



## **SAFCEI COMMENTS SUBMISSION TO THE COMPETITION COMMISSION: EGG AND POULTRY INDUSTRY**

SAFCEI views the need for transparency, traceability and honesty in the poultry value chain as imperative. Yet, after engaging for over three years with some of the actors in this value chain about sustainability and layer welfare concerns, we are concerned about the lack of these values. The lack of transparency within the poultry product value chain is problematic. Information about how a food product was grown and raised is important for consumers, along with how the continuous escalating retailer prices can be justified.

The World Food Programme (WFP) defines people as being food secure when "they have availability and adequate access at all times to sufficient, safe, nutritious food to maintain a healthy and active life". South African consumers need stability, consistency and predictability of access from the food industry.

The increasing shareholder dividends of the various corporations within this value chain in contrast to the suffering from increasing malnutrition and hidden hunger in South Africa is concerning to us. The food industry plays an important role in perpetuating hunger through its influence on the accessibility and the pricing of food.

We have paid particular attention to the role of the big retailers and their shared responsibility in the poultry value chain and highlighted our concerns below in our submission.

SAFCEI would like to thank the Competition Commission for the opportunity to make this submission. We avail ourselves to further engagement on our comments for inclusion.

### **About SAFCEI**

SAFCEI (Southern African Faith Communities Environment Institute) is a regional multi-faith organization, founded in 2005 that is committed to supporting faith leaders and their communities in Southern Africa to increase awareness, understanding and action on eco-justice, sustainable living and climate change.

We emphasize the spiritual and moral imperative to care for the Earth and the community of all life. Earth Keepers, as we call them, come from many faiths and none, including Bahaí, Buddhist, Christian, Hindu, Muslim, African Traditional, Jewish and Quaker, and those who recognise the spiritual connection with the living earth. SAFCEI has assumed the role of ethical watchdog, utilising its expert knowledge holders and networks for advocacy, campaigning and education, and when necessary resorting to legal action to challenge non-participatory decision-making and unethical policy decisions. SAFCEI is also experienced in dealing with potential conflict, as autocratic governments do not readily tolerate dissent. At the same time, faith leaders occupy a space in society that can reduce the potential for more extreme instances of government interference.

Competitive markets are important for a sustainable, resilient and inclusive food system yet they require strong and effective institutions that can enforce rules and ensure a level playing field for all participants.

The African Climate Foundation

## SAFCEI comments submission in response to selected Competition Commission Points:

1.4. However, there are also market features of the poultry industry that are likely to impede, restrict or distort competition. Impediments to competition is itself a concern, as it prevents the benefits of dynamic competition and greater levels of participation, but even more so if it is contributing to the challenges with international competitiveness and higher consumer prices. These features include structural indicators, the outcomes in the industry and certain conduct along the value chain. At the very least, addressing these market features through a market inquiry can only benefit industry competitiveness and consumers through the improvement in competition.

1.5. The South African poultry industry is dominated by few, large, vertically integrated companies. The Commission found in the 2021 Concentration Study that each value chain activity shows elevated levels of concentration. This applies from the production of important inputs to the end products that are sold through retailers or restaurants. Alongside concentration, there is vertical integration which makes independent producers customers of the larger players in terms of inputs such as feed and day-old chicks. Whilst contract farming has promoted entry, these are not independent competitors but rather form part of the integrated operations of the dominant companies, dependent on them for all aspects of their existence. The market structure poses material barriers to independent entry at scale and may enable conduct that raises those barriers further.

1.7. The PMI will be initiated in terms of section 43B(1)(a) of the Competition Act 89 of 1998 (as amended) given that the Commission has reason to believe that there exist market features within several markets along the poultry market which may impede, distort or restrict competition, or undermine the purposes of the Act, and which have material implications for the poultry industry of South Africa, and ultimately consumers. These reasons are set out in more detail below along with the draft Scope of the Inquiry.

### **SAFCEI Comment: Formal retailer procurement systems favour dominant egg producers.**

The estimated number of layer breeding hens in South Africa is between 300 000 and 350 000. (SAPA 2021) The national laying flock decreased by 7.1% in 2021, from 28.89 to 26.85 million hens. This was due to the culling of an estimated 2.18 million laying hens during the HPAI outbreak. The large growth in bird numbers in 2019 was due to changes in the forecasting model 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.

In 2021 egg numbers decreased in line with hen numbers. In 2020 the overwhelming surge in demand for eggs during the initial stages of the COVID-19 lockdown (from March 2020) helped to alleviate the oversupply. In 2021 the average number of cases

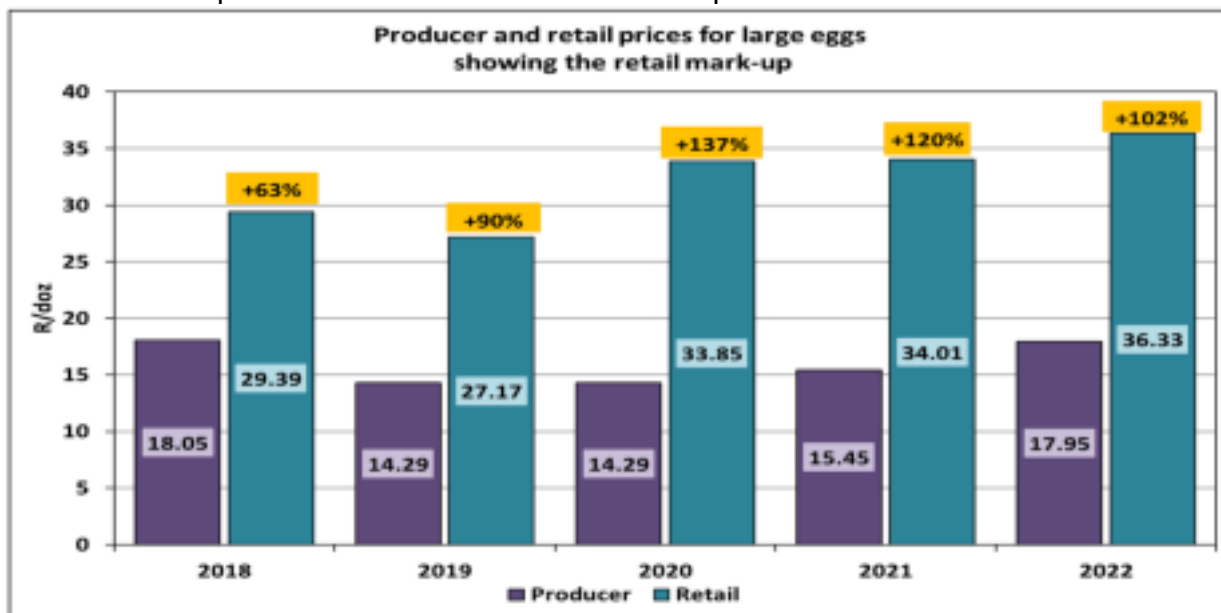
produced per week was 451 800; a decrease of 35 100 cases (-7.2%) per week. Total egg production amounted to 23.56 million cases, or 706.7 million dozen eggs; a decrease of 7.5% over 2020 volumes. South Africa’s egg producers continue to face a number of challenges such as high input costs (particularly animal feed) while the practice of load shedding by Eskom severely hampered production efficiencies. Water scarcity and poor water sanitation also accentuated the hardships egg producers faced. In Q1: 2022, the total production of eggs totalled 229,7 million dozen, a 7.8% increase in production relative to 213,1 million dozen produced in Q1: 2021.

The term ‘small-scale poultry farmer’ covers micro-, small- and medium-sized broiler and egg production units. The South African Poultry Association classifies a small-scale broiler unit as one that delivers fewer than 4 000 birds per cycle. In contrast, small-scale egg production, according to South African agriculturalist Dr Gavin MacGregor, can start with nine point-of-lay pullets. Many semi-intensive free-range poultry operations are also classified as small-scale.

According to SAPA, the domestic market consists of five main retailers (Pick ‘n Pay, Shoprite-Checkers, Spar, Woolworths and MassMart) and SMME’s in the retail sector. These retailers buy the largest share of domestic production. In terms of production, the commercial egg industry is stable by nature, meaning that, although demand may decrease or increase, supply remains relatively stable because of the lengthy production cycle. A small excess supply leads to a rapid price decrease and a small supply shortfall will be reflected in a rapid price increase. To manage this imbalance between supply and demand, producers determine the price of their commercial eggs weekly, on a Monday, by considering the number of eggs sold in retail stores during the previous week.

(SOUTH AFRICAN POULTRY ASSOCIATION 2021 INDUSTRY PROFILE, found at <https://www.sapoultry.co.za/wp-content/uploads/2023/01/2021-Industry-Profile.pdf>)

**SAFCEI proposes that** the size and integrated operations of these large commercial egg producers helps maintain their dominance in the main retailer market. Economies of scale help them with amenability to retailer farm-gate prices that small producers cannot accept as their businesses would collapse.



**2017:  
60% retail  
mark-up**

**11.5%  
producer  
price  
increase**



Visual representation of the notable concern of the considerable gap between what producers and retailers receive for a dozen eggs. The retail mark-up on producer prices soared from 62.8% in 2018 to 120% in 2021. The substantial 18.8% increase in feed prices throughout the year put immense pressure on profit margins. Farm gate egg prices, in contrast, only increased by 8.1% despite the escalating feed costs.  
 (Poultry Industry Profile for the South African Poultry Association. Egg industry in South Africa Overview – [Source SA Poultry](https://farmingouthafrica.co.za/chicken-farming-stats-and-overview-south-africa/#Egg_industry_in_South_Africa), found at [https://farmingouthafrica.co.za/chicken-farming-stats-and-overview-south-africa/#Egg\\_industry\\_in\\_South\\_Africa](https://farmingouthafrica.co.za/chicken-farming-stats-and-overview-south-africa/#Egg_industry_in_South_Africa))

This has created an ever-narrowing profit margin for producers who carry all the risks of production. Small-scale farmers need fair pricing due to lack of volume. Producers are price takers and not price makers. This is abundantly clear in the profit margins of the retailers vs the farm-gate prices as shown in SAPA presentations: SAPA, Viability of Cage-Free – the Case of the South African Egg Layer System. Presented by: Dr Abongile Balarane 2023/06/07: [https://www.sapoultry.co.za/wp-content/uploads/2023/06/7-Dr-Abongile-Balarane-SAPA\\_presentation-2023.pdf](https://www.sapoultry.co.za/wp-content/uploads/2023/06/7-Dr-Abongile-Balarane-SAPA_presentation-2023.pdf)

For example, Quantum sold 1.2 billion eggs on the African continent during 2020, many under its own Nulaid brand.  
 (<https://www.businessinsider.co.za/the-lockdown-baking-frenzy-saved-egg-profits-2020-12>)

Few small-scale egg producers can accept the retailer price offered to them and remain profitable. Ultimately this influences uncompetitive prices in the market and reduces the number of suppliers in the main retailer market space. It also reduces the ability of other suppliers to set prices and increases the barrier to entry, particularly for a variety of products such as cage free and free range.

During September 2020, the average retail price for eggs, size large, was R31.15 per dozen and the average producer price was R14. According to Stats SA, the mark-up between producer and retailer was 116 %, compared to 91.4 % in September 2019. The retail price increased by 15.0 % on a year-on-year basis, while the producer price increased by 7.8 %.  
 (Key Market Signals in the Egg Industry 3Q 2020, found at <http://www.sapoultry.co.za/pdf-statistics/egg-industry-key-market-signals.pdf>)

The Farm-to-Retail-Price-Spread (FTRPS) favour large producers. Scale/volume of producers means they can absorb lower retail prices which they make up for in volume of sales - small scale farmers need fair pricing due to lack of volume. Producers are price takers and not price makers. This is abundantly clear in the

profit margins of the retailers vs the farm-gate prices as shown in SAPA presentations.

SAPA, Viability of Cage-Free – the Case of the South African Egg Layer System. Presented by: Dr Abongile Balarane 2023/06/07: <https://www.sapoultry.co.za/wp-content/uploads/2023/06/7-Dr-Abongile-Balarane-SAPA-presentation-2023.pdf>

**SAFCEI** is also concerned that not all egg suppliers are treated equally by the retailers' buyer agreements. We are concerned that retailers have greater profit margins on the small-scale, cage free and free range suppliers eggs than on the larger commercial caged eggs. This helps to price cage free and free range at a premium which does not necessarily translate to a premium farm-gate price for the producer. In some instances, we fear that the small-scale farmer actually receives a lower farm-gate price than the larger commercial farmers. This helps to reduce competition to the large players and also reduces affordability of small-scale suppliers offering for consumers.

Small-scale egg producers currently face limited opportunities to gain access to main retailer market space and this limits their expansion opportunities. Since this is a historical problem it also becomes self perpetuating since lack of expansion means that some small-scale farmers often cannot consistently meet the volume requirements of the main retailers.

We acknowledge that the retailers are free to strategise, create profit and to form contracts as they wish, without altering the rules of competition but we are also aware of the power that retailers have to influence the poultry value chain. We would like to see fairer farm-gate prices to small-scale farmers and for the main grocery retailers (Pick 'n Pay, Shoprite-Checkers, Spar, Woolworths and Food Lovers Market) to provide greater volumes and choice of cage free and free range suppliers at affordable prices to consumers.

4.2.4. Evaluate the role of retailers, quick-service restaurants, and processed food companies in facilitating new entry and access to markets by independent producers, including SMEs and HDPs, along with the availability and pricing of cold chain storage and logistics, whether private or communal.

### **SAFCEI Comment: Who holds the power in the value chain?**

With a gross turnover of R11.44 billion at producer level, eggs retain their position as the fourth largest animal product sector in agriculture in South Africa, after poultry meat (R50.96 billion), beef (R43.01 billion) and milk (R21.17 billion).

The total value at retail level of eggs was estimated to be R26.27 billion for 2022.

SAPA, Viability of Cage-Free – the Case of the South African Egg Layer System. Presented by: Dr Abongile Balarane 2023/06/07. <https://www.sapoultry.co.za/wp-content/uploads/2023/06/7-Dr-Abongile-Balarane-SAPA-presentation-2023.pdf>

"We need to look at who holds the power in the food chain. We have powerful retailers, the dominant power in the food value chain lies with the retailers and the buyers".

Dr. Tracy Ledger, Senior Research at the Public Affairs Research Institute.

There is a powerful role that supermarket chains can play through supplier development programmes (SDPs) to assist in the building of supplier capabilities to meet supermarket requirements and in easing the terms of access to shelf space (das

Nair, Chisoro and Ziba 2018).

The role of the retail level of the value chain for the development of food markets cannot be underestimated. Large retail chains with significant market power influence the participation and development of suppliers.

[Ref: Bosiu, Teboho et al. "The Global Food Value Chain and Competition Law and Policy in BRICS Countries: Insights from Selected Value Chains in South Africa." PSN: Anti-Trust (Topic) (2017): n. pag. Also: Competition Commission Report, THE GROCERY RETAIL MARKET INQUIRY FINAL REPORT NON-CONFIDENTIAL, 25 NOVEMBER 2019]

Supermarkets, in effect, govern these value chains and dictate the terms of production and participation through these critical factors and through other supply requirements. The research highlighted that supermarket chains were important in driving investments in the upgrading of capabilities of suppliers to meet these requirements by opening up larger regional markets for them, facilitating their climb up a regional or global value chain 'ladder'.

(das Nair, R., S. Chisoro and F. Ziba. (2018). Supermarkets' procurement strategies and implications for local suppliers in South Africa, Botswana, Zambia and Zimbabwe. *Development Southern Africa*, 35(3): 334–350.)

Studies revealed the obstacles to suppliers accessing supermarket shelf space and the threat of excluding suppliers from participating in value chains through the exertion of buyer power by supermarket chains. In Southern Africa, the large supermarket chains in many cases are able to control pricing in their trading terms by controlling elements such as listing fees, rebates, advertising allowances, promotion fees, payment period terms, settlement discounts and new store openings fees, amongst others. These elements were shown to collectively account for around 10–15 percent of the price of the product sold to supermarkets, placing considerable strain on supplier margins by reducing the prices paid to suppliers (das Nair 2017; Bosiu et al. 2017). These fees place additional pressure on suppliers and can be a means by which supermarkets extract a greater share of the surplus in a given value chain. This is especially the case if the fees are not justified by objective and reasonable estimates of the underlying cost in doing business with suppliers. The wide range of fees noted above also reflects the non-standardised approach to suppliers. The squeeze in supplier margins puts pressure particularly on small and medium-sized suppliers in the region who do not have countervailing power against the supermarket chains.

UNU-WIDER. Reena das Nair and Namhla Landani. The role of supermarket chains in developing food, other fast-moving consumer goods and consumer goods suppliers in regional markets. August 2019. <https://doi.org/10.35188/UNU-WIDER/2019/693-7>

Trends such as the growth of retailers 'private label' brands ('no name brand'), reflect their steady effort to limit supplier's market power.

David Neves Research Associate: PLAAS (Institute for Poverty, Land and Agrarian Studies), UWC. GTAC/CBPEP/EU project on employment-intensive rural land reform in South Africa: policies, programmes and capacities. Agricultural value chains in South Africa and the implications for employment-intensive land reform.

A lack of competition in concentrated markets can lead to abuses of buyer power by supermarkets towards suppliers and can hinder their growth and development (Dobson, Waterson and Chu, 1998; Clarke et al., 2002; OECD, 2015; Dobson, 2015).

In South Africa, small-scale farming offers not only the promise of bolstering rural employment and livelihoods, but also satisfying pressing social and equity objectives. (Aliber and Hall, 2012). Government continues to put pressure on the poultry industry to transform in a meaningful way and at a faster pace, so that black farmers can play a significant role within the value chain.



**SAFCEI takes up a position** that the dominant grocery retailers (Pick 'n Pay, Shoprite-Checkers, Spar, Woolworths and Food Lovers) have a responsibility to play a role in supporting the growth and sustainability of small-scale egg farmers. With this amount of power to influence the poultry value chain has the retailer role been sufficiently scrutinised? Are retailers supportive or detrimental to the growth of small-scale and sustainable farmers in South Africa?

To what extent have they made any meaningful commitment towards this role and what outcomes have there been over the past decade to show the impact of this meaningful commitment? Has the role of the grocery retailers within the Poultry Master Plan been clearly defined to include this responsibility?

Have their actions and buyer policies demonstrated meaningful assistance to small-scale and emerging farmers for access to retailer value chains or have they shown to be detrimental to access to market? Is there a lack of alignment and unity between poultry sector, grocery retailers and government on the goal for inclusion of small-scale and sustainable egg producers?

There is a powerful role that supermarket chains can play through supplier development programmes (SDPs) to assist in the building of supplier capabilities to meet supermarket requirements and in easing the terms of access to shelf space (das Nair, Chisoro and Ziba 2018). Scoping of various SDPs of the major supermarket chains found that, while such initiatives have yielded some positive results, these have been limited. Most of the earlier initiatives of the supermarket chains from around the mid-2000s involved small-scale farmers and were only for a short duration. The initiatives were also approached more as black economic empowerment compliance (a key requirement in South Africa) or corporate social responsibility (CSR) obligations rather than mutually beneficial commercial ventures with a longer term view to developing and growing suppliers in the region.

...there has been a shift in more recent approaches by supermarket chains with regards to supplier development. The chains interviewed appear to recognise that intimate involvement with suppliers, deep expertise sharing and investments are critical to make suppliers succeed in the long run. Retailers are starting to approach supplier development more as part of mutually-beneficial, commercially oriented investments than in the past. There is still considerable scope to replicate, broaden and deepen these programmes, including extending the initiatives to the region. (Reena das Nair and Namhla Landani. The role of supermarket chains in developing food, other fast-moving consumer goods and consumer goods suppliers in regional markets. SA-TIED Working Paper #81 | August 2019, found at [https://sa-tied.wider.unu.edu/sites/default/files/pdf/SATIED\\_WP81\\_dasNair\\_Landani\\_August\\_2019.pdf](https://sa-tied.wider.unu.edu/sites/default/files/pdf/SATIED_WP81_dasNair_Landani_August_2019.pdf) )

[Further Comments by SAFCEI for consideration of inquiry inclusion by the Competition Commission:](#)

**Small-scale egg producers are at a disadvantage when it comes to restocking** of point of lays (mature hens capable of laying eggs) after a crisis such as avian influenza outbreaks. Some small-scale farmers are known to lose access to a retailer market that they supply as they cannot access point of lays to restock and production decreases. This delay can extend over multiple cycles due to the large commercial producers getting preference to point of lays or other large egg producers that own their own point of lay breeding facilities.

SAFCEI questions the commitment from all role players within the poultry egg value chain to the sustainability of small-scale farmers if there are no agreements of quotas or plans

to address the lack of access to point of lays by small-scale farmers which also limits expansion of small-scale farmers and farming.

## **Access to affordable eggs - what role do the big grocery retailers play in creating value chains that offer affordable nutrition?**

### **- Farmers and Consumers are the Losers**

South Africa (SA) is burdened by communicable and non-communicable diseases, undernutrition and obesity. Nationally, stunting persists.

(Said-Mohamed R, Micklesfield LK, Pettifor JM, Norris SA. Has the prevalence of stunting in South African children changed in 40 years? A systematic review. BMC Public Health. 2015 Jun 5;15:534. doi: 10.1186/s12889-015-1844-9. PMID: 26044500; PMCID: PMC4456716. Found at <https://pubmed.ncbi.nlm.nih.gov/26044500/>)

The egg is regarded as a low-cost, entirely healthy food and a nutritional powerhouse. Both egg white and yolk are high in protein. It makes up about 12.6% of an egg's edible component. Eggs also include vitamins A, B, E, and K. Eggs are also high in selenium, an antioxidant crucial for thyroid function, our immune system, and mental health, and vitamin D, B6, B12, zinc, and iron.

Wang J, Yue H, Wu S, Zhang H, Qi G. Nutritional modulation of health, egg quality and environmental pollution of the layers. Anim Nutr. 2017; 3: 91-96. <https://doi.org/10.1016/j.aninu.2017.03.001>

Eggs remain one of the most affordable, versatile and nutritious animal protein sources; however, the variable costs to produce an egg, including electricity, fuels and feed, have increased from 70% to 80% in a span of a few months, SAPA reported.

(<https://www.engineeringnews.co.za/article/egg-production-is-undoubtedly-taking-a-knock-this-year-sapa-confirms-2023-04-24>) Yet the retailer shelf price shows a different picture to eggs remaining "affordable".

Affordable for whom?

Since the regulations came into effect, consumers have become vigilant. We are also seeing changes in consumer behaviour, consumers don't want to shop around because they don't want to expose themselves to risks.

Consumer behaviour under scarcity - consumers will still buy at a high price based on fear of no stock elsewhere. A retailer may see increases in prices but it is the increases in their margins that is NB. The inflation through the value chain is huge.

2020 tweet - #ExcessivePricingSA by @CCRED\_UJ (<https://www.competition.org.za/>) CENTRE FOR COMPETITION, REGULATION AND ECONOMIC DEVELOPMENT

The empirical evidence tells us that the gap between the farm-gate price and retailer price of food has widened extensively over the past 25 years. What we see is that farmers have a smaller and smaller share of the retail price of food. The terms of trade for farmers have definitely declined, a lot of farmers, especially small-scale farmers going out of business but at the same time we see that retailers are making a good profit out of the food sector. We see that consumers are also losers in the food system. 80% of consumers cannot afford to buy a nutritionally balanced basket of food. Who controls what? The political economy of our food system.

31 JULY 2020. Dr. Tracy Ledger, Senior Research at the Public Affairs Research Institute.

<https://capetown.foodialogues.in-fo/talks/who-controls-what-the-political-economy-of-our-food-system/?ah=5DyZdRym#>

This points to a need for an investigation into retailer procurement and pricing behaviour in the egg sector.

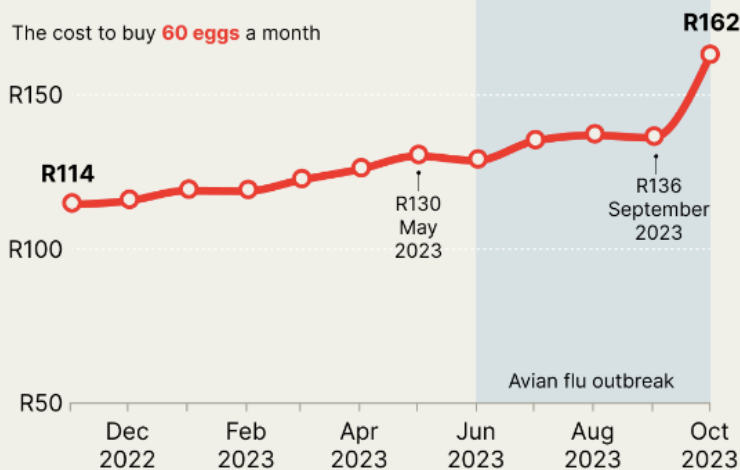


## Were retailers taking advantage of a crisis to increase profit margins for their shareholders while placing South African consumers at a disadvantage?

### Eggspensive

Price of eggs rockets on back of avian flu outbreak

The cost to buy 60 eggs a month



Source: Pietermaritzburg Economic Justice and Dignity Group Household Affordability Index

theoutlier.co.za

As avian flu swept through South Africa's poultry sector in 2023, retailers felt the effect of restricted supplies of eggs and chickens and passed on the price increases to consumers. Egg prices soared due to the avian flu outbreak.

Some small-scale farmers that were unaffected by avian flu and had egg supply were still not provided an opportunity to gain access to grocery retail shelves. Instead retailers limited the amount of eggs made available to consumers or sought to import eggs. These actions provide further insight that the small-scale

farmers are not sufficiently considered as suppliers by the grocery retailers. There is also the concern that prices may be more beneficial to import eggs from commercial producers vs local small-scale suppliers which creates another player within the value chain to further exclude small-scale farmers' access to local retail market.

Grocery retailers Woolworths and Pick n Pay limited the amount of eggs shoppers could buy due to limited stock availability. While SPAR Group were in discussions with several southern African countries to potentially import eggs.

<https://www.reuters.com/business/retail-consumer/safrican-retailer-spar-exploring-egg-imports-bird-flu-hits-supplies-2023-10-05/>

According to NAMC, egg prices in 2023 showed larger increases - 5% for half a dozen and 11% for 18, amid the Avian Influenza (AI) outbreak compared to chicken meat prices.

NAMC, FOOD PRICE MONITOR, November 2023. Found at <https://www.namc.co.za/wp-content/uploads/2023/12/NAMC-Food-Price-Monitor-November-2023.pdf>

TimesLIVE checked on actual online store prices in the week of 20 October 2023 — with trays of 18 eggs going for R49.99 at Shoprite to up to R89.99 at other shops. Since the prices were drawn from online shopping portals, the in-store prices may have differed. While egg prices go according to the size and grade of eggs, they are also affected by whether the eggs are standard, free range, organic, omega-3 or pasteurised and the

farming method involved. Many chains also carry their own brands.

- Pick n Pay's prices have the cost of six eggs ranging from R24.99 to R29.99; 18 eggs from R64.99 to R89.99; 30 eggs from R99.99 to R104.99 and 60 for R179.99.
- At Checkers, the eggs go for R19.99 to R24.99 for six; R59.99 to R63.99 for 18; R99.99 to R109.99 for 30 and R159.99 to R174.99 for 48.
- Shoprite had only a single offering, a tray of 18 for R49.99.
- Woolworths' online offerings were only boxes of six ranging in price from R24.99 to R47.99 and they also had a one litre bottle of free range egg whites for R139.99.
- While Spar has a huge variety of eggs listed on its online shop with a wide range in prices, almost all were marked "out of stock". Their prices were between R16.69 and R31.99 for six; R74.99 to R89.99 for 18; R96.99 to R147.99 for 30 and R247.99 for 60.

TimesLive at <https://www.timeslive.co.za/news/south-africa/2023-10-20-eggscruciating-prices-and-limited-egg-supplies-as-avian-flu-impact-continues/>

Thank you for taking the time in reading our submission.