broilers in 2020 (tonnes)*

	Broiler parents		Total breeding stock		Broiler production		Broiler industry	
	rearing per annum	laying per annum	per annum	per week	per annum	per week	per annum	per week
2019	98 573	417 038	515 611	9 888	3 042 190	58 343	3 557 801	68 232
2020	104 423	421 634	526 027	10 061	2 785 631	53 277	3 311 659	63 338
Change	5 850	4 566	10 416	172	- 256 559	- 5 066	- 246 142	- 4 894
%	+ 5.9	+ 1.1	+ 2.0	+ 1.7	- 8.4	- 8.7	- 6.9	- 7.2

According to the Animal Feed Manufacturers Association (AFMA), national feed sales for broilers from 1 January to 31 December 2020 amounted to 2 790 859 tonnes (+ 4.3 %) and, for breeders, 536 199 tonnes (- 0.08 %). These figures exclude non-members of AFMA.

6.6 Consumption

Poultry consumption

According to DALRRD estimates for 2020, total production of poultry meat (including turkey, ducks, geese and guinea fowl) was 1.873 million tonnes whereas consumption (including backyard consumption) amounted to 2.340 million tonnes (+ 0.6 %). The per capita consumption of poultry meat for 2020 was 38.93 kg per annum, down 0.9 % from 39.29 in 2018 (Figure 23).

DALRRD based its calculations on its own estimates of production. DALRRD also used trade statistics from a source other than the South African Revenue Service (SARS). DALRRD's estimate of poultry meat consumption is 1.2 % higher than SAPA's estimate.

According to SAPA's calculations, poultry consumption amounted to 2.313 million tonnes. The per capita consumption of poultry meat for 2020 was 38.80 kg, compared to 39.13 kg (- 0.8 %) in 2019. This includes the sale of spent hens from the broiler breeder and commercial layer industries, the sale of all the edible offal, imports, as well as other poultry species.

The annual per capita consumption of poultry around the world, according to OECD-FAO data for 2020, is shown in Figure 24.

Note, these are *forecast* figures for consumption. The OECD-FAO data for 2020 is "provisional" and can be found on the website for the OECD-FAO Agricultural Outlook 2020 - 2029. The South African per capita value in Figure 24 is sourced from DALRRD.

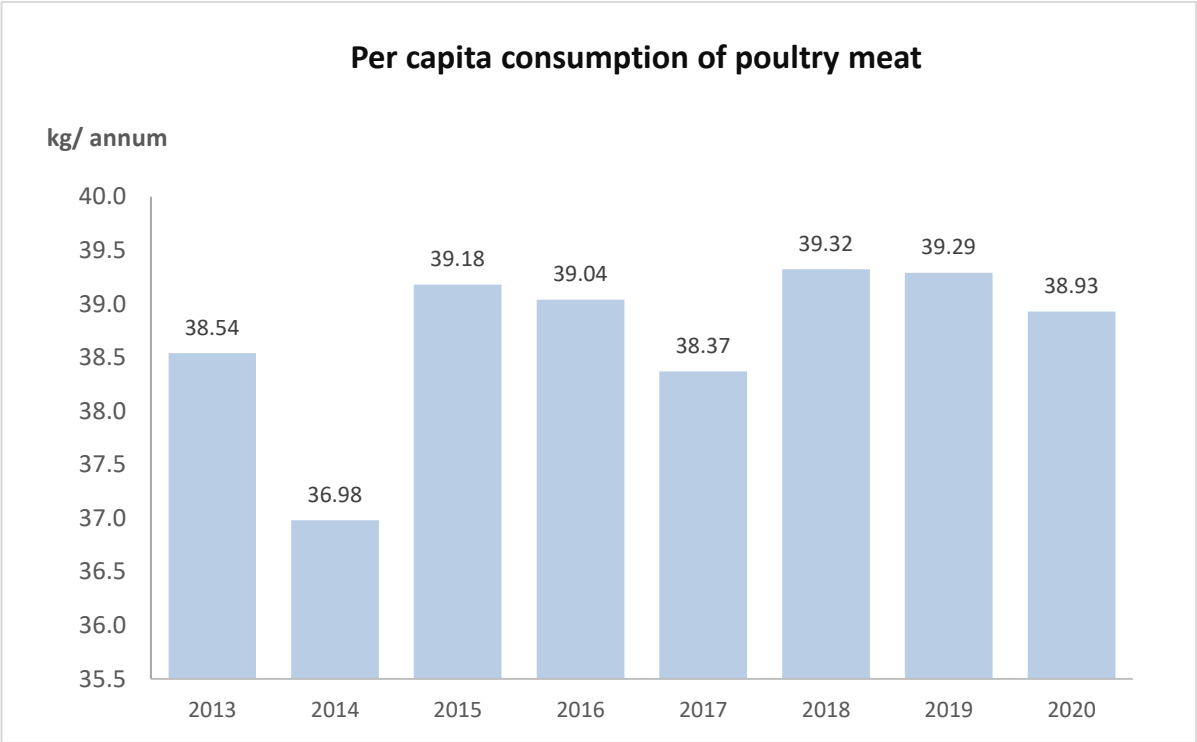


Figure 23. *Per capita consumption of poultry meat in South Africa from 2013 (DALRRD)*

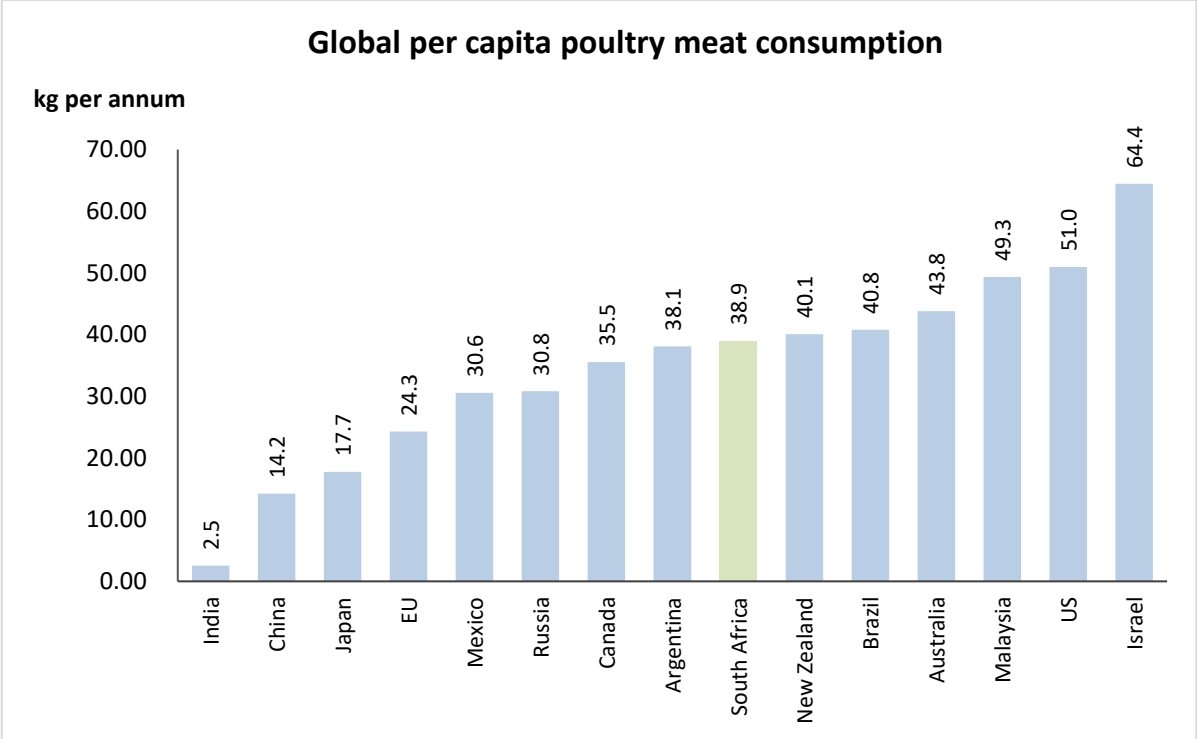


Figure 24. *Approximate per capita consumption (kg) of poultry meat worldwide (OECD-FAO; DALRRD)*

Chicken consumption

Chicken production, including subsistence farming and depleted breeders in the broiler and egg industries, was 1.88 million tonnes (99.97 % of total poultry production). Consumption of chicken meat amounted to 2.290 million tonnes in 2020. The per capita consumption of chicken meat for 2020 was 38.41 kg per annum, down 0.7 % from 38.69 kg in 2019 (source: SAPA).

6.7 Trade

South Africa is among the most unprotected markets in the world. Exporters such as Brazil and the EU take advantage of this to dump substantial quantities of cheap chicken here. In contrast, Nigeria, Kenya and Swaziland do not allow imports at all; Botswana and Mozambique issue very few import permits and Namibia restricts chicken imports through a quota system. Worldwide, countries impose very large tariffs to protect their industries while others use sanitary regulations to stop imports into their home markets. For example, the EU, a massive exporter of chicken to South Africa, imposes tariffs of between €18.70 to €102.4/100 kg on broiler imports, compared to an EU farm gate selling price of roughly €180 to €200/100 kg.

https://ahdb.org.uk/eu-and-uk-import-tariff-rates-for-poultry-meat-and-derived-products)

https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/customs-tariff/eu-customs-tariff-taric_en

Even more importantly, the EU prescribes strict sanitary, phytosanitary and welfare conditions that must be met in order for a country to export to EU members.

https://ec.europa.eu/food/safety/international_affairs/trade/poultry_en

Canada applies a 238 % tariff on all whole, fresh/chilled chickens imported over and above an agreed annual quota (within the quota, the tariff is 5 % (unless a duty-free agreement in place)).

In South Africa, the general tariff on bone-in portions – the bulk of imports – is now 62 % (up from 37 % from March 2020), with no tariff at all on mechanically deboned meat (MDM), which is used in sausages and polonies. In 2015 and 2016, 81 % of imported bone-in portions came from the EU, duty-free, and therefore there was, in effect, almost no duty raised on bone-in portions. In 2018, 17.7 % of imported bone-in portions came from the EU (because of lingering AI-related trade bans against EU nations). This increased to 39 % in 2019 but decreased again to 31.7 % in 2020. Brazil landed 20.5 % and 17.8 % of the bone-in portions imported in 2019 and 2020, respectively (from, 46.1 % in 2018) and 32.9 % and 44.8 % came from the US in 2019 and 2020 (*cf* 28.1 % in 2018). Duties would have been payable on imports from the Americas.

Annual broiler imports

According to the audited figures of SARS (verified), the annual broiler imports for 2020 totalled 460 708 tonnes; a 9.9 % decrease on 2019 levels (- 50 608 t). Broiler imports in 2020 were 10.0 % lower than the 5-year average (2015 to 2019).

On an FOB basis, the value of imports for 2020 decreased by R945.3 million (- 17.0 %) from the 2019 value, to R4.63 billion. Broiler imports represent 94.9 % of the total poultry products imported (485 543 t; includes turkey, ducks, geese and guinea fowl). Turkey imports in 2020 amounted to 24 639 t (5.1 % of total poultry imports). Figure 25 presents annual imports of broiler products since 2015, compared with local South African broiler production. Imports as a proportion of total of local meat production are shown on the chart (red font).

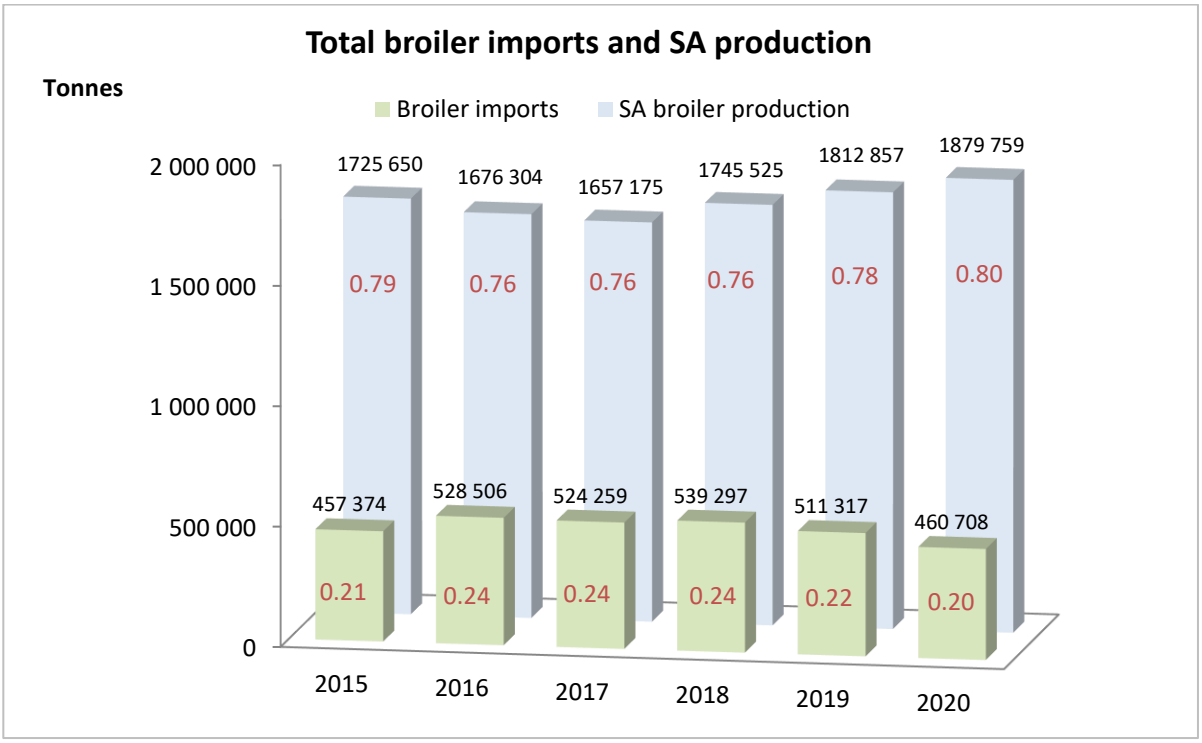


Figure 25. *Total annual chicken imports since 2015 (tonnes) against local production*

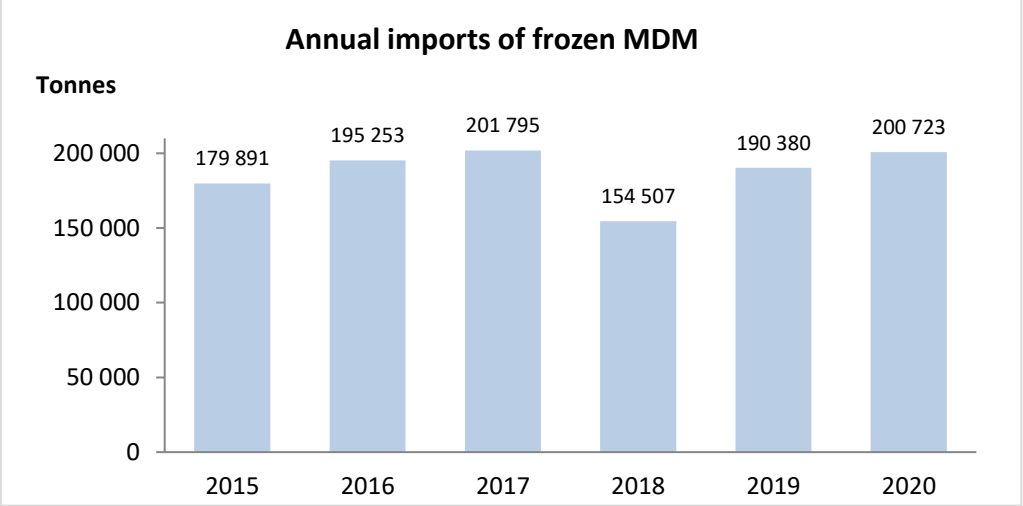
Frozen broiler meat imports

Of the total broiler meat imported through 2020, 99.85 % was frozen (460 026 t). Frozen broiler meat imports decreased by 9.9 % in 2020 from levels imported during 2019 (510 805 t). Frozen broiler imports contributed 20.1 % of broiler consumption in South Africa in 2020; from 22.5 % in 2019. If frozen mechanically deboned meat (MDM) imports are excluded, then frozen broiler imports contributed 11.3 % of broiler consumption; from 14.1 % in 2019.

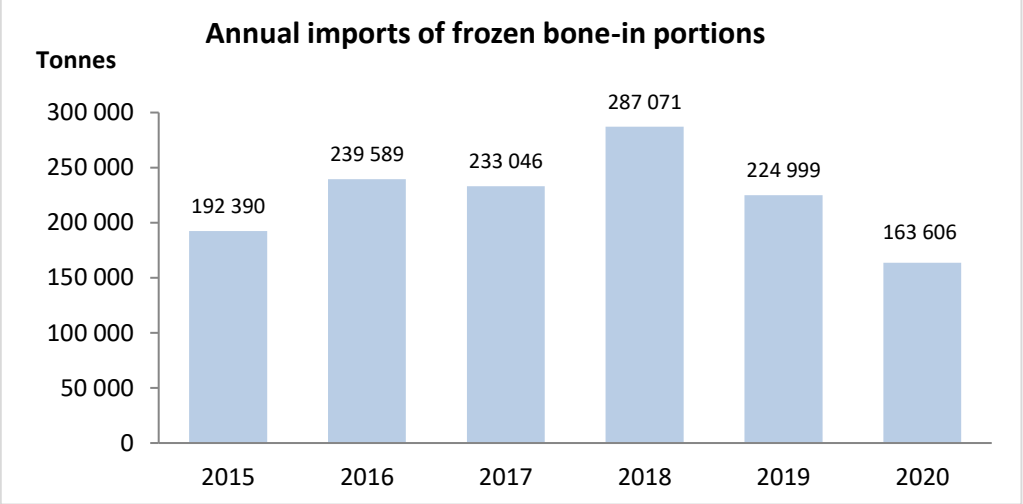
Mechanically deboned meat (MDM) contributed 43.6 % to frozen broiler meat imports (200 723 t), while bone-in broiler portion imports contributed 35.6 % (163 606 t); whole broilers 3.2 %; carcasses 2.7 %; boneless portions 1.7 %; and offal 13.1 %. Leaving MDM out of import totals ignores the effect that 200 723 tonnes of chicken entering the market at R6.82/kg has on overall pricing. The average FOB price of MDM increased by 4.6 % in 2020, after a 7.3 % increase in price in 2019.

Annual imports of frozen mechanically deboned meat (MDM), frozen whole chickens and frozen bone-in portions are given in Figures 26 (a) to 26 (c); illustrating an increase in the importation of MDM; and a welcome reduction in the importation of frozen bone-in portions and whole frozen chickens.

(a)



(b)



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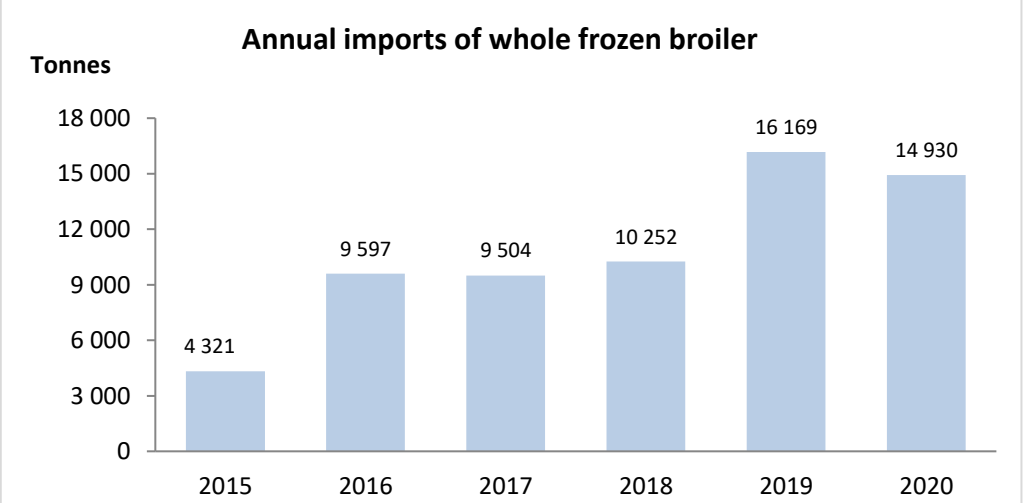

Figure 26. *Annual imports of mechanically deboned meat (MDM), frozen bone-in portions and whole frozen chickens*

Origin of imports

The origin of imports has changed over the past decade, with a significant increase in tonnage from the European Union, which enjoys a free trade agreement with South Africa. Because of avian influenza-related trade bans against EU exporters, Brazil remained the main country of origin in 2020. Brazil is consistently the main source of mechanically deboned meat in South Africa and joins the US in bringing in bone-in portions when HPAI affects the European Union. Brazil accounted for 262 250 tonnes or 57.0 %, of total frozen broiler imports into the country in 2020 (down from 51.4 % in 2019); up 20.3 % on Brazilian imports in 2016, before the European HPAI events.

The US was the second largest exporter of frozen broiler products into the country in 2020, with 16.4 % or 75 239 t. Argentinian broiler exports to South Africa decreased by 22.2 % in 2020 (29 530 t; 6.4 % of total); while Thai exports decreased by 53.8 % to 3 895 t (0.8 % of total). Australian frozen broiler imports increased by 285 % in 2020 (2 601 t; 0.6 % of total).

Of the EU exporters, only Ireland, Spain, Denmark, the Netherlands and Poland exported significant quantities of broiler products to South Africa in 2020: 34 214 t (7.4 %), 23 820 t (5.2 %), 16 562 t (3.6 %), 6 040 t (1.3 %) and 4 267 t (0.9 %), respectively.

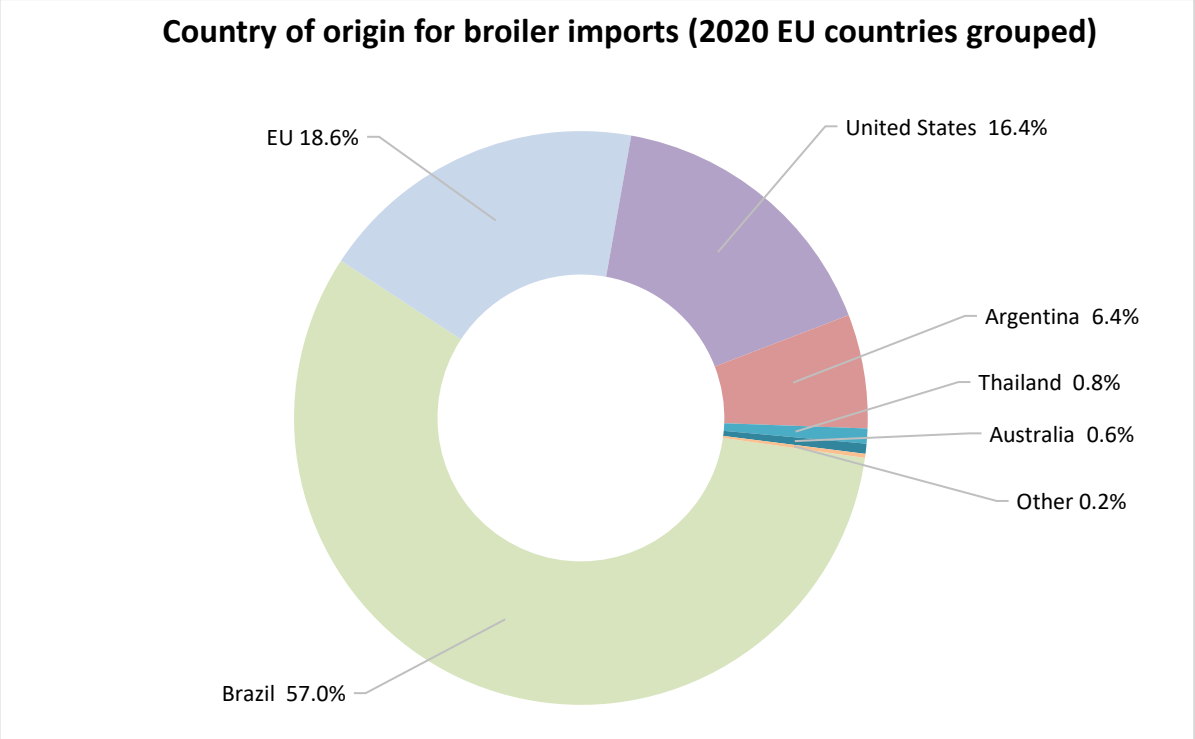

Figure 27. *Broiler imports into South Africa in 2020: EU countries combined*

If the EU countries are considered as a single entity (Figure 27), 18.6 % of broiler imports entered South Africa through the EU in 2020, compared to 23.5 % in 2019 and 51.1 % back in 2014 (before the European HPAI events). In tonnage terms, a total of 85 475 t of frozen broiler meat was imported from the EU in 2020, compared to 120 301 t last year; 188 474 in 2014; and

only 4 139 t in 2009. The drop in EU imports in 2020 reflects the impact of on-going trade bans on EU countries affected by avian influenza.

South Africa was the single largest export destination for EU poultry meat exports in 2016 but, in 2017 through 2020, the EU exported more to the Philippines, Ghana, the Ukraine, the Democratic Republic of Congo and Hong Kong. As the UK leaves the EU, it is expected that the UK will become the main destination for EU exports.

The EU has been, over a number of years, the major supplier of bone-in portion imports into South Africa (Figure 28) but, through 2017 and 2018, outbreaks of HPAI and lingering trade bans eroded EU market share, from 81.1 % in 2016 to just 17.7 % in 2018. The EU contribution to bone-in imports increased to 39.0 % in 2019 and 31.7 % in 2020. Ireland (13.8 %), Denmark (7.5 %) and Spain (5.3 %) remained the only EU exporters sending significant quantities of frozen bone-in portions to our shores. Brazil increased its market share of bone-in portions from 7.9 % in 2016 to 46.1 % in 2018, before dropping to 20.4 % in 2019. Similarly, the US increased its share from 9.2 % in 2016 to 32.9 % in 2019. The Argentinians claimed 6.9 % of the bone-in market in 2019, against 1.2 % in 2016. In 2020, these three importers have accounted for 17.8 % (29 138 t), 44.8 % (73 251 t) and 5.1 % (8 366 t) of bone-in imports, respectively.

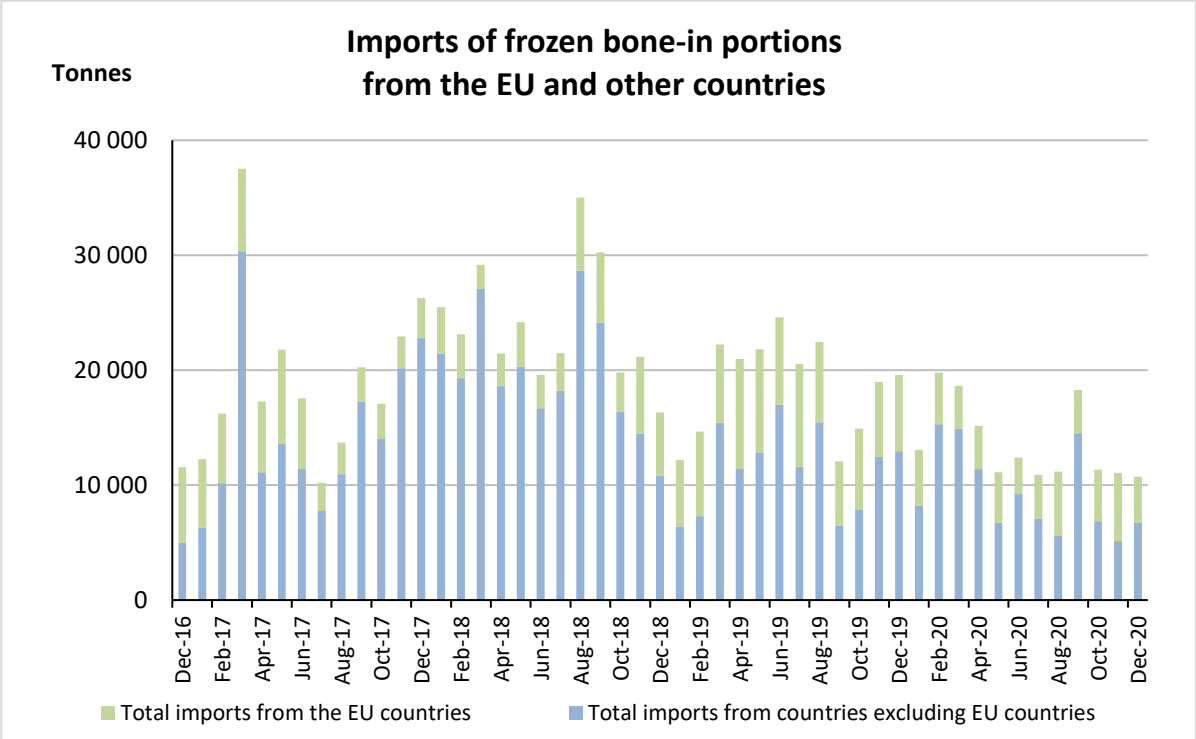

Figure 28. *Imports of frozen bone-in portions from the EU (presented as a single entity) in comparison with the rest of the countries combined*

For some time, Brazil has been the biggest exporter of mechanically deboned broiler meat to South Africa; accounting for 92.1 % of MDM imports in 2020 (184 938 tonnes).

The main product imported from the EU in 2020 was frozen bone-in portions, accounting for 57.3 % of total poultry imports from the Union and 60.7 % of EU broiler imports. This was followed by frozen chicken offals, whole frozen chicken, and frozen carcasses at 19.1 %, 16.4 % and 2.0 %, respectively (as proportion of broiler imports). The main product imported from Brazil was mechanically deboned meat (68.5 % of Brazilian poultry imports; 70.4 % of broiler imports); down from levels close to 78 % in 2016. Bone-in chicken portions made up 11.1 % of Brazilian broiler imports in 2020; along with offal at 14.2 % and boneless chicken portions at 0.04 %. Frozen bone-in portions made up 92.2 % of total US poultry imports in 2020 (97.4 % of broiler imports).

Value of imports

The value of broiler imports into South Africa amounted to R4.629 billion at the free on board (FOB) level in 2020; a 17.0 % decrease from 2019. Frozen bone-in portions were imported at an FOB value of R2.231 billion (48.2 % of total broiler value) and frozen MDM at R1.370 billion (29.6 %). The average FOB value of frozen bone-in portions was R13.64/kg; and MDM was imported at R6.82/kg.

The value of total poultry imports into South Africa, including broilers, turkeys, geese, ducks and guinea fowl totalled R5.139 billion, a 16.3 % decrease in comparison with the value of total poultry imports for 2019.

Poultry exports

A total of 52 578 tonnes of poultry products (chicken, turkey, ducks, geese and guinea fowl) were exported at an FOB value of R 1.249 billion during 2020. This was a decrease of 2.0 % on 2019 tonnages.

Broiler exports accounted for 95.3 % of total poultry exports in 2020 (50 099 t), and 93.3 % of the rand value (FOB; R1.116 billion) of total poultry exports. Broiler exports decreased by 0.2 % in 2020. Turkey exports totalled 1 289 t in 2020; geese exports 197t; duck exports 72 t; guinea fowl 18 t and mixed product (ducks, geese or guinea fowl; not specified) 903 t.

Of the total 50 099 t of broiler exports, 34 719 t were frozen products (including 15 134 t of frozen chicken bone-in portions; 4 580 t MDM and 4 907 t of whole frozen chicken); and 14 309 t were fresh poultry products (including 11 108 t of fresh chicken cuts and offal and 3 200 t whole fresh chickens). There were also 1 072 t of products which might either be fresh or frozen (e.g. pâtés, sausages and value-added products).

The main destination countries for *broiler* exports were Lesotho at 22 970 t (45.9 %), Mozambique at 12 361 t (24.7 %), Namibia at 7 731 t (15.4 %), Swaziland at 2 256 t (4.4 %), Botswana at 1 894 t (3.8 %) and the UAE at 1 164 t (2.3 %) of the 50 099 total tonnes of broiler meat exported.

6.8 Provincial distribution of broiler farms

In a recent Avian Influenza (AI) surveillance survey, the location of broiler farms was recorded. The survey covers broilers, broiler breeders and breeders in rearing.

Table 12 gives the provincial distribution of broiler farms (breeder and rearing).

A total of 625 farms reported in the AI survey, of which 136 were broiler breeder farms and 489 were broiler rearing farms.

Table 12: *Provincial distribution of broiler chickens in South Africa*

Province	Broiler birds	% of total broiler birds
Eastern Cape	8 317 299	6.8 %
Free State	15 706 414	12.8 %
Gauteng	11 994 302	9.8 %
KwaZulu-Natal	7 488 034	6.1 %
Limpopo	3 986 820	3.3 %
Mpumalanga	24 405 944	20.0 %
North West	28 372 635	23.2 %
N & W Cape	22 026 855	18.0 %
GRAND TOTAL	**122 298 333**	100%

6.9 Performance efficiency

Feed conversion ratio (FCR) and performance efficiency factor (PEF) values depend on the management of each enterprise. However, top South African broiler farms are capable of achieving FCR figures below 1.5 and PEF figures approaching 375. Average slaughter age is now 32 – 33 days at a weight of 1.8 – 1.85 kg.

6.10 Challenges and prospects for the South African broiler industry

Meat importers have been at pains to convince the public that the local poultry industry does not have the capacity or efficiency to meet South Africa's rising demand for chicken products, and that 30 % of the country's requirement has to be met by imports. Local producers know this to be untrue. Years of predatory competition from cheap poultry imports (often priced below the cost of production) have seen the local industry shed jobs and mothball production capacity. Only large, integrated poultry operations can achieve the economies of scale needed to survive the challenge of dumped imports and so investment in the local industry has stalled. Production has, through necessity, become concentrated in a few big producers, reducing opportunities for transformation, job creation and industry expansion. Organisations arguing against a higher level of tariff protection fail to consider the wider implications of replacing imported chicken with local production: including rural employment; improved environmental sustainability; long-term food security (chicken and feed ingredients); better food quality and safety; and, of course, a lower trade deficit.

The poultry sector plays a key role in the South African agricultural economy. It is the second largest market for South African maize farmers and provides a high quality, affordable source of protein to millions of households. Large producers have some scope to adapt to difficult market conditions by changing their business models, investing in infrastructure, and improving production efficiencies. Smaller broiler producers can provide significant employment opportunities and food security in rural communities but find it harder to withstand the combined challenges of high import volumes and predatory pricing of imported products. If the industry is to be transformed, these entrepreneurs need to be supported. The Poultry Master Plan (described above, Chapter 6.1) is a firm step in the right direction as Government and the poultry industry seek ways to substitute "unfair" broiler imports from the Americas and Europe with local product and, in the process, return "outsourced" agricultural jobs to South Africa

The EU requested formal consultations with the Southern African Customs Union (SACU) on poultry trade; as they believe the extra duties imposed on bone-in portions (under the three-year EPA safeguard tariff) do not conform with the provisions of the EPA. Dated 14 June 2019, the notice tried to imply that the EPA had allowed Brazil and the US into the market when, in fact, it was EU HPAI cases which closed the EU out of the market in 2019. There was no resolution in 2020 and the dispute is currently in the arbitration phase. The South African Poultry Association supports the Department of Trade, Industry and Competition in this regard, as needed. South Africa is negotiating a separate trade deal with the UK, as it prepares to exit the European Union in early 2021. It has been agreed that the EU EPA safeguard tariff will continue to apply to UK bone-in/boneless imports until March 2022, unless set aside by processes of review or appeal.

Poultry producers have been urged to look for export opportunities for white breast meat because a key finding of the government-led industry analysis (which resulted in the Master Plan) was that South Africa needs to become a significant exporter of poultry products. Despite a promising increase in poultry exports of 162 % in 2014, exports only grew by 9.2 % in 2015 and 2.2 % in 2016 – and from a low base. In 2017 and 2018, exports decreased by 15.1 % and 18.3 %, respectively, because of HPAI-related trade restrictions in place from 2H 2017. In 2019, exports recovered by 2.8 % but these gains were lost again in 2020, under difficult trading conditions (- 2.0 %). Export-led growth is the surest way for consistent industry expansion in excess of population growth levels, and the opening up of new export markets for South African meat and egg products should be an industry and government priority over the next few years. However, achieving a level playing field in international trade is difficult: South Africa is a first world country in World Trade Organisation terms and therefore has open borders. The EU and SADC producers are able to export to South Africa at preferential tariff rates. A legislative review by BFAP suggests that the broiler industry is not in a favourable position regarding unilateral and bilateral commitments to imports and exports. Currently the bulk of exports is destined for SADC neighbours, but even some possible neighbouring markets are not accessible to South African producers for non-tariff reasons (BFAP). Europe and the USA block imports from South African on the basis of non-tariff barriers, such as the presence of Newcastle disease, and AI in ostriches. Issues of bird welfare, meat inspection, medication residue monitoring, environmental protection, food safety and animal health will need to be understood by the industry and responded to, in collaboration with DALRRD, in order to allow competition in international markets. Data from BFAP suggest that South Africa

will not be able to compete with leading exporters such as Brazil and the US unless favourable transportation rates to the export destinations can be realised; or it obtains preferential access into certain markets.

SAPA has established an export forum to help producers access niche markets for breast meat, but challenges remain at government level. These include DALRRD's failure to run national residue and antibiotic monitoring programmes and the lack (until 2018) of an independent meat inspection scheme. BFAP believes that potential markets should nevertheless be identified, and the creation of protocols to access these markets prioritised. Many Eastern markets, including the UAE, Saudi Arabia, Hong Kong and Japan, are located favourably for South Africa in terms of transport costs but the demand structure in these countries is similar to South Africa. The UK and Europe (white, breast meat) and Saudi Arabia (whole birds) present export options for South African producers if phytosanitary, sanitary, traceability and welfare barriers can be overcome. IN 2020, SAPA conducted a gap analysis to determine the necessary compliance systems. Compartmentalisation (which allows for a region to be divided into compartments, so that those declared disease-free can continue to trade despite an outbreak elsewhere in the country) is an important consideration in improving market access.

The African Continental Free Trade Area (AfCFTA) is set to become operational in January 2021. It is envisaged that the trading bloc will significantly increase intra-Africa trade over time as it dismantles barriers to trade. The World Bank anticipates increased employment in the agricultural sector by the year 2035 and better wages for unskilled workers as a result.

The broiler industry continues to hope that the Department of Trade and Industry will move forward with the designation of poultry products in terms of the Preferential Procurement Policy Framework Act. This would have the effect that state procurement of poultry products would have to be local, and preferentially sourced from historically disadvantaged (HDI) producers. While poultry products have not yet been added to the existing list of designated products and sectors, Section 8.4 of the revised regulations (2017) allows organs of the state to "self-designate" in tenders, provided they do so in consultation with National Treasury and the DTI. Under the Poultry Master Plan, the Department of Trade and Industry was to assess the nature and extent of state procurement of poultry products and make a decision on designation in 2020 – but this is yet to happen. In November, non-profit organisation FairPlay joined with trade unions to encourage South African retailers, wholesalers and consumers to buy locally produced chicken products. The Buy Local Chicken campaign is aligned with Cyril Ramaphosa's wider Buy Local drive, which underpins the government's economic recovery plan.

The third and fourth pillars of the Poultry Master Plan rest on government's commitment to improving national biosecurity and food safety measures. The 2020 Budget seems to indicate a renewed determination on the part of government to revitalise veterinary and food safety capability in South Africa. Over the 2020 medium term expenditure framework (MTEF) period, R255.1 million will be reprioritised from the Government's grant to DALRDD to fund improved laboratory capacity, border control of imports and exports, and veterinary and meat inspections. This revitalisation includes local and international surveillance of specific animal and plant

diseases, including Newcastle disease. Spending on activities related to surveillance is expected to amount to R130 million, under the Animal Production and Health subprogramme of the Animal Production, Health, Food Safety, Natural Resources and Disaster Management MTEF programme. Under the same sub-programme, R45 million is earmarked over the medium term for "the implementation of microbial and antimicrobial monitoring, and all relevant pathogen reduction programmes". Veterinary inspection of facilities producing food of animal origin is also to be strengthened.

The availability of an integrated system to identify and trace livestock and other products of animal origin will provide South Africa with the necessary credibility for improving market access. Under the Economic Development, Trade and Marketing programme, R40 million has been budgeted for the development and implementation of a livestock identification and traceability system. To provide new and greater market access for South African agricultural products, R1.9 billion is allocated (over MTEF period) under the Agro-Processing, Marketing and Rural Industrial Development sub-programme of the Economic Development, Trade and Marketing programme to promote international market access for South African agricultural products, especially value-added products.

Moving further afield, poultry producers the world over are sitting up and taking notice as convincing alternatives to animal proteins become mainstream. Consumers are being urged to adopt Meatless Mondays for their own health and for environmental reasons, and abstaining from meat is becoming ever easier as plant-based alternatives improve in taste and texture. Investments in meat alternative companies reached record levels in 2020, according to The Good Food Institute (GFI). Investments in US plant-based meat, egg and dairy companies tripled in 2020 to $2.1 billion. The plant-based food market is expected to reach $74.2 billion by 2027, at an annual growth rate of 12 % (Meticulous Research). Several big meat processors are diversifying into manufacturing plant-based protein products. These include Brazilian giant JBS and US poultry operation, Perdue. Tyson Foods and Nestlé are also set to release plant-based protein products soon, and Cargill has invested in a laboratory-cultured meat start-up. Quick-serve restaurant groups began exploring plant-based offerings in 2019. KFC introduced chicken-free nuggets and boneless wings (made by Beyond Meat) in one of their Atlanta restaurants and Burger King rolled out a meatless Impossible Whopper burger. In November 2020, McDonalds introduced the McPlant concept burger, developed with Beyond Meat, which will be trialled in restaurants in 2021.

Tens of thousands of US restaurants and fast-food chains are now selling the Impossible Burger, and Beyond Meat burgers are being sold in grocery stores across the States. The Beyond burger was launched in Johannesburg in October 2018 and is available at limited outlets and restaurant chains such as Spur and Woolworth's Cafés – albeit it at exorbitant prices. Beyond Meat also manufacture plant-based sausages and ground "beef" and are about to launch poultry meat alternatives. Taste and texture-wise, the products have been well-received by consumers, although meat-eaters are still able to tell the difference between the plant-based versions and a genuine beef patty. Interestingly, much of the uptick in plant-based sales in quick-serve restaurants (QSRs) is attributed to meat-eaters seeking to increase the amount of plant-based food in their diets (flexitarians), rather than to an increase in vegetarianism or veganism. The CEO of plant-based Impossible Foods says his company's

mission is to make meat obsolete in 15 years' time. As more and more alternative products become available, poultry producers will need to work hard to have their product seen as sustainable, healthy and free of welfare issues.

Plant-based alternatives to meat continue to make headlines but scientists are also developing the means to produce meat from animal cells grown in bioreactor. Singapore has just given regulatory approval to Just Eat's alternative to farm-grown chicken. The product's acceptability is to be tested in a number of restaurants as part of the research and development process. It is the stuff of science fiction, but laboratory cultured meat products circumvent many of the phytosanitary, environmental and welfare issues associated with meat production, using no antibiotics and very little land in comparison with farmed chicken. In Israel, test kitchen restaurant 'The Chicken', attached to the SuperMeat processing plant, is serving up complimentary cultured-chicken burgers to curious food professionals. While not yet given regulatory approval by Israeli authorities, the developers expect to launch their product commercially within two years and eventually reach cost parity with traditionally farmed chicken products. In South Africa, start-up Mzanzi Meat is already exploring the cultured-meat space, at their laboratory in Cape Town.

As with the cage-free revolution in the egg industry, broiler welfare initiatives are rapidly becoming another horizon issue for South African farmers. Consumer concerns include environmental, food safety, animal welfare, sustainability and consumer health issues. In this vein, the UK supermarket chain Waitrose has recently joined Marks and Spencer's, Nestlé and Knorr in signing up for the Better Chicken Commitment (run by Compassion in World Farming (CWF)). The Better Chicken Commitment (BCC) is a set of standards for broiler welfare which pushes for a higher level of welfare practice in the food industry. The Jan Zandbergen Group is the largest supplier of poultry meat products to the EU food industry and food services. In December 2020, the group made a public pledge to support the BCC, by both supplying chicken which meets this higher welfare criteria and by challenging other corporations to join the movement. Across the pond, US retail giant Whole Foods has also signed on to the Better Chicken Commitment. By 2026, Nestle will have transitioned to a higher code of welfare for all of the broilers used in its food production plants in Europe. All Nestle's suppliers to brands Maggi, Herta, Buitoni and Wagner will have to implement the new policy in stages, including abiding by EU welfare regulations, regardless of country of origin. Other signatories include Burger King, KFC, Subway and Kraft-Heinz. Nestlé have also signed up to the "European Ask on Broiler Welfare", joining Unilever's Knorr and Marks and Spencer. The European Ask is a unified front of welfare organisations (including CWF), which is pushing producers to embrace prescribed minimum welfare standards. These standards include a maximum stocking density of 30 kg/m^2; enriched environments; humane atmospheric or electrical stunning methods (without immersion); third party auditing; and the use of breeds with higher welfare outcomes. Over 90 % of UK broiler production is assured by the Red Tractor scheme. Red Tractor standards on welfare, antibiotic use, environmental protection, food safety and traceability speak to consumers' concerns about how their food is produced. South African producers can expect fast food chains (with international footprints) to come under increasing pressure to sign up to stricter welfare codes within the next few years. Rabobank's Nan-Dirk Mulder has suggested that social concerns, such as broiler welfare and sustainability offer opportunities for producers seeking to differentiate themselves from competitors.

There seems to be no end to the challenges faced by broiler farmers as the world moves towards a more sustainable future – one of the latest is reducing antibiotic use. In 2019, more than 50 % of the US broiler flock were reared under “no antibiotics ever” (NAE) programmes; up from 3 % in 2014. American quick serve restaurant, Chick-fil-A, reported in September 2020 that it had reached its 5-year goal of NAE chicken across all its restaurants. Other restaurant chains such as Subway, KFC, Taco Bell and Pollo Tropical, all have NAE policies in place. Major US chicken producers, including Tyson and Perdue, have increased production of antibiotic free chicken in recent years as they transition to NAE production systems.

The Department of Health has developed a National Antimicrobial Resistance (AMR) Strategy Framework for managing antimicrobial resistance (2017 – 2024). The drivers of antibiotic resistance include unnecessary, inappropriate and prolonged prescription of antibiotics; reliance on broad spectrum antibiotics; poor infection control practices in medical establishments; and a lack of qualified veterinary health professionals to oversee antimicrobial use in animals (coupled with weak regulations and enforcement mechanisms). The Framework seeks a return to appropriate, targeted antimicrobial use in humans, animals and the environment, in order to maximise the antimicrobial options available to practitioners in the future. The National AMR Strategy Framework outlines key strategic objectives to slow the development and spread of AMR, and improve patient outcomes, animal health and food production through better use of antimicrobials. This is not a topic that broiler farmers will be able to ignore much longer.

7. SUBSISTENCE AND SMALL COMMERCIAL FARMERS

7.1 Overview

Emerging broiler farmers contribute less than 1 % to the South African production of chicken meat. Emerging egg producers constitute 1.0 % of the industry total, so there is still a long way to go and much work to be done in opening up the poultry market to new farmers.

An independently operating subsidiary of SAPA, the Developing Poultry Farmers Organisation (DPFO), was formed in 2003 to address the specific needs of emerging and small-scale producers of eggs, dressed broilers and live birds. The DPFO was concerned with promoting and advancing the developing sector of the South African poultry industry so that these farmers could move into the mainstream agricultural economy.

In late 2013, the need for a new, more efficient and relevant SAPA became clear. The restructuring process included consolidating the four SAPA subsidiaries - the Broiler Organisation, the Egg Organisation, the Chick Producers Organisation and the Developing Poultry Farmers Organisation – into two product-related organisations.

Under this consolidation process, producers from the DPFO were absorbed into their respective product value chains, falling under either the Broiler Organisation or the Egg Organisation.

It is important that smaller farms become fully integrated into the new structures and, to this end, a sub-committee on transformation was formally established in August 2014. The sub-committee is tasked with facilitating the transformation process for all SAPA members.

7.2 Subsistence and small commercial farmers: statistics

SAPA continues to play a major role in the collection of statistics by conducting regular surveys amongst new-entrant and small commercial farmers. The aim is to better understand the unique conditions facing the smallholder poultry producer, so that appropriate support can be provided. All small commercial farmers are encouraged to participate in these statistical surveys.

During 2020 only one survey was conducted; this being in the first quarter of the year. These statistics were considered to represent the whole of 2020.

Figure 29 shows the distribution of survey respondents in South Africa for the period January to March 2020 (Q1 2020).

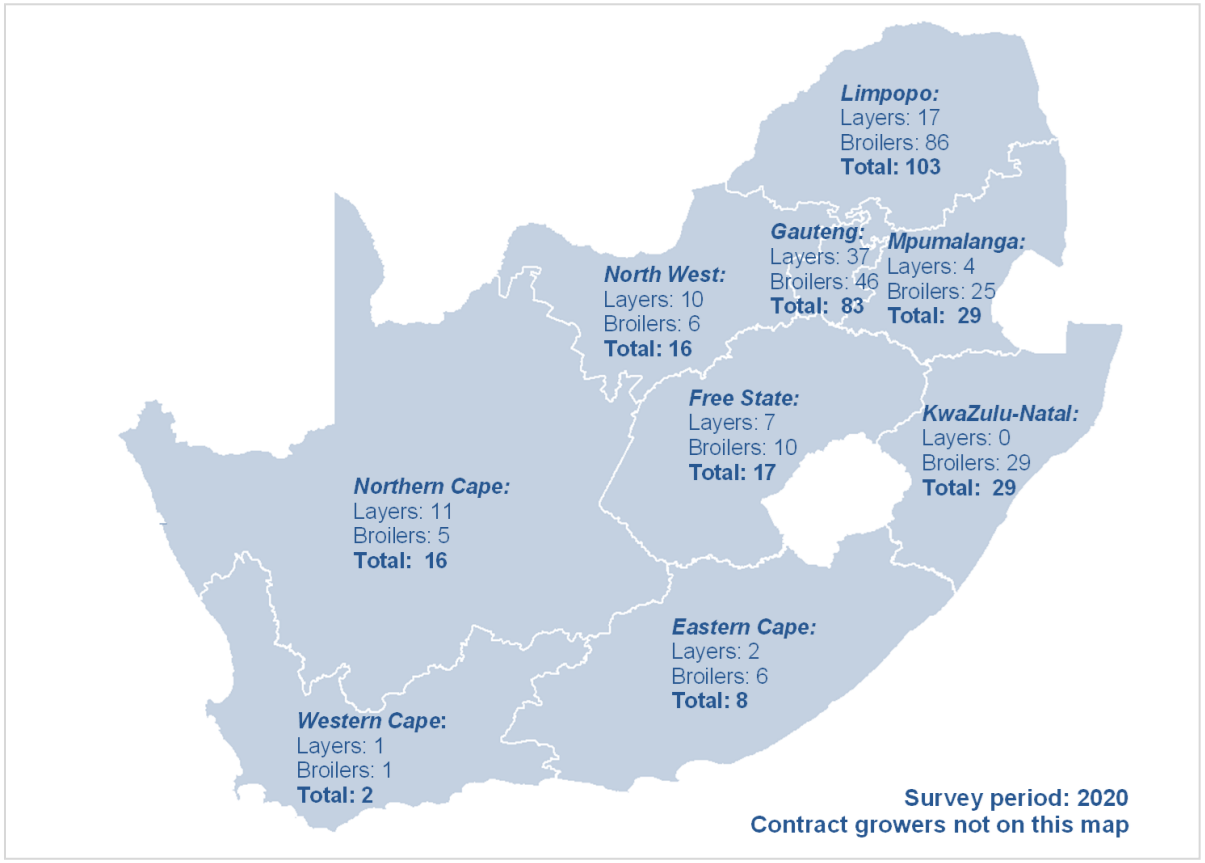

Figure 29. *Distribution of survey respondents (subsistence and small commercial farmers).*

Survey respondents have cited a number of challenges confronting them. These include:

- The need for training in poultry flock management;
- High input costs, especially feed, affecting profitability;
- Difficulty sourcing good quality day-old chicks and point-of-lay pullets;
- Remote location of farm from feed mill and point-of-lay suppliers;
- Poor condition of their housing facilities and equipment;
- Struggling with erratic supply of electricity (due to load shedding) and water
- Lack of funding to purchase inputs and to expand;
- Poor growth rates and high mortality rates caused by diseases or inclement weather;
- Hens not reaching target egg production;
- Too many competitors in the area giving rise to an unstable market;
- Theft of birds by community members due to unemployment and crime;
- Inadequate support from local veterinarians.

Statistical survey: the broiler industry

The statistical survey comprises different types of producers from the broiler industry, including broiler hatcheries, independent broiler growers, contract growers and abattoirs. A small commercial broiler farmer is defined as one producing between 1 500 and 40 000 birds per

cycle, whereas subsistence farmers produce less than 1 500 broilers per cycle. Figure 30 depicts the distribution of subsistence and small commercial broiler producers in South Africa in Q1 2020. The survey results are summarised in the tables below.

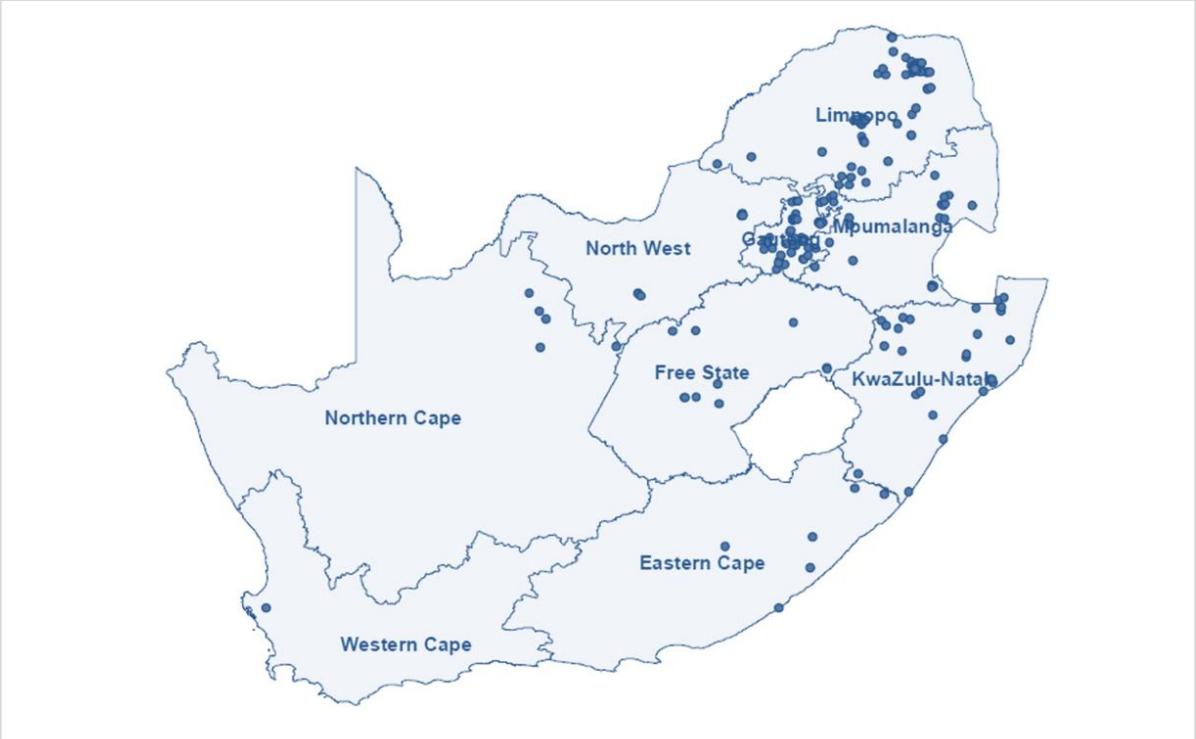

***Figure 30**. Distribution of subsistence and small commercial broiler producers surveyed*

A large number of broiler producers exited the market in Q1 2020; evidence of the difficult trading conditions (Table 13).

Table 13: *Survey respondents and business activity: broiler producers*

Period	Q4 2019	Q1 2020
Number of respondents	276	260
Completed questionnaires	255	214
Number that stopped farming	21	46
Number that resumed farming	30	5

The average costs of inputs paid by survey respondents, for Q4 2019 and Q1 2020, are shown in Table 14 below.

Prices exclude VAT and delivery. Feed is mainly purchased in small quantities in 40 kg or 50 kg bags but for comparative purposes the prices are shown in rand per tonne. Prices paid by commercial farmers are shown in italics. The negligeable difference of 0.2% between average ration prices for the small and large commercial producers may be an indication of differences

in nutrient density. The large integrated producers are likely to have customised feed formulations for optimum growth.

Table 14: *The average input costs of survey respondents: broiler producers*

Period	Q4 2019	Q1 2020
Day-old chicks (R/bird)	7.94	7.92
Broiler starter (R/t)	5 933	5 967
Broiler grower (R/t)	5 671	5 694
Broiler finisher (R/t)	5 406	5 505
Av. commercial broiler feed (R/t)	*5 655*	*5 736*

Figure 31 shows the average broiler feed prices for the two quarters for survey respondents (small commercial producers) and commercial producers. For the comparison, bag prices have been divided by 40 kg or 50 kg to change them to a R/kg price. The R/tonne bulk prices were divided by 1 000 to convert them to R/kg.

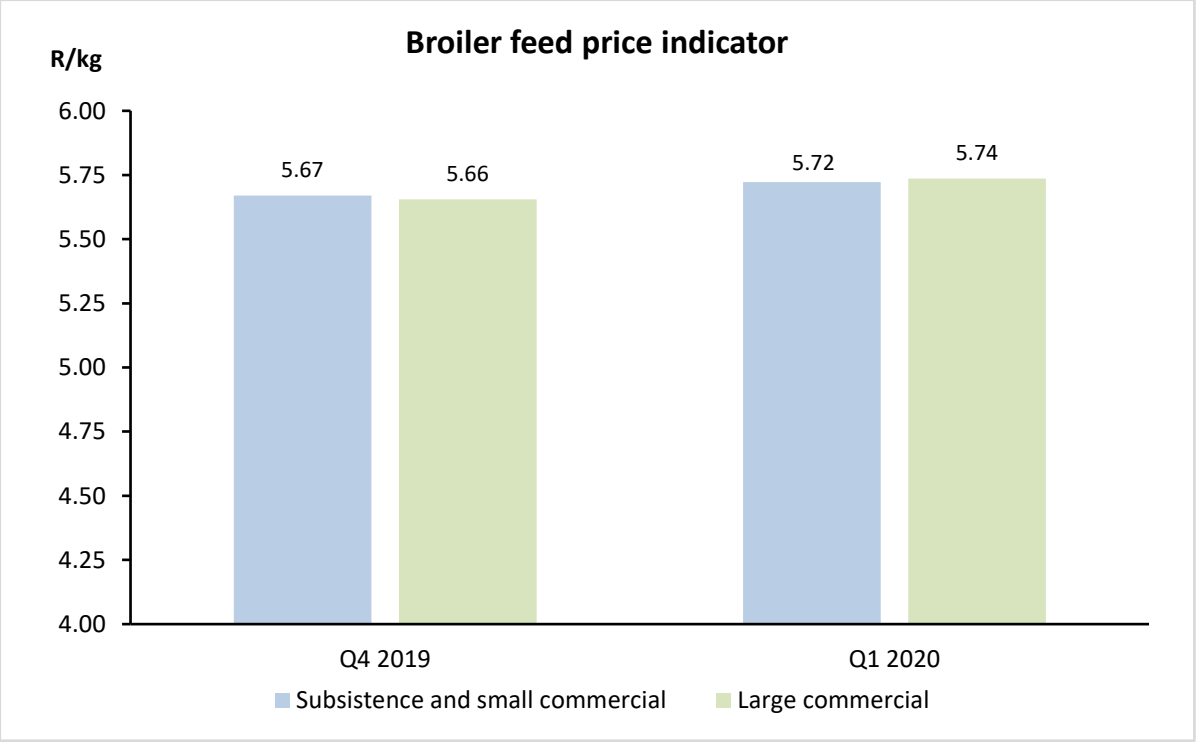

Figure 31. *Average broiler feed price indicator per quarter, for small and commercial farmers*

Production volumes and average selling prices for Q4 2019 and Q1 2020 are summarised in Table 15 below. There is a large difference in the selling prices of slaughtered birds (R/kg) between small-scale members and commercial producers. Smallholder broiler farmers tend to slaughter the birds themselves or pay an independent abattoir approximately R5.84 per bird to do the processing. These dressed birds are often sold directly to the end user at inflated prices. Commercial broiler producers sell dressed birds to the wholesale or retail sector in bulk

quantities at relatively low prices, after discounts and rebates have been deducted by the supermarket chains.

Table 15: *Production volume and selling prices of survey respondents: broilers*

Period	Q1 2020
Live sales volume (birds)	309 600
Weighted average price (R/bird)	57.24
Live sales as a % of total sales	81.4
Slaughtered volume (birds)	70 500
Average price (R/kg)	
Small-scale	*28.76 (R70.63/bird)*
Commercial	*23.83*

The estimated margin over feed cost, for small-scale and commercial producers, is shown in Figure 32. In doing these calculations, it was assumed that the feed conversion ratio is 1.7 (that is, a broiler eats 1.7 kg of feed to put on 1 kg of body weight or meat), and the dressing percentage is 72 % (that is, 72 % of the carcass is edible meat and the other 28 % is bone, feathers and inedible offal).

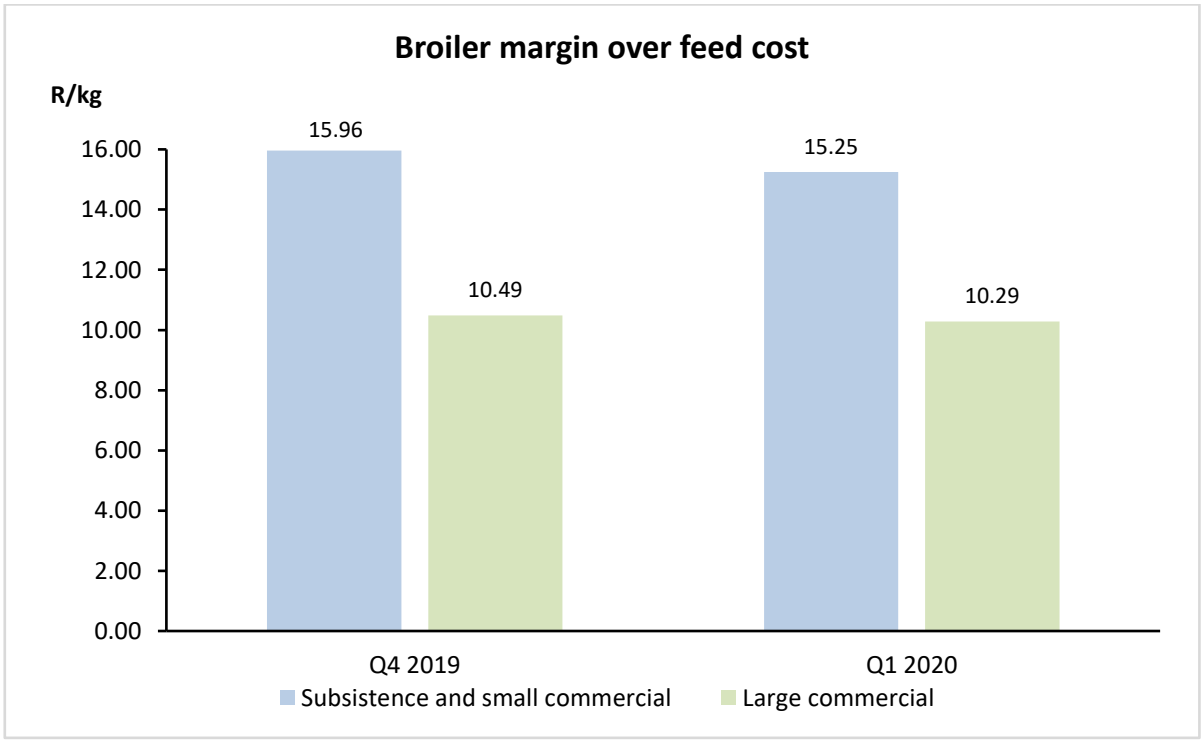

Figure 32. *Estimated margin over feed cost per quarter (broilers) for small and large commercial farmers*

As seen in Figure 32, the small-scale broiler farmers enjoy a substantially larger margin than commercial farmers because of their higher selling price.

In the broiler industry, the feed cost is approximately 70 % of total production cost. Other expenses that need to be taken into account before calculating the profit are gas, shavings, vaccines, cleaning materials, salaries, water and electricity, protective clothing, and the cost of day-old chicks.

Statistical survey: the egg industry

The statistical survey includes both pullet rearers and commercial egg farmers (Table 16). A small commercial egg farmer is defined as an enterprise which has between 500 and 50 000 hens, whereas subsistence farmers are those that have less than 500 laying hens.

Table 16: *Survey respondents and business activity: egg producers*

Period	Q4 2019	Q1 2020
Number of respondents	115	100
Completed questionnaires	100	89
Number that stopped farming	14	11
Number that resumed farming	10	2

Figure 33 depicts the distribution of subsistence and small commercial egg producers in South Africa. The survey results are summarised in the tables below. All prices are exclusive of VAT and delivery costs. Where possible, comparisons are drawn between the input and output prices for small-scale members and commercial producers, as estimated by SAPA.

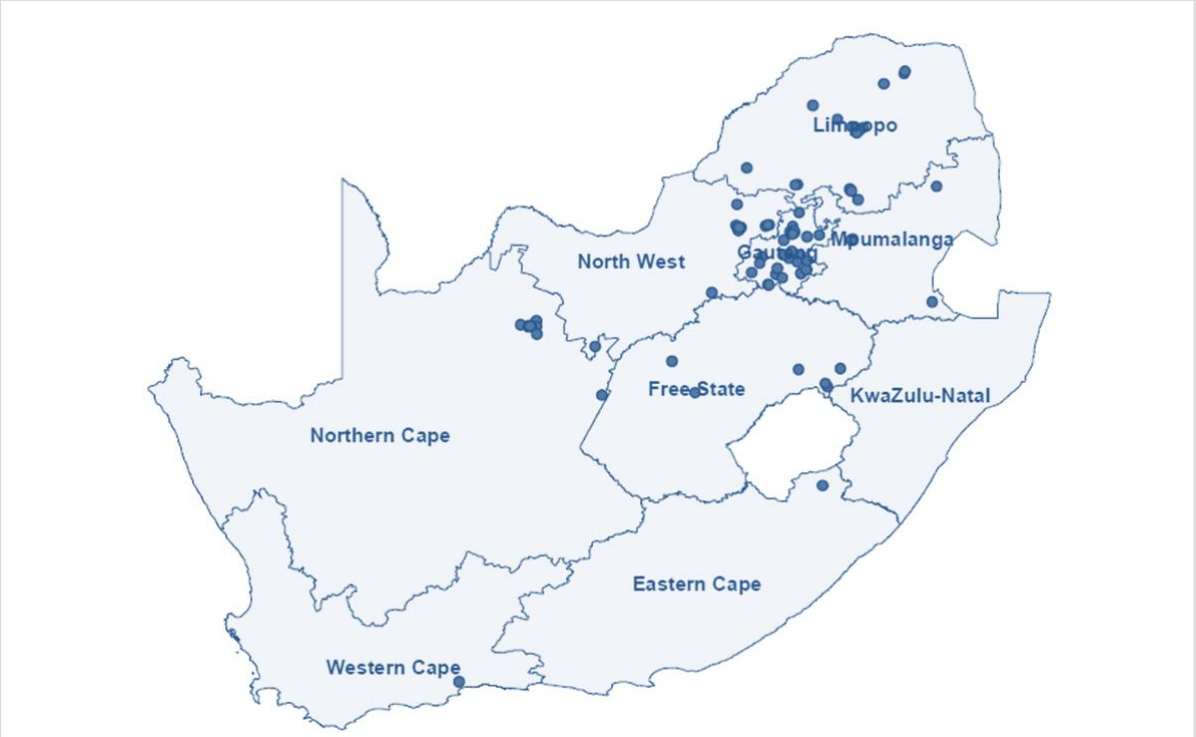

Figure 33. *Distribution of subsistence and small commercial egg producers surveyed*

The cost of inputs is summarised in Table 17 below. The average feed price paid by large commercial egg producers is shown in italics (source: SAPA survey, published in *Monthly Egg Price Report*).

Large commercial farmers generally have an advantage because they buy in bulk and therefore qualify for volume discounts. Subsistence and small commercial producers buying small quantities are paying a bagging cost and a mark-up if they are located far from the feed manufacturer and are purchasing from a depot or co-op.

According to the Q1 2020 survey, 87 % of smaller egg producers bought their feed in bags while 13 % purchased in bulk.

Table 17: *The average input costs of survey respondents: eggs*

Period	Q4 2019	Q1 2020
Day-old pullet (R/bird)	10.75	10.64
Point-of-lay pullet (R/bird)	77.61	77.91
Laying mash (R/tonne)		
Small producers (buying bags)	4 995	5 278
Small producers (buying bulk)		4 021
Large commercial	*4 235*	*3 839*

The feed price in R/kg for the Q4 2019 and Q1 2020 is shown in Figure 34. The bag price is divided by 40 kg or 50 kg to give a R/kg price. For farmers buying in bulk, the R/tonne price is divided by 1 000. This allows us to compare feed prices for small and large egg producers.

There are substantial differences in the prices paid by smaller farmers and large commercial producers, with the gap widening in Q1 2020. Expressed as percentages, these differences are + 20 % and + 37 % for the two consecutive quarters.

Bird numbers and egg production are shown below (Table 18). It is interesting to note that the laying farms are not stocked to capacity. The cost of purchasing layer replacements may be a factor because many smaller producers do not have adequate cash flow for a large purchase in one month. These producers may also find it hard to source point-of-lay pullets.

Table 18: *Pullet and hen numbers of survey respondents*

Period	Q4 2019	Q1 2020
Number of pullets being reared	60 400	69 200
Number of laying hens	438 300	331 000
Farm capacity	781 300	616 100
%	56.1	53.7

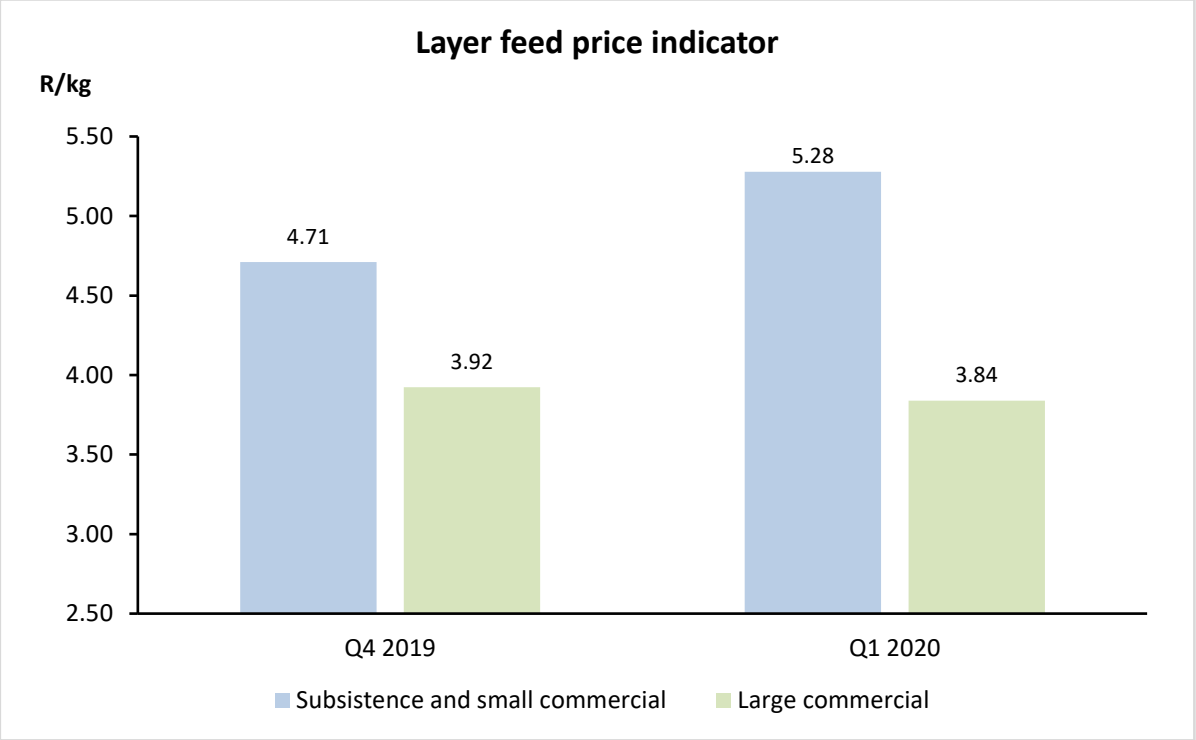

Figure 34. *Average layer feed price per quarter for small and large commercial farmers*

Average selling prices and the estimated margin over feed cost are given in Table 19. The average prices obtained by large commercial egg producers are shown in italics (source: SAPA survey, published in *Monthly Egg Price Report*).

Table 19: *Average selling prices and margin over feed cost: egg producers*

Period	Q4 2019	Q1 2020
Egg price (R/doz)		
Subsistence and small commercial	15.51	15.85
Large commercial	*13.92*	*13.66*
Cull price (R/hen)		
Subsistence and small commercial	45.21	40.54
Large commercial	*26.13*	*21.79*
Feed cost (R/doz)		
Subsistence and small commercial	7.54	8.44
Large commercial	*6.28*	*6.14*
Margin over feed cost (R/doz)		
Subsistence and small commercial	7.97	7.41
Large commercial	*7.64*	*7.52*

Figure 35 shows the average price for eggs for the two quarters. Small producers have fared better than large commercial producers, probably because they have succeeded in negotiating

better prices with their customers. Large scale producers supplying big cities and supermarket chains are price-takers. Expressed as percentages, these price differences are + 11.4 % and +16.0 % for the two consecutive quarters.

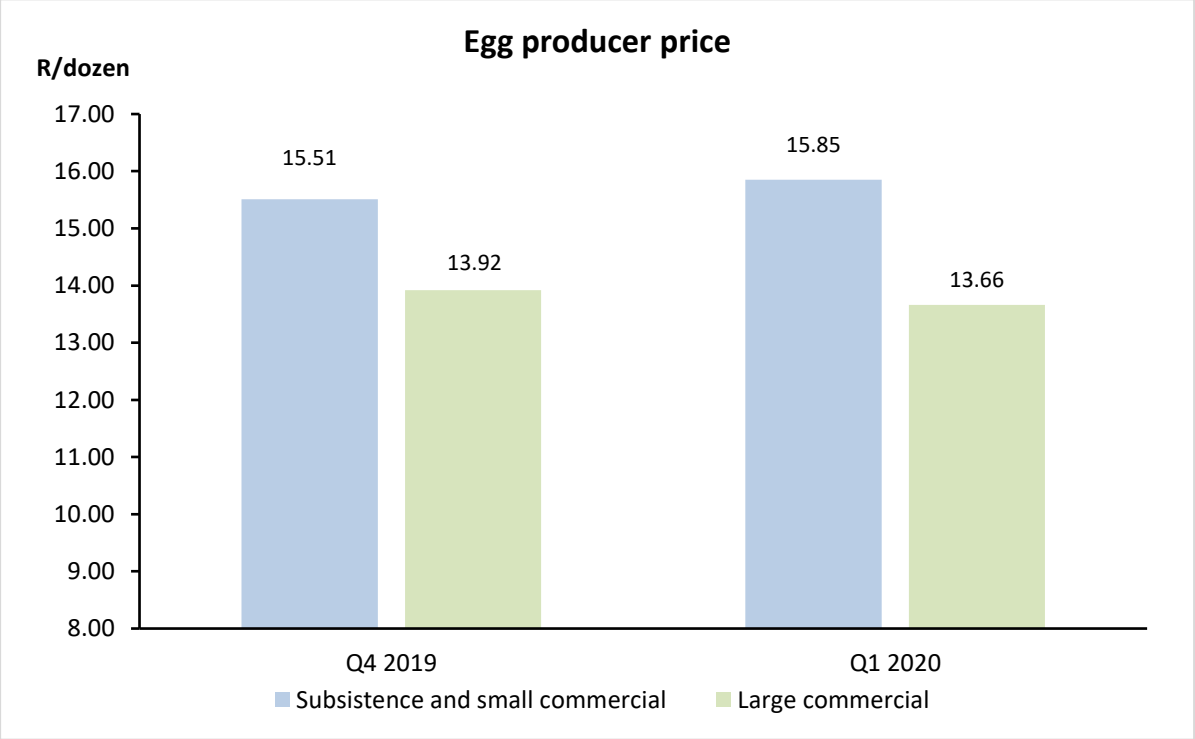

Figure 35. *Average producer price per quarter for small and large commercial farmers*

The excellent cull hen price obtained at the end of the laying cycle puts the small farmers in a strong position to purchase new point-of-lays. In Q1 2020, the average cull price of R40.54/hen was 52 % of the average point-of-lay price (R77.91).

In Table 19 (above), the estimated feed cost in rand per dozen is a calculation based on the feed price (R/kg) multiplied by a feed conversion of 1.6 kg/dozen. In the first quarter of 2020, every one dozen eggs produced cost the smaller farmer R8.44 in feed.

The estimated margin over feed cost is calculated by subtracting the feed cost from the egg price. For small-scale farmers in the first quarter of 2020:

R15.85/doz – R8.44/doz = R7.41/doz

Figure 36 shows that, in Q1 2020, subsistence and small commercial farmers realised slightly lower margins over feed cost than their larger counterparts. There is an opportunity here for smaller farmers to focus their efforts on marketing strategies that will increase their selling price.

Other monthly expenses, such as salaries, packaging material, electricity, water, vaccinations, cleaning materials and the cost of new point-of-lay pullets still need to be taken into account before working out the profit per dozen.

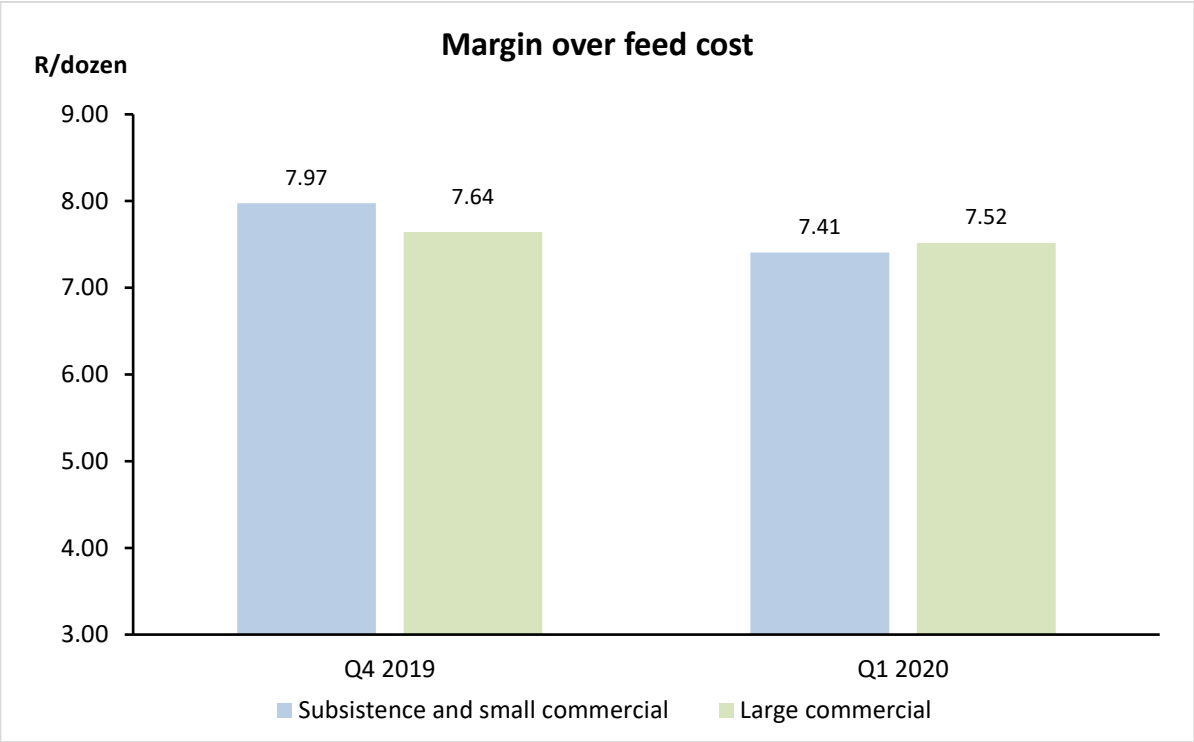

Figure 36. *Average margin over feed cost per quarter for small and large commercial farmers*

Summary of statistical findings

There is a real opportunity for both smallholder broiler and egg farmers to make profits and develop sustainable businesses. It may not be possible to reduce the cost of inputs, but by focusing on improving farm efficiencies (reducing wastage and mortalities, and increasing production and growth rates), as well as securing reliable markets, the outcome could be very positive.

These results emphasise the importance of reliable statistics for the industry and small commercial farmers in particular. Agricultural statistics are key to measuring the performance in a sector. Data are used for decision making, planning, research, etc. The data presented in this report are obtained from the analysis of the small-scale farmer survey results. Grateful thanks go to Silverpath Consulting for the excellent job they do and to all the small commercial farmers who patiently contribute to the telephonic surveys.

These statistics are the best available in South Africa but can get better with stakeholder involvement. We encourage all emerging farmers, whether SAPA members or not, to participate in these statistical surveys, so that we can present a better picture of the issues that confront this sector to the rest of the industry and other stakeholders. We need your assistance in this matter.

7.3 Industry transformation

A transformation committee was established during 2014 to facilitate transformation activities within SAPA and amongst the SAPA members, and to monitor progress and provide reports to the key stakeholders in transformation. More information can be found in Chapter 10.1.

Clearly the idea behind any transformation agenda is to give people who have been excluded from the mainstream economy an opportunity to successfully participate, but the solution is not always straightforward. Specific markets are needed for smaller new entrant farmers that will allow development projects to succeed and grow - but in recent years the industry as a whole has found itself under huge financial pressure. High levels of imports and soaring feed costs have put small businesses to the sword and only large, integrated operations, with economies of scale are likely to survive in the current environment. This is a worldwide trend in broiler and egg production. Meaningful transformation therefore can prove difficult. On the one hand, Government is throwing significant resources at bringing small scale producers into the poultry value chain, in order for them to contribute to food security and rural development, but, on the other hand, it continues to expose the industry to open and often unfair market forces. Government could stimulate much greater levels of industry transformation by ensuring the unfair competition from dumped imports is removed from the market.

SAPA should be better placed to drive transformation projects over the next few years. The reintroduction of the statutory levy on egg producers comes with provisos. Twenty percent of the monies collected must be spent on industry transformations initiatives. In addition, NAMC has approved SAPA's evergreen transformation trust fund, created from the historical levy surplus, and this fund will be used to support transformation projects.

It remains of critical importance to integrate smallholder farmers and larger new-entrant commercial producers into the poultry value chains. They have a vital role to play in poverty alleviation, ensuring food supply and creating jobs in South Africa.

7.4 Prospects going forward

It is not easy to enter mainstream markets. A definite minimum size exists, below which a broiler farm will struggle to sustain its profitability. In addition, the farm must be close to a feed mill, veterinary services, and abattoir and cold-chain facilities. Egg producers face slightly fewer constraints, and it is a little easier for emerging farmers to enter this market. However, egg producers, even at the commercial level, are consistently under strain in South Africa because demand for the product is weak (compared to global levels) and does not increase at the same rate as broiler meat demand when consumers' disposable income increases. The Transformation Committee will continue to push for meaningful transformation within the industry to allow for much improved market access and to support its members with advice, training and mentoring.

8. POULTRY HEALTH / DISEASE AND WELFARE

8.1 Introduction

Outbreaks of poultry disease in recent years, such as Newcastle disease and highly pathogenic avian influenza, have demonstrated the vulnerable position which the South African industry is in in terms of disease control. Outbreaks of HPAI have disastrous consequences for both the poultry industry and the consumer (in terms of the nation's protein supply, food security and food pricing). In the event of a catastrophic disease outbreak, the cost of restocking and disinfection programmes can run into billions of rands. To mitigate this risk, a number of programmes has been developed to safeguard the industry and to 'Protect the Flock'.

Since the first outbreak of Newcastle Disease (NCD) in the late 1960s, veterinary authorities have delegated implementation of control measures for this disease to the poultry industry. In the absence of a strong national veterinary service, the industry increasingly has to rely on its own initiative to put in place disease control measures against other challenges. The Poultry Disease Management Agency (PDMA) was established in 2012 to protect the national poultry flock through disease surveillance, monitoring, control and management of diseases which threaten the health of the flock - and thus food security. The work of the PDMA is very important in achieving the required disease control compliance for export markets; especially for notifiable diseases such as NCD, salmonella infections (e.g. *Salmonella enteritidis*), HPAI and any other low pathogenic AI infections.

Funded by SAPA, the PDMA is located at the University of Pretoria's Onderstepoort campus (OP) in the Department of Production Animal Studies.

The PDMA's strategic goals are to have direct involvement in poultry disease control measures through:

- Influencing policy for controlled diseases;
- Disease surveillance of commercial and non-commercial sectors of the poultry sector;
- Reduction of disease levels nationally, which includes a microbial reduction programme;
- Rapid response mechanisms against local and exotic disease threats;
- Improving veterinary and animal health training within South Africa;
- Establishment of a formal Public Private Partnership, under which the state delegates certain regulatory functions to the PDMA;
- Reducing the levels of residues in poultry meat through the residue monitoring programme;
- Collaboration with the ostrich industry for mutual benefit deriving from improved disease control;
- Achieving and maintaining export status for the benefit of both industries.

These goals translate into the PDMA strategic priorities of:

- Engaging national and local government on issues of disease control in the SA poultry industry;
- Making use of the database of poultry farms in South Africa to assist DALRRD with monitoring notifiable diseases such as avian influenza, salmonella and Newcastle disease, while simultaneously using it to develop monitoring programmes for critical diseases such as infectious bronchitis;
- Appointing or designating veterinarians with expertise in poultry diseases in each province who are available to assist state veterinarians in the event of disease outbreaks in commercial, smallholder and subsistence poultry;
- Advancing the role of the PDMA in training state veterinarians and/or animal health technicians to improve services delivered by the state in the event of disease outbreaks on poultry farms;
- Developing a residue monitoring programme for poultry products nationally, or at least a database of residue monitoring data that is available;
- Delivering improved technical and veterinary support to smallholder poultry farmers so they can achieve greater production success in collaboration with state veterinary services or through the PDMA's own initiatives;
- Collaborating with the ostrich industry.

The PDMA and SAPA work in close conjunction with the following branches of the Department of Agriculture, Land Reform and Land Development: Agricultural Production, Health and Food Safety, Food Security and Agrarian Reform, and Economic Development, Trade and Marketing.

The establishment of the PDMA and its successful implementation during 2012 was a major step forward in ensuring that the industry's flocks of commercial chicks, layers, broilers; indigenous and smallholder birds are protected.

8.2 The Poultry Disease Management Agency (PDMA) in 2020

Disease monitoring and surveillance

Avian influenza surveillance

The PDMA continued with improvements to the avian influenza (AI) surveillance programme in 2020. Since migrating the reporting of AI from submission of an Excel spreadsheet to a digital platform, there has been improved compliance and easier analysis of the results. The PDMA aggregates AI data on a monthly basis for export compartments and bi-annually for non-export compartments. All surveillance submissions are now completed online and the PDMA quality

assures the data, consolidates it, and then reports to the industry and other stakeholders. This framework has enhanced risk analysis and developed an early reporting system.

The PDMA also continued to improve the digital platform used for this surveillance and is in the process of moving the database to a web-based application. This will allow the setting up of multiple security levels, allowing for different users with different security clearances to access the database. It will also enable the expansion of the database to other diseases, which started in the first quarter of 2020.

During the first half of 2020 a total of 71 704 samples were tested for AI. This number decreased marginally to 71 572 in the second half of the year. The PDMA would like to thank participants for their continued support of the programme.

In the year 2020 there were four recorded cases of H5N8 in South Africa (Figure 37). These occurred in commercial ostriches in the municipalities of Oudshoorn (two outbreaks) in Western Cape, Blue Crane Route in Eastern Cape and Karoo Hoogland in Northern Cape.

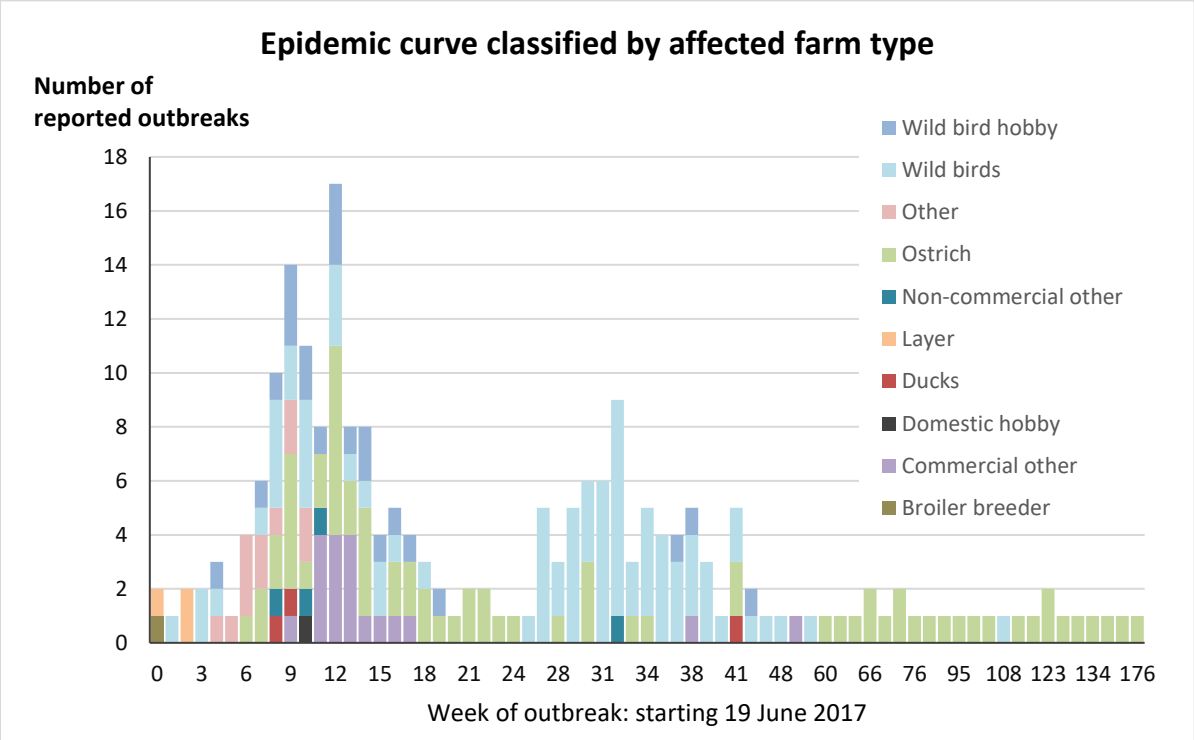

Figure 37. *South Africa 2017 H5N8 HPAI epidemic curve, by farm type*

Since the index case in June 2017, most of the outbreaks have occurred in Western Cape although sporadic cases have been reported in other provinces (Figure 38).

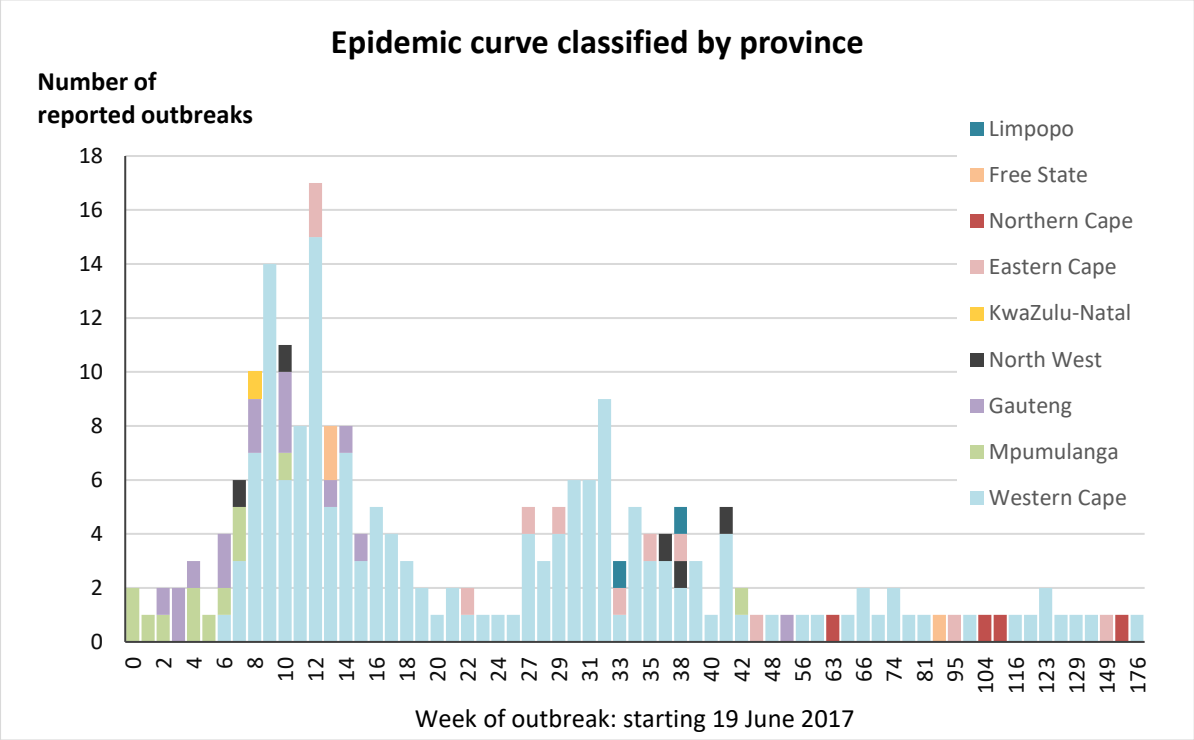

Figure 38. *South Africa 2017 H5N8 HPAI epidemic curve, by province*

Tracking the sale of live birds

After the recording of the first outbreak of HPAI in South Africa in June 2017, DALRRD regulated movement of live birds in an effort to manage the risk posed by their transportation. The task of monitoring the movement of live birds was delegated to the PDMA. This was achieved by the registration of commercial farmers and cull buyers and the consolidation of monthly transactions to improve traceability.

An online database to enable the tracking of the sale of live birds was completed and is in use. This database is being migrated, like the other databases, to a web-based application, which will enable improved data analysis and quality assurance. The online portal is accessible on the website address http://www.poultrydiseases.co.za. Producers are encouraged to assist traders with online registrations where needed.

By the first half of 2020 a total of 3 842 traders and 1 234 producers were registered on the system.

8.3 Animal welfare

Over the years, the poultry industry has been sensitive to the animal welfare aspects of poultry farming practices and, therefore, the existing Code of Practice (COP) has been updated to give the necessary guidance for certain methods of production and in the handling of chickens. The document addresses the sensitive issues of cage density for commercial layers, drinker systems in cages, maceration and euthanasia of chickens, transportation of chickens, and the treatment of end-of-lay birds on the farm and at cull outlets.

A resolution was passed at Congress in June 2018 to keep cage floor space at 450 cm^2 per hen and feed trough space at 8.5 cm per hen until 1 January 2039. For new cage installations after 1 January 2019, the feed trough space should be increased to 10 cm per hen and the floor space to 550 cm^2. The decision to extend the deadline was based primarily on the prohibitive cost implications of adapting existing layer facilities. These recommendations have been incorporated in the Code of Practice document dated June 2018. SAPA has in the meantime engaged the services of the National Agricultural Marketing Council to conduct scientific research into the effect of different housing systems on bird welfare and health and consumer demand patterns for the various systems. The research aims to inform decision-makers regarding amendments to the poultry welfare legislation of South Africa.

SAPA continued to engage with the South African Bureau of Standards (SABS) to develop local standards for the welfare of laying hens. A draft standard entitled 'Welfare of chicken (*Gallus gallus domesticus*)' (SANS 1758:201X) was submitted to the technical committee of the SABS for its approval. Voting was concluded and the standard will be published in January 2021 by the SABS for public consultation.

Parallel to this, the Egg Organisation is also collaborating with the IEC and the OIE to develop a chapter entitled 'Animal welfare and laying hen production systems'. The first draft was withdrawn by the OIE following fierce criticism by the IEC and its member countries, based on the fact that conventional cages were virtually outlawed. The recommendation was made that the chapter takes into account the social, economic and cultural diversity of OIE member countries, and issues of food security. A revised version was published in 2019 and egg producing nations were again invited to comment. The Egg Organisation submitted comments to the OIE through the state's Chief Veterinary Officer and the IEC. The OIE had planned to discuss the chapter at the General Session in Paris in May 2020, but this was cancelled owing to the COVID-19 pandemic. Subsequently, the OIE opened a further window for comments which closed on 30 June. The Egg Organisation used the opportunity again to submit comments via the Chief Veterinary Officer.

Leading welfare organisation Compassion in World Farming reported that, despite COVID-19 lockdowns, good progress has been made towards the cage-free commitments made by global, American and European companies over the past four years. Of the 210 companies surveyed in 2020, 63 % had made progress in transitioning to a cage-free egg supply. A handful of companies have withdrawn their pledges. In South Africa, the City Lodge Hotel Group announced in January 2020 that it is committed to using cage-free eggs in all its hotels from 2025. The group purchases about 1.4 million eggs annually and it is the first African hotel chain to move in this direction.



9. AGRICULTURAL POLICY ACTION PLAN AND THE POULTRY MASTER PLAN

SAPA has collaborated with the Department of Agriculture, Land Reform and Land Development (DALRRD) on a series of strategic programmes and projects and believes an active and meaningful partnership between industry and government is important for all stakeholders.

In July 2013, Cabinet resolved that the Department of Agriculture, Land Reform and Land Development would develop a plan that addressed the vision of the National Development Plan (NDP) and the New Growth Path. Under the Medium Term Strategic Framework of the NDP, agricultural development was seen as key to realising three important outcomes: *Number 4* (decent employment through inclusive growth), *Number 7* (comprehensive rural development and food security) and *Number 10* (the continual protection and enhancement of environmental assets and natural resources).

Agriculture has been seen as critical in achieving higher levels of employment and better food security. Agriculture delivers more jobs per rand invested than any other sector and it is hoped that the sector can generate a million new jobs by 2030.

Vision 2030 of the National Development Plan calls for an inclusive rural economy wherein *"...rural communities should have greater opportunities to participate fully in the economic, social and political life of the country. People should have access to high-quality basic services that enable them to be well nourished, healthy and increasingly skilled. Rural economies will be supported by agriculture, and where possible by mining, tourism, agro-processing and fisheries…better integration of the country's rural areas, achieved though successful land reform, job creation and poverty alleviation".*

The National Development Plan, Chapter 6, set out clear targets and actions to realise this vision. It identified almost 600 000 potential jobs in communal areas and 400 000 jobs in commercial agriculture. Roughly a third of the jobs created would be in secondary and service industries, upstream and downstream of primary agricultural jobs.

Besides increasing the amount of land under irrigation and making better use of land in communal areas, the NDP also aimed to identify sectors of the agricultural economy which have the highest potential for growth and employment. Industries and regions with the most potential to create jobs would receive the most support.

The Department stated that there is a need to promote agricultural development in a manner that translates into rural development and poverty alleviation. Increased collaboration between successful farmers and the beneficiaries of land reform programmes is seen as important in job creation. The Department also identified a need to find a better balance between large-scale and small-scale subsectors, thus broadening market participation.

The Agricultural Action Policy Plan (APAP), presented as a draft in spring 2014 and accepted by Parliament in March 2015, is a value-chain approach to encouraging rural development. Under this Plan, the Department of Agriculture identified important agricultural value-chains and will target government investment accordingly.

The Department was concerned that South Africa increasingly relies on imports of crops (wheat; soya) and livestock products (poultry), while agriculture itself relies on imports of inputs (e.g. fertiliser, feed, mechanisation). There still exists a need to create a more sustainable and productive sector and to strengthen the country's competitiveness by supporting localization where there is potential.

Whilst poultry production is not as labour intensive as, for example, horticulture or sugarcane farming, the potential for growth in this sector is seen as high. The Poultry Integrated Value chain was identified as one of eight sectoral key action programmes (KAPs) under APAP. These sectors were chosen based on their contribution to food security, job creation and growth, and their potential contribution to South Africa's trade balance. The other KAPs are: red meat; fruit and vegetables; wine; forestry; fisheries; wheat and biofuels.

The APAP programme was designed to provide a long-term vision and focused interventions in a five-year rolling schedule. The programme is based on Sectoral Key Action Programmes (mentioned above) and Transversal Key Action Programmes (e.g. research and innovation; land reform; Fetsa Tlala (the government's hunger eradication programme); Climate Smart Agriculture (CSA) and the Strategic Integrated Project on Agro-Logistics and Rural Infrastructure).

Institutional arrangements and processes were also to be put in place to help achieve the development objectives, especially in integrating planning, monitoring and evaluation between Agriculture, Rural Development and Land Reform, across all three spheres of government (local, provincial and national).

Each Key Action Programme in APAP has: a problem statement; aspirations; policy levers; nature of interventions and key outputs (actions).

For the Poultry Integrated Value Chain, the problem statement reads as follows:

- Globally, poultry is expected to account for more than half of meat consumption. SA's consumption of white meat has increased far more rapidly than that of red meat and consumption is expected to increase by 34% by 2023 (to 2.6 million tonnes or 50 kg per capita). Unfortunately, much of this increase has been by way of imports, especially of low-cost frozen portions. Production is only expected to expand by 2 million tonnes to 2023, "*necessitating*" the importation of 680 000 tonnes per year (SAPA's emphasis, italics: imports are reducing local production, not compensating for lack of domestic capacity).
- Poultry production systems have a high dependency on imported feed grains for animal feed; up to 63 % of soya oilcake has been imported in the past, pushing up feed prices.

The strategy of the Key Action Programme for poultry focuses on import substitution.

The Department of Agriculture, Land Reform and Land Development saw the main challenges and constraints to the broiler industry as:

- The increasing cost of production, especially feed and energy
- The increasing cost of day-old chicks, and variable quality of day-old chick supply in the market
- Dumping and/or oversupply of imports from the EU & South America
- Variable control of poultry diseases
- Low demand/consumption in neighbouring countries
- High initial investment for start-up
- Need for R&D to improve production systems and feed conversion ratio
- Unstable electricity supply
- Monopolistic behaviour of processors and retailers
- Lack of official information in the market, stock population, etc.
- Inadequate market access for smallholder producers
- Highly concentrated commercial poultry sector with less smallholder farmer participation
- Slow transformation agenda
- Abattoirs and hatcheries not well located for smallholder farmers
- Losses due to diseases and pests
- Low levels of transformation

In terms of raw materials, the Key Action Programme has worked effectively to ensure a reduction in feed costs by increasing domestic production of soya bean (to meet increased capacity in crushing facilities) and infrastructure investment in soya bean and yellow maize production and processing. Soya bean-grading regulations were to be amended, and regulation relating to the retention of protected soya bean seeds were to be developed and implemented. Smallholder training programmes focused on soya bean and yellow maize production and post-harvest practices were to be refined and expanded. Off-take agreements with feed companies would be sought.

Research programmes were to be initiated, aimed at making broiler production more energy-efficient and at developing higher-yielding soya bean varieties through partnerships with private sector seed companies.

For more information on the Agricultural Policy Action Plan, the reader is referred to the following link for a full presentation on the aims of the programme:

http://agbiz.co.za/uploads/AgbizNews/15917_APAP.pdf

As part of APAP, a national Poultry support programme (“Master Plan”) has been developed and is being implemented in partnership with SAPA. The Poultry Master Plan, launched in November 2019, has been discussed above in Chapter 6.1. More information can be found at:

https://www.dalrrd.gov.za/docs/media/SA%20Poultry%20Sector%20Master%20Plan%201.pdf

10. SAPA STRATEGY

Following years of disinterest and dissent, producers pulled together behind SAPA in 2018 and committed to build a strong representative body for the industry. Agreement was reached on the way forward involving a new organisational structure, collection models, and key activities.

A special general meeting was held on 12 April 2018 to approve the changes to the constitution. The new constitution was registered with the South African Revenue Service on 1 June 2018. The amendments were ratified at Congress on 12 June, allowing for the replacement of the CEO with two general managers and the removal of provincial structures.

SAPA now consists of two independent organisations, each with its own board and general manager. The Broiler and Egg boards take full responsibility for their administrative functions, and their general managers report to the board of directors. The SAPA Board retains the governance and fiduciary responsibilities of SAPA. A new category of membership was introduced in 2020 for organisations in allied industries.

After analysing feedback from exhibitors and attendees of the 2018 Congress, the decision was taken by the Board to hold the AviAfrica Congress every second year. In the years in between, the AGMs will be held at different venues around South Africa. In 2019, these meetings were held in Stellenbosch. Owing to the global coronavirus pandemic, the 2020 Congress was cancelled and the AGMs were hosted via a video conferencing platform.

During the year a decision was made to revive the monthly *Poultry Bulletin* which will serve as the mouthpiece of the organisation. The first edition is due for publication in April or May 2021.

The website is to undergo a major revamp during 2021, with the aim to integrate it with SAPA's Facebook page and Twitter account. These enhancements are seen as a vital step towards increasing SAPA's social media presence.

10.1 Industry transformation

The key tasks of the Transformation Committee are:

- To align government's economic empowerment policy with the actions and policies of SAPA and to help close economic gaps between black and white poultry farmers. The emphasis is on facilitating and overseeing transformation for all SAPA members through identifying business opportunities and enabling processes, as well as recording and reporting on transformation outcomes;
- To ensure that government is fully informed of transformation activities in the poultry sector through a two-way communication process, which will allow government to advise on policy developments, funding criteria, and related transformation opportunities;
- To mobilise resources at a strategic level for enterprise development, as per the AgriBEE scorecard, by providing advice and guidance to developing

farmers, as well as facilitating the initiation and completion of development projects;

- To deploy specialist resources and project management to support development projects.

During 2019, SAPA worked collaboratively with DALRRD to assist with the revitalisation of 19 existing land reform poultry farms identified by the Department as part of the government's economic stimulus package. This work continued in 2020. SAPA utilised its transformation levy to assist the identified farms with business development services, which included business planning and financial modelling, water use license applications, and environmental impact assessments, as all these farms need to expand their operations. The completed documents were then submitted to the Department to process and determine the level of support they would provide to the entrepreneurs in terms of infrastructural investments and costs of operations. These producers were then encouraged to join as members of SAPA so that they can benefit from other support measures offered by the Association. Additionally, SAPA utilised funding sourced from AgriSETA to roll out a capacity building programme on biosecurity for these farms and SAPA members.

In order to upscale transformation initiatives during 2020, SAPA received an offer from the National Agricultural Marketing Council (NAMC) to second one of their officials to the association, for a period of three years, to serve as a transformation officer and provide the required capacity and technical support. The main function of the transformation officer is to run SAPA's newly developed financial modelling tool which tests the viability of broiler and layer business plans and the debt carrying capacity of poultry projects. The financial models were demonstrated to the Land Bank and other commercial investors, who indicated their approval. The models are run on behalf of financial institutions to assist them with their decision-making processes.

Transformation initiatives in 2020 saw the membership of small farmers increasing from a low base of 20 to 103. This was achieved through targeted monthly communication via email, virtual sessions and information sharing.

Reporting on the progress of transformation in the poultry industry took place during the pillar meetings that form part of the broiler sector master plan.

11. TRAINING AND SKILLS DEVELOPMENT

The year 2020 was characterised by unprecedented periodic lockdowns of all non-essential businesses due to the COVID-19 pandemic. One aspect that was severely affected was the farmer training offered by SAPA through the KwaZulu-Natal Poultry Institute (KZNPI). The KZNPI made every effort to adapt and quickly managed to develop an effective online platform. Through this platform they were able to successfully run two courses for SAPA: Poultry Business Skills with 12 delegates, and Profitable Egg Production with 19 delegates.

Prior to the national lockdown being enforced in March, the KZNPI completed the last batch of biosecurity training; a programme that was initiated in 2019 with 80 farmers participating and that was funded by AgriSETA. The programme has now been followed up with an additional initiative which involves biosecurity audits and training. Animal health company Afrivet is assisting the Transformation Committee with this initiative. A pilot programme was run in the Western Cape in November and it will be rolled out to other provinces in 2021.

In terms of funding applications sent to AgriSETA, SAPA is still awaiting the outcome of the requests for training in egg production, as well as training in how to manage a poultry abattoir. Together these represent just under R1 million worth of training.

12. CONCLUSION

Moving into 2020 with a situation of oversupply, South African egg producers must have been dreading the year ahead and yet the COVID-19 lockdown in March caused a spike in egg consumption and firmed prices over an extended period. Broiler producers, on the other hand, started the year positively, with the Master Plan in place and renewed optimism that industry and government co-operation might succeed in growing the local industry. Lockdowns were not as kind to broiler producers – fast food and restaurant markets shrank; product stockpiled and frozen chicken prices were slashed. The reopening of restaurants from the third quarter coincided with steeply rising feed prices – 2020 was merciless.

Both egg and broiler producers enter 2021 under sustained pressure from rising feed costs, which are unlikely to be tempered by an even bigger maize crop than the 15.3 million tonnes harvested in 2020. Even in good years, the domestic maize price may stay stubbornly close to export parity, if supported by strong global and sub-Saharan demand for grain. China is rebuilding its pig herd after an epidemic of African swine fever reduced breeding stock by over 60 %. The expansion of both the Chinese pig and poultry industries comes as their maize crop has been reduced by flooding, increasing demand for imported maize. Global stocks have dwindled because of unfavourable weather in the US and, if the rand weakens, maize prices will be unlikely to soften.

In its October 2020 *World Economic Outlook*, the International Monetary Fund estimates GDP growth of 3 % in 2021, from a 2020 contraction of - 8 %. Record levels of unemployment and a stalled economy reduce disposable income, and a growth rate of 3.0 % from a contracted base will not be enough to improve employment figures and drive spending. The year ahead promises to be a challenging one for local poultry farmers if GDP growth cannot be improved.

Egg prices are likely to remain under pressure in 2021 even though the supply and demand balance has improved. Per capita consumption of eggs (159 eggs per person per annum in 2020) is at the highest level ever but, while this is a promising development for egg producers, the increase may be short lived if egg prices rise in response to escalating feed prices. The industry needs to sustain and improve per capita consumption to grow the industry. With egg consumption in countries such as the US, Russia, Mexico, Japan and China exceeding 220 eggs per person per annum and, in some cases, approaching an egg a day, there is considerable scope in the SADC region to increase local per capita consumption. Egg producers will continue to fight retailers for a fair share of the price consumers pay for eggs. Tighter biosecurity measures have worked through the 2019 and 2020 winters and prevented a new HPAI outbreak in commercial flocks. With so much HPAI circulating in Europe and Asia, farmers must not let down their guard as the 2021 winter arrives.

In the broiler industry, 2021 will see the EPA safeguard drop to just 15 % from March. Volumes of imports from the EU will largely be determined by the number and severity of HPAI outbreaks on the continent. Going into the New Year, AI-related trade bans remain in place against most of the licensed EU exporting nations. Only Spain and Ireland have avoided outbreaks in commercial poultry during the first half of the European winter. The *ad valorem* tariffs on bone-in and boneless chicken portions should help to limit poultry imports from Brazil, and imports from the US look set to remain stable, with *ad valorem* tariffs and the AGOA quota

in place. The broiler industry will be looking to move forward with the Master Plan and continue growing domestic production levels and tackling the transformation agenda.

The broiler industry will continue to unlock export opportunities in conjunction with DALRRD and the Department of Trade, Industry and Competition. Steps are being taken to facilitate exports to SACU and Middle Eastern countries. Smaller independent producers must be assisted with improved economies of scale and access to the domestic market. The designation of domestic poultry products in government and municipal procurement processes is still a vehicle which could be used to improve market access for emerging farmers. There remains scope to invest in equipment to produce mechanically deboned meat (MDM).

The local poultry industry faces challenges ahead in terms of bird welfare legislation, plant-based alternatives to eggs and broiler meat, regulations governing the use of antibiotics in production, and environmental sustainability issues. SAPA is committed to representing the interests of both large and small producers and to protecting the egg and broiler industries from further contraction in the face of these challenges. SAPA is dedicated to realising its vision: to create a viable and sustainable industry, contributing to economic growth and development, employment, and food security based on successful producers adhering to environmental and ethical production norms and generating sustainable profits.

Poultry producers will hope that 2021 brings a rapid post-lockdown recovery in economic growth, and further concrete steps to protect local farmers from the predatory strategies of meat importers. Government at last seems to be recognising that, for every tonne of egg and meat product *not* imported, a significant number of local jobs can be created – localisation is becoming a buzzword in the corridors of parliament. A much stronger partnership between the industry and government in the past few years is something to be celebrated.

With the coronavirus pandemic far from over and vaccination programmes only just underway, global trade is likely to prove tricky as borders open and close unpredictably. Trade in dark meat has already been negatively affected by oversupply, trade restrictions, and liquidity issues among importers in some countries. The price of chicken meat was significantly impacted by temporary shutdowns of the food service sector in attempts to contain the spread of the virus but, if cereal prices continue to increase, it can be expected that world food prices will climb in 2021, putting further pressure on limited disposable income.

The South African broiler and egg industries have weathered an unforeseeably difficult year, but it is likely there will be further challenges on the road ahead as the world learns to live with ongoing COVID-19 outbreaks. Our producers are efficient and resourceful but buffeted by external forces (Chinese demand for maize; weather conditions in the Americas; currency markets; oil stocks; global food prices, etc.) which serve to push up domestic feed prices and reduce local consumer spending. It has to be hoped that some of these factors align in the producers' favour in 2021 so that the poultry industry will continue to contribute so significantly to South Africa's agricultural economy.

SOUTH AFRICAN POULTRY ASSOCIATION
SUID-AFRIKAANSE PLUIMVEEVERENIGING
Founded 1904 / Gestig 1904

SAPA contact details

Postal address
PO Box 1202, HONEYDEW, 2040, South Africa

Physical address
Wild Fig Business Park, Block C, 1494 Cranberry Street,
HONEYDEW Ext 19, 2170

GPS: S026^{0}04'714" | E027^{0}55'535"

e-mail
info@sapoultry.co.za
www.sapoultry.co.za