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The United States Fills the Chicken Meat Quota for Second Successive Year

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Report Highlights:

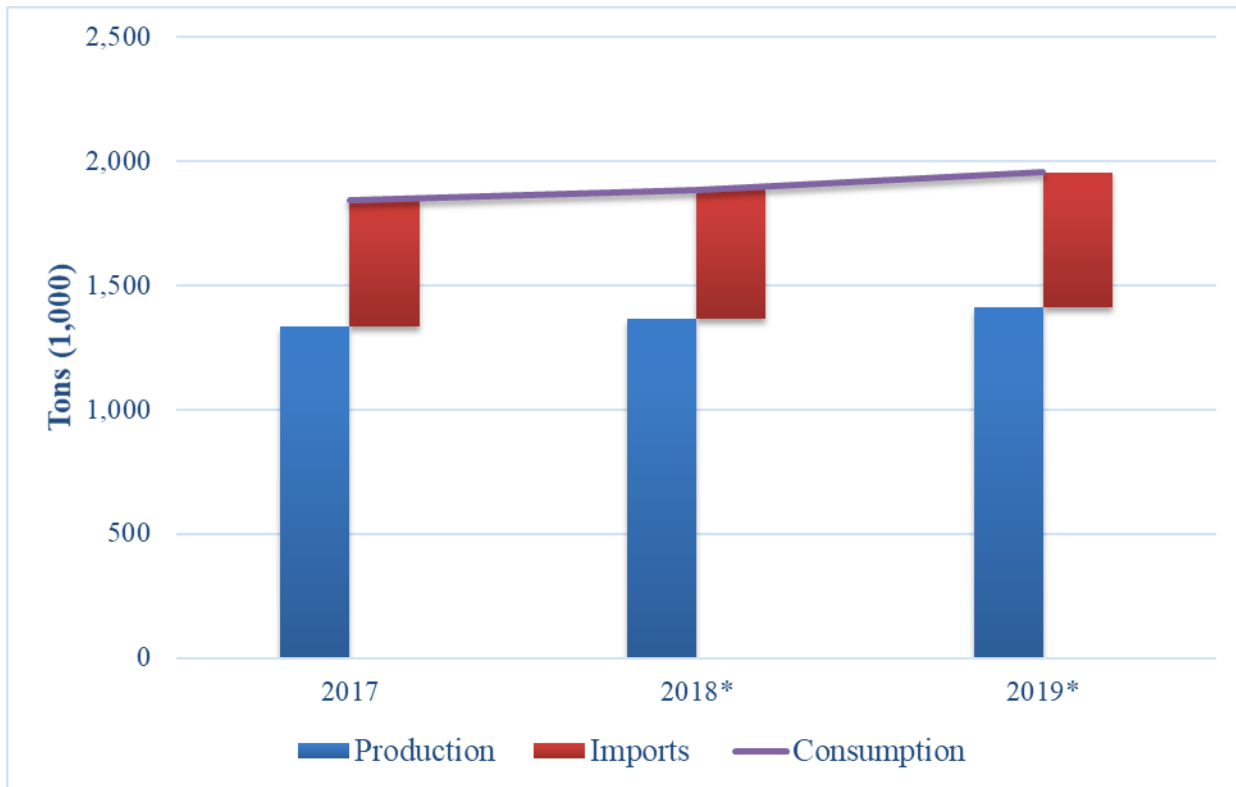
Despite facing numerous challenges in the South African market, the United States filled the quota for bone-in chicken meat exports to South Africa for the second consecutive quota year, ending March 2019. During the 2018/2019 quota year, the United States exported \$54.4 million in bone-in chicken meat to South Africa. In 2016, South Africa established an annual quota of 65,000 tons of bone-in chicken meat imports from the United States into South Africa, free of the anti-dumping duties. Based on the quota's administration guidelines, South Africa will raise the 2019/2020 quota to 68,000 tons due to increases in domestic production and consumption. However, South Africa's recent amendments to these guidelines introduces new measures that could negatively affect its future utilization. Due to the prohibitively high anti-dumping duty outside the quota, access to and functionality of the quota is vital to sustainability of U.S. chicken meat exports to South Africa.

Background

U.S. bone-in broiler meat exports to South Africa have been subject to an anti-dumping duty since 2000. At that time, the antidumping duty was set at R2.35 per kilogram (about \$0.07 per pound), and in 2012, the anti-dumping duty was extended for another 5 years and increased to R9.40 per kilogram (about \$0.30 per pound). At that time, these duties effectively closed the market for U.S. broiler meat. In June 2015, representatives from the United States and South African poultry industries agreed in principle on an annual tariff-rate quota (TRQ) for 65,000 tons of U.S. bone-in broiler meat imports into South Africa free from the anti-dumping duty. Imports are still subject to the most favoured (sic) nation ad valorem duty of 37 percent. The creation of the TRQ effectively allowed South Africa to maintain its duty-free access to the United States market for a wide range of South African products for the following decade under the African Growth and Opportunity Act. In January 2016, negotiations of the final health certificates were concluded and the first shipment of U.S. bone-in broiler meat landed in South Africa in March 2016. Notwithstanding the TRQ, in 2017, South Africa extended the anti-dumping duty of R.9.40 per kilogram (about \$0.30 per pound) by another 5 years (see [South Africa Extends Anti-dumping Duties on U.S. Bone-in Chicken](#)).

The United States Fills the Quota, Supplementing Domestic Production to Meet Local Demand

Despite facing numerous challenges in the South African meat market, the United States filled almost 75 percent of the 2016/2017 quota, increasing beyond 100 percent for the 2017/2018 and 2018/2019 quota years. This clearly shows that there is demand for U.S. chicken meat in South Africa. Even though South Africa is the region's leading producer of chicken meat, imports are regularly required to supplement the demand unmet by local production (see Figure 1). In 2018, South Africa imported about 521,500 tons of chicken meat, including 367,000 tons of broiler meat and 154,500 tons of mechanically deboned meat. Imports are an integral supplement in the South African market and account for about 30 percent of the total chicken meat consumption of 1.9 million tons in South Africa (see [As Domestic Industry Recovers from Bird Flu, Poultry Imports Forecast to Increase Marginally](#)). According to Bureau for Food and Agricultural Policy, local chicken meat consumption is likely to rise by more than 27 percent over the next decade, with local chicken meat production increasing by only 17 percent over the same period. This suggests that the share of imports in total consumption will likely increase over the same period. For the 2019/2020 quota year, DAFF has indicated that the full volume will increase from 65,417 to 68,000 tons, making the second consecutive year DAFF increased the quota.



Figure

1: South Africa's Total Chicken Meat Supply

Sources: GTA; USDA FAS

*Estimate

Potential Challenges to the Full Utilization of the Quota in 2019/2020

Amended Guidelines

On February 1, 2019, South Africa notified Post of the final amended guidelines for the utilization of TRQ allocations for U.S. bone-in chicken imports, which took effect on April 1, 2019. The amended guidelines are supposed to address the primary challenges that have arisen since the inception of the quota in 2016, such as proliferation in the number of applicants, and non-compliance with the guidelines or regulations of the administration of the quota (i.e. misuse and transfer of quota allocations). Some local importers have expressed their concerns that certain amendments could adversely affect the full utilization of the quota.

Many importers, especially historically disadvantaged individuals (HDI), are concerned that the amended guidelines do not address the main challenges they have been facing since the inception of the TRQ; financial, partnership and operational challenges (see [Importers Express Concern over the Amended Poultry TRQ Guidelines](#)). The primary challenge is that many HDIs lack financial resources and the technical expertise required to import poultry meat, making it difficult for the U.S. poultry meat exporters to trade with HDIs directly. This concern led many HDIs to form partnerships with traditional importers. Some of these partnerships are currently under investigation by the South African Revenue Service (SARS) for allegations of illegal collusion against the spirit of the TRQ mechanism and for avoidance of anti-dumping duties. Importers seem to blame the ambiguous guidelines on partnerships as the cause of the on-going investigations by SARS, which could lead to fines and other penalties. As a result, some traditional importers informed Post that they are shying away from forming partnerships

with HDIs. This could potentially affect the full utilization of the quota given that HDIs receive half of the full quota and most have relied on partnerships with traditional importers to use their allocations.

Application for Tariff Increase by the South African Poultry Association

On November 30, 2018, South Africa announced receipt of an application by the domestic poultry industry to increase the applied customs duties on frozen chicken meat imports. The application requests an exponential increase in the import duties applied on boneless chicken meat and bone-in chicken meat from 12 percent and 37 percent, respectively, to 82 percent (see [ITAC Considers a Sharp Increase in the Customs Duty on Chicken Meat Imports](#)). It is still not clear which incremental increase in the customs duty will effectively knock out U.S. chicken meat imports. However, increasing the duty in any increment will likely have a negative effect on the competitiveness of the U.S. bone-in chicken meat in the South African market.

ITAC is currently reviewing the application and will make a recommendation to the Minister of Trade and Industry. There is no official timeline for the process, but a decision could be issued in the coming weeks or months. The local importers association has challenged this application in the South African court system in a move that could further complicate and prolong an eventual decision. Post will continue engaging with South African government and industry contacts to monitor the changes and resulting impact on the administration of the quota.

Exchange Rate: \$1 = R14.35