Commercial Poultry Meat Industry Cross-country Research Concluded

By: NaCC Economics & Sector Research Division

The competition authorities of Botswana, Namibia, South Africa and Zambia undertook cross-country research studies into the commercial poultry meat industry through the Research Programme on Competition Dynamics and Regional Trade Flows conducted under the African Competition Forum ("ACF"). The study was conducted by representatives of the four countries comprising Ernest Bagopi, Emmanuel Chokwe, Pamela Halse, Josef Hausiku, Wesley Kalapula, Michael Humavindu and Simon Roberts.

Background

Studies have revealed that there is a link between competition and development. Growth and development through regional integration initiatives depend on the decisions of companies to increase productive capacity and make long-term investment decisions across the region. However, if a few large companies dominate an industry and are able to extract supra-competitive profits, then this will be at the expense of growth. Where consumers are downstream industries, any anti-competitive conduct raises costs and undermines the competitiveness of downstream firms.

The existence of supra-competitive profits (or rents) from, for example, collusive conduct, further imply that the incumbent firms will lobby political interests to create barriers to entrants including through regulations.

The importance of disciplining the power of large firms, ensuring more inclusive growth, and tackling limitations on access to economic activity, have been highlighted in recent contributions on growth and development. Regional integration provides scope for greater competitive rivalry in a larger market, but this will not be realised if it means smaller economies simply become subsumed by the largest regional economy.

Summary of findings and recommendations

The studies has found that the poultry industry is a very important one, it involves substantial value-add to agricultural production and employment creation across the four countries and requires significant capital investment in the key facilities, and access to essential intellectual property in terms of the leading breeds, coupled with the necessary production facilities at each level of the value chain, through to processing and packaging.

Critical to the industry in any country is access to the breeds, and competitive feed, as the two key inputs to broiler production. Industry requirements, namely the licences for the breeds and the production facilities required for production and processing mean that there are relatively few producers.

The industry is thus oligopolistic in nature (except for Namibia which exhibit a monopoly structure), and the same firms operate across the countries in the study. This suggests that competition needs to be understood at a regional as well as national level.

Competitive outcomes are very important to ensure consumers have competitively priced poultry products, as the main source of protein, and in having growing local production (given competition from imports from outside the region).

All four countries in the study have adopted policies to protect and support their poultry industries. While the policies may be required to incentivise the investments in large scale and competitive facilities, this implies the protection and support should be temporary in nature. There is a danger if there is a lack of competition within a country that the benefits of these measures are captured by the large firms and their shareholders.

However if these policies attract the desired investment, this will lead to increased productivity with time. A wider question relates to how each country within the region can stimulate investment more broadly and strengthen the ability for neighbouring countries to trade in products where they have the cost advantage.

Following is a summary of government policies in each of the four countries.

Country	Trade policy and trade restriction
Botswana	• No importation of broiler day old chicks • Quantitative restriction on import of fertilised eggs (to be completely banned in 2014) • Regulated or controlled imports of chicken meat • Ban on the importation of live birds • Individuals are only allowed to bring in up to 5 Kg of chicken meat • Restriction on the importation of poultry feed, only 30 per cent of feed should be imported after sourcing 70 per cent locally
Namibia	• Quantitative restrictions on imports of chicken meat • Only 600 tonnes of chicken is allowed to be imported per month • A 1900 tonnes is thus to be sourced from local industry per month • Import permits system in place • The Competition Authority will develop a price monitoring mechanism • Final IIP process and implementation design for the industry still to be finalised
SA	• The import tariff on whole birds has increased from the previous 27% to 82% (the maximum bound rate under the WTO rules); • The import tariff on carcasses has increased from 27% to 31%; • The import tariff on boneless cuts increased from 5% to 12%; • The import tariff on offal increased from 27% to 30%; • The import tariff on bone-in portions increased from a specific duty of 220c/kg (roughly 17%) to an ad valorem duty of 37%. • Poultry meat being imported from the EU can enter duty free.
Zambia	• Restriction on the importation of day old chicks, live birds and feed • Importation of poultry products is controlled • There is adequate stock for local production • Agricultural policies impact on prices of grains which are inputs to feed, such as a maize floor price

Despite other concerns, critics of brining argue that it is a cheap way of adding weight to a product that is sold by weight. In Namibia, the Bio-Safety Bill has not yet been enacted so there are various levels of brine in poultry products, up until recently; Namibia relied largely on imported poultry from South Africa which is brined at levels of about 30%. It is rather recommended that brining should be kept at minimum levels. Excessive brining can again pose a serious health risk to consumers due to the high salt contents in it.

Namibia's feed costs are higher accounting to about 60-70 percent, given that the inputs to feed production are imported. Poultry feed costs are largely driven by the cost of the two main inputs being soya and maize which are imported from South Africa.

The following cost build up table for each of the four countries was constructed to reflect the costs associated with the various levels of the value chain. Ideally this will illustrate at a very basic level the differences in costs across the countries and potential areas of competitive advantages. The figures were obtained by aggregating the various producers' and industry body figures and then converting them to dollars.

Cost build-up: US$, 2012

	Zambia	**SA**	**Botswana**	**Namibia**
Feed cost, kg	0.58	0.54	0.57	0.57
Conversion ratio	1.67	1.67	1.80	1.67
Size of bird	1.80	1.80	1.80	1.80
Feed cost per broiler	1.74	1.61	1.85	2.00
DoC	0.85	0.37	0.6	0.50
Other costs in broiler prod	0.25	0.24	0.53	0.3
*Live chicken (1.8 kg) cost	2.84	2.22	2.98	2.80
*Live chicken (1.8 kg) price	3.90	2.64	3.39	2.84
Live chicken cost per kg	1.58	1.23	1.66	1.53
Abattoir cost / processing per kg	0.30	0.29	0.34	0.36
Processed chicken, per kg, cost	1.88	1.52	2	1.89
Processed chicken, per kg, producer price	3.01	1.64	3.15	2.23
Brining levels	0%	30%	Less than 5%	30%
Producer price, per kg adjusted for brining	3.01	2.13	3.15	2.89
Fresh poultry producer price (portions)		2.88		
Processed chicken, per kg, retail price (frozen portions)	3.20	2.93		3.66

The competition concern is associated with the nature of the poultry industry as described as oligopolistic, with the large firms operating in a variety of countries in the regions, which is by nature are characterised by limited competition. In addition, the industry is also fairly transparent providing an ideal environment for tacit collusion.

In Namibia, the poultry industry is still at its early stages of development, thus there has not been any case dealt with by the Namibian Competition Commission, nor has it undertaken a study to uncover any anti-competitive arrangements. However, there have already, in the short life of NPI, been various consumer complaints about the quality and the price of its products.

Further research will be necessary to uncover if there is any anti-competitive arrangements in dealing with the market players along the value chain. The research question would need to focus on whether the IIP protects a monopolist at the consumers' expense. This dovetails with the evolving idea of empowering the Competition Authority to monitor both the production and retail prices of the protected industries to guard against any abuse of protection which could adversely affect both consumer welfare and the overall country's competitiveness.

Namibia does not have a Poultry association; it however has an association for importers which lobbies government against infant industry protection. The monopoly player sits on the committee that determines import restrictions. This raises competition concerns as the company has vested interest in limiting imports.

Recommendations

The assessment here suggests a number of implications for steps to improve regional integration and links to competition, including:

i. National Governments through SADC and COMESA should work towards standardising and harmonising poultry sector standards such as Sanitary and Phytosanitary (SPS) and brining, and promote trade in the region subject to full compliance to the set standards.

ii. National Governments should develop robust monitoring and testing systems at border entry points to effectively enforce compliance to the set standards.

iii. National Governments should consider relaxing in stages the protectionist policies that are currently being implemented. Some of the benefits that could be realised from relaxing protectionist policies include cheaper feed costs as well as greater price competition for end products which would benefit end consumers. However, there is need to assist local producers to become more efficient in order to allow them to compete more effectively with increased imports.

iv. Given the nature of the industry in terms of access to international franchises, entry is very difficult and therefore regional competition authorities should devise a

mechanism to coordinate their oversight in this market in order to address any competition concerns arising from concentrations of economic power in this sector.

v. National competition authorities should continue monitoring developments in this sector and cooperate in their effort to address various competition concerns.