The EU perspective: from lose-lose to win-win?

Presentation by the EU Delegation to South Africa at a press briefing organised by SAPA/FairPlay

Johannesburg, 28 November 2017



THE RELEVANT CONTEXT:

EU-SA TRADE RELATIONSHIP -

AN OVERVIEW



- South Africa is among the few strategic partners of the EU worldwide in 2017 we mark 10 years of our strategic partnership. SA is an important regional and global partner
- South Africa is the **EU's largest trading partner** in Africa. The EU is a major contributor of FDI for SA
- South Africa's trade relations and development co-operation with the EU are governed by the Trade, Development and Cooperation Agreement (TDCA) and the EU-SADC Economic Partnership Agreement (EPA)
- **EU-SADC EPA** entered into force on 10 October 2016 and new agriculture market access kicked in on 1 November 2016 (GI notifications)
- The trade provisions of TDCA are replaced by EU-SADC EPA



EU-SADC EPA – SOUTH AFRICA PERSPECTIVE

- Improved market access agri-food sector in particular
- Regional integration
- Eliminate all export subsidies
- New rules of origin
- More effective (agriculture) safeguards
- Bilateral protocol on GIs and trade in wine and spirits
- Policy aspects: SPS, TBT and transformation
- Special provisions on cooperation on SPS



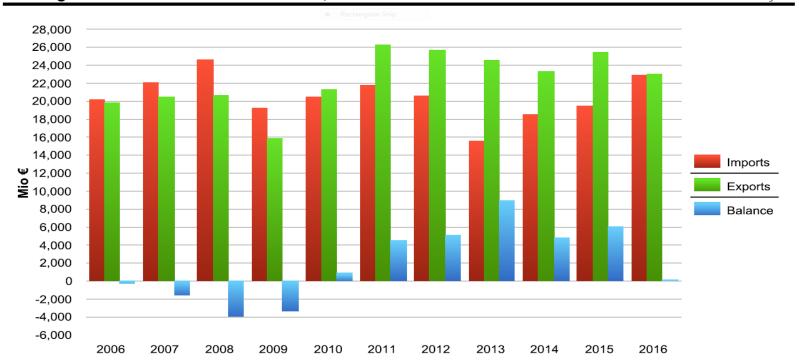
EU-SA TRADE - 10 YEAR EVOLUTION

European Directorate-General Commission Or Trade

European Union, Trade with South Africa

Total goods: EU Trade flows and balance, annual data 2006 - 2016

Source Eurostat Comext - Statistical regime 4

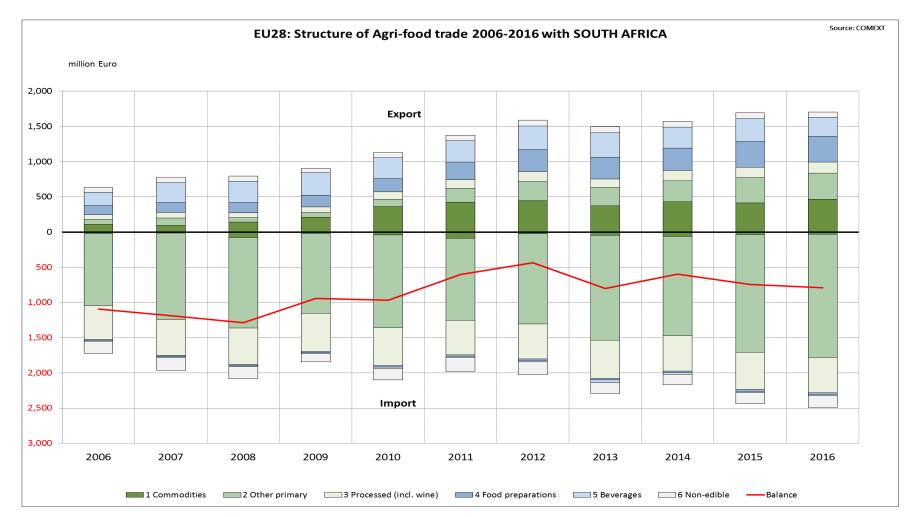




EU-SA TRADE RELATIONSHIP -2016/2017

- Overall trade balance almost neutral a positive development, given SA's trade deficit with the EU in the previous 6 years
- SA is ranking as 12th import partner and 16th export partner for the EU in 2017
- Imports into the EU from SA have grown by 17.8% between 2015-2016
- Trade balance in agriculture a significant trade surplus for SA: the EU imported from SA at 2.494 Billion EUR (10.9% of EU imports) and exported to SA at 1.704 billion EUR (7.4% of EU exports) in 2016
- Trade creates jobs and growth





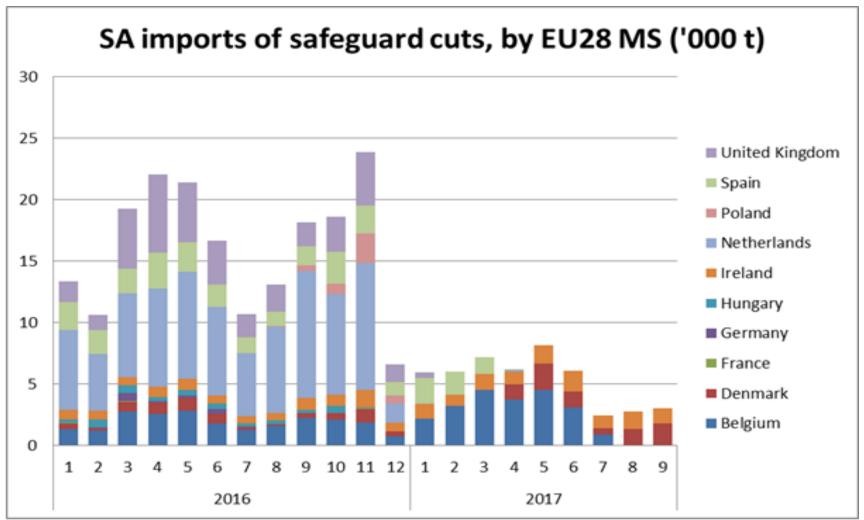


EU POULTRY EXPORTS - OVERALL

EU-28 Exports (Top destinations in 2016/17)

POULTRY MEAT (Tonnes carcase weight)				
Period:	Jan-Sep			
	2016	2017	% Chg	
EU-28	1 192 988	1 217 859	+ 2.1 %	
Ukraine	79 540	110 792	+ 39.3 %	
Hong Kong	90 482	108 524	+ 19.9 %	
Ghana	57 225	99 020	+ 73.0 %	
Benin	89 997	88 132	- 2.1 %	
Philippines	97 619	86 758	- 11.1 %	
Saudi Arabia	89 352	73 163	- 18.1 %	
South Africa	206 620	62 984	- 69.5 %	
Other	482 152	588 487	+ 22.1 %	



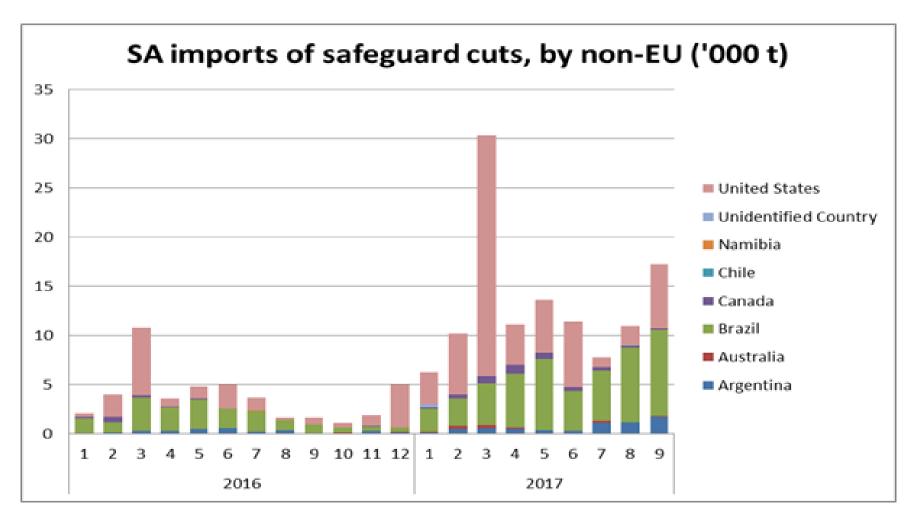




EU POULTRY IMPORTS INTO SA – SUM UP

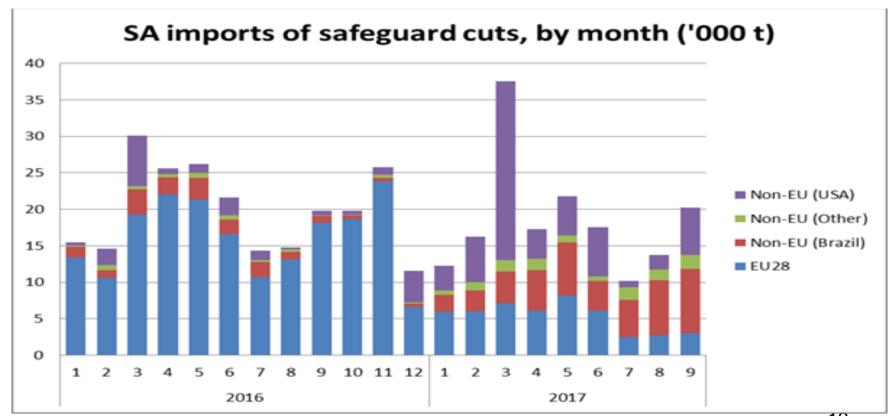
- Since December 2016 **sharp decrease** in EU imports
- Overall, EU imports' share in domestic SA poultry consumption has not exceeded 10% in 2016
- According to Country Bird, imports account for 26% of SA poultry consumption – less than 1/3 of market
- This is against a background of growing poultry consumption and demand globally (Econex)
- Consumption of white meat expected to expand by 34%
 by 2023 need to supplement domestic supply by imports
- Domestic supply not enough EU imports replaced by USA/BZ imports







Import substitution by USA and Brazil, why not by local produce?





SA POULTRY INDUSTRY CHALLENGES

- Challenges similar to the ones faced by EU poultry industry:
 high and volatile feed costs, changing demand patterns, need to
 adapt the value chains to fit new market reality and to optimise
 efficiency of the whole value chain
- Challenges different from those faced by the EU industry: drought, costs of electricity, fluctuating Rand, oligopolistic character of the national market with vertical integration with an inherent interest to maintain profit margins and resist change
- The whole bird versus cuts business model all poultry producers in the EU adapt to demand and try to sell to markets where they can maximise price for the same product – normal competitive behaviour. Lack of cuts differentiation in SA



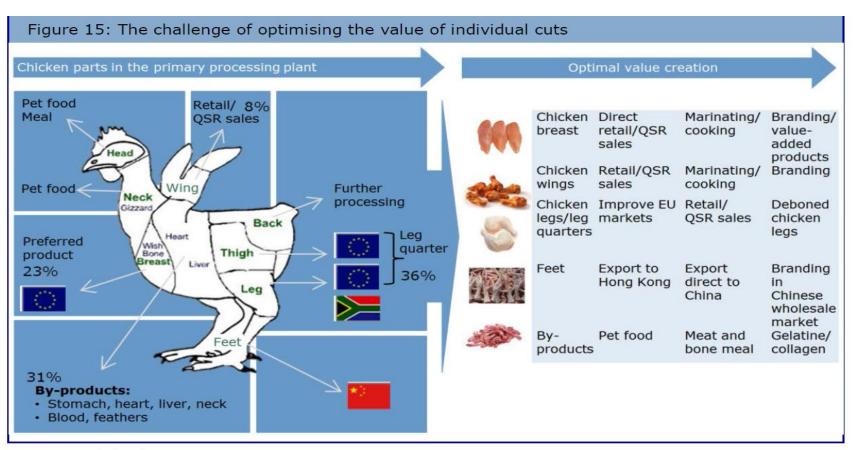
Conclusions of SA Bureau for Food and Agricultural Policy and the National Agricultural Marketing Council poultry study

"The inability to compete with these imported products is related to the value attached to different products by consumers in different parts of the world. Premiums obtained for chicken breasts in the EU allow producers to remain profitable even when a much lower price is obtained in the export market for bone-in portions. In South Africa however, the market is largely based on IQF pieces, which compete directly with imported bone-in portions, but the market for premium cuts is limited and producers therefore require a higher price for IQF pieces to remain profitable. Export possibilities for higher value products or whole birds could be considered, similar to the export of high value beef products into key Middle Eastern markets."

Evaluating the competitiveness of the South African broiler value chain, BFAP/NAMC for IDC, 2017



OPTIMISING VALUE CHAINS AND BUSINESS MODELS



Source: Rabobank, 2015

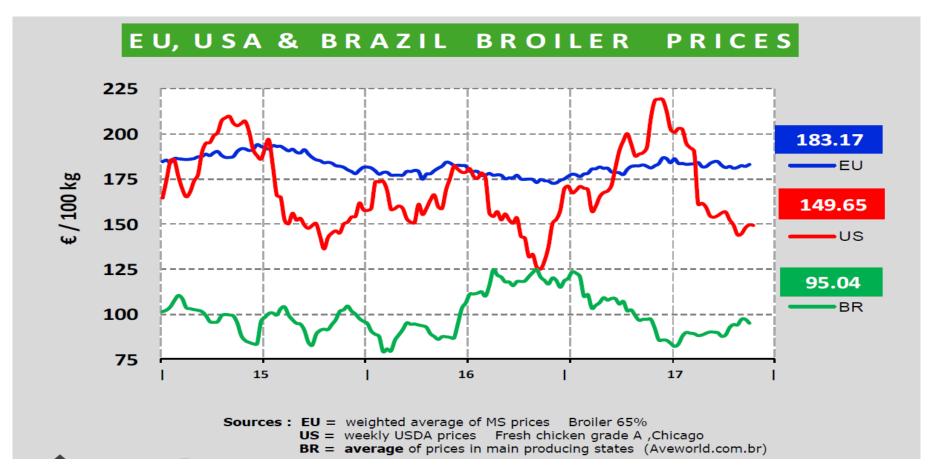


SA POULTRY INDUSTRY CHALLENGES cont.

- 2016 hike in feed prices due to drought;
- Price competition on average, EU prices are consistently above those of the other big importers – the US and Brazil;
- Brining in the EU, if a poultry product is brined, it cannot be sold or exported as fresh/frozen meat but under a label "poultry preparation". SA industry has invested heavily in brining equipment, something they need to recoup;
- Fair trade contrary to allegations, EU does not subsidize either production or exports
- Clearly, SA poultry industry faces multiple challenges



PRICE COMPETITION





TRADE DEFENCE AND SPS MEASURES

- DTI has decided on a number of trade defence measures
- Anti-dumping duties on companies from DE, NL and UK
- Provisional safeguard duty of 13.9% under EPA final decision pending
- ITAC investigation ongoing EU submissions
- SPS measures country-wide bans after the outbreak of HPAI in many EU Member States since last November
- Currently, only 2 out of 10 EU countries can still import
- Ongoing regionalisation discussions with DAFF



EFFECT OF SAFEGUARDS ON CONSUMERS:

 "Under a safeguard duty, poor South African consumers who have a demand for less expensive sources of protein, will have to pay more for their protein, in effect subsidising inefficient poultry producers"

> Econex study commissioned by Shoprite, January 2017: http://econex.co.za/publication/research-note-43/

- Poultry prices are already slightly on the rise compared to other elements of the basic food basket – NAMC June 2017;
- Current avian influenza outbreak in SA might lead to shortages and further increase poultry prices



<u>NO TRASH, NO DUMPING, NO BRINING, NO SUBSIDIES</u>

- EU poultry imported into SA of the same high quality as that sold in the EU. EU food law and regulations impose high standards
- Dietary preferences are important but change markets follow
- EU prices are consistently above those of other big importers – the US and Brazil
- Brining in the EU if a poultry product is brined, it cannot be sold or exported as fresh/frozen meat but under a label "poultry preparation"
- EU does not subsidize either production or exports



FROM LOSE-LOSE to WIN-WIN - HOW?

- DAFF letter requesting market access for SA poultry received on
 11 April 2017 questionnaires sent to DAFF
- DAFF indicate that SA has already started preparing on basis of the ratite audit recommendations of June 2016
- No market barriers. Duty-free/quota-free under EPA
- Food safety/animal health (SPS) rules apply
- Residue and public health audits in February 2017 problems with SA laboratories and official controls system – serious state veterinary understaffing - raised back in 2007/2008 audits
- Need to manage exposure to prohibited medicines and growth stimulants – future VPN on a split system. National priority to address – for all commodities
- Importance of B2B/industry **SAPA and AVEC** cooperation



POULTRY IMPORTS INTO THE EU

EU-28 Imports (Main partners in 2016/17) POULTRY Meat (Tonnes carcase weight)				
	2016	2017	% Chg	
EU-28	687 041	605 701	- 11.8%	
Brazil	384 833	309 269	- 19.6 %	
Thailand	221 193	196 574	- 11.1 %	
Ukraine	35 037	56 535	+ 61.4 %	
Chile	24 340	17 097	- 29.8 %	
China	12 379	13 858	+ 11.9 %	
Argentina	4 697	4 800	+ 2.2 %	
South Africa	58	2 144	+++	
Other	4 504	5 426	+ 20.5 %	



FROM LOSE-LOSE to WIN-WIN - HOW?

- The EU industry has made **offers to help open EU markets** for South African exports
- Meeting with the Poultry Task Team in May 2017 on a possible export strategy for SA chicken – willing buyer - how about a willing seller?
- This is a "win-win" solution supported by market demand and supply logic - breast meat attracts a higher price in the EU
- Job creation and solution to the crisis can be achieved by growing the domestic market via export and market access and not by resorting to protectionist measures that would not benefit the consumers.



CONCLUSIONS

- The EU has been and remains a reliable, trustworthy trading partner for SA
- The trade partnership has been mutually beneficial and is a relationship among equals - we engage in good faith
- The SA poultry industry challenges were obviated by the temporary raise in imports last year – but they are of a structural character. We have welcomed the SA government Poultry Task Team and its comprehensive approach
- The EU-SA strategic partnership and the EU-SADC EPA are too important to be allowed to fail – mutually beneficial trade contributes to both SA and EU job creation and economic growth



Thank you for your attention

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