

Briefing Note 2: Impact of the avian flu outbreak

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The South African poultry industry has often suffered from bird flu, but from June this year a new variant specific to South Africa has had a devastating impact. Over six million birds have been culled in the egg industry, or between 20% and 30% of layers. Some 3.5 million broilers were also culled. Commercial farmers have reported losses so far in excess of R5.5 billion.

In late November, the Department of Agriculture announced that the epidemic was under control. It is expected, however, that it will take 17 months for the national flock to recover fully. In the meantime, the impact on the egg supply is particularly large. Layers normally live for a year before slaughter, compared to less than six months for broilers.

Until October, the mass culling did not lead to jumps in consumer prices for eggs or poultry. Instead, retail shortages emerged, especially for eggs. In October, however, the retail egg price climbed some 13%, and frozen chicken prices by 2%. For comparison, non-food prices rose just 0.9%. Before that, from June to September egg prices merely kept pace with other food prices, while frozen chicken actually fell behind.

From August, egg imports grew exponentially. From February to July, South Africa imported virtually no fresh eggs; in August, it imported 0.2 tonnes; 5.7 tonnes in September; and some 530 tonnes in October. The value of imports rose at a similar rate, from insignificant in August to R1.6 million in September and R45 million in October. Data for November are not yet available.

Higher egg and chicken prices have a decidedly regressive impact. According to the 2014/15 Living Conditions Survey, the latest data available, eggs accounted for 0.7% of total expenditure by the poorest 50% of households, but only 0.1% for the richest decile. The poorest 50% of households spent around 4% of their total budgets on poultry, compared to 0.5% for the richest. Eggs and poultry together far outweighed other sources of protein for working-class families, with beef and milk each accounting for only 1% of spending.

Poultry is a significant part of agro-industry in South Africa. Broiler sales came to R54 billion in 2021/2, and eggs to R11.5 billion. Broilers accounted for 13% of agricultural revenues in 2021/22, and eggs for 3%. Neither was a major exporter, although they had some regional sales. The industry as a whole employs around 55 000 people, or about 10% of all farmworkers.

The poultry industry is highly concentrated. A handful of agro-industrial conglomerates dominate broiler production. They produce broilers themselves; contract with major farmers for more birds; and produce key inputs, including chicks and feed. Two companies account for half of broiler production, and five companies for two thirds. In 2021/2, the top two producers operated over 400 sites, including both farms and processing facilities; employed more than 30 000 people; and made around R30 billion from poultry sales. Similar figures are not available for egg production, but three producers held a dominant position.

Culling causes the main flu-linked economic losses for farmers. They have to find finance to restock, and often lose markets and contracts. Namibia, Botswana and Mozambique have

banned poultry products from South Africa. Most insurance policies do not cover bird flu because of the high costs and risks. The Department of Agriculture says it cannot afford to compensate farmers fully for culled birds, although it is investigating a scheme worth around half the estimated cost. It has, however, said it will start a vaccination programme. The effectiveness of vaccines is subject to debate. It may affect future exports, since some authorities argue the vaccines may merely mask the disease.

Most authorities agree that a critical step in preventing future outbreaks is a stronger phytosanitary system. That has been a key demand of the industry for some time. It is an important strategy in both the Agriculture and Agro-Processing Master Plan and the Poultry Master Plan. Given the current highly constrained fiscal policy, however, a qualitative improvement in the near future seems unlikely.