



Livestock & Meat Advisory Council

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Livestock and Meat Industry

Proposal for Stabilisation of Consumer Prices

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1. Introduction

The livestock and meat industry share the concerns of government about the rising consumer prices for basic food commodities relative to household income.

The sector contributes to the food basket through a variety of animal protein foods – beef, pork, goat, sheep, chicken and fish, eggs and dairy products. Most of these products are highly perishable and producers strive to deliver the right quantity of meat, milk and eggs to the consumer at affordable and competitive prices.

The cost competitiveness of Zimbabwean livestock and meat industries relative to other countries is affected by the macroeconomic environment as well as sector-specific policies and regulations.

The sector continues to engage government to address the macroeconomic fiscal and monetary policy imbalances and an under-performing financial sector which are driving the shortages of cash and foreign currency.

Poor capitalisation of the livestock and meat industry is severely affecting the capacity of the sector to grow and respond to market opportunities. Outbreaks of Foot and Mouth Disease and Avian Influenza have also had a negative impact on livestock production.

This brief describes recent livestock consumer price increases and tables short-term measures for creating price stability.

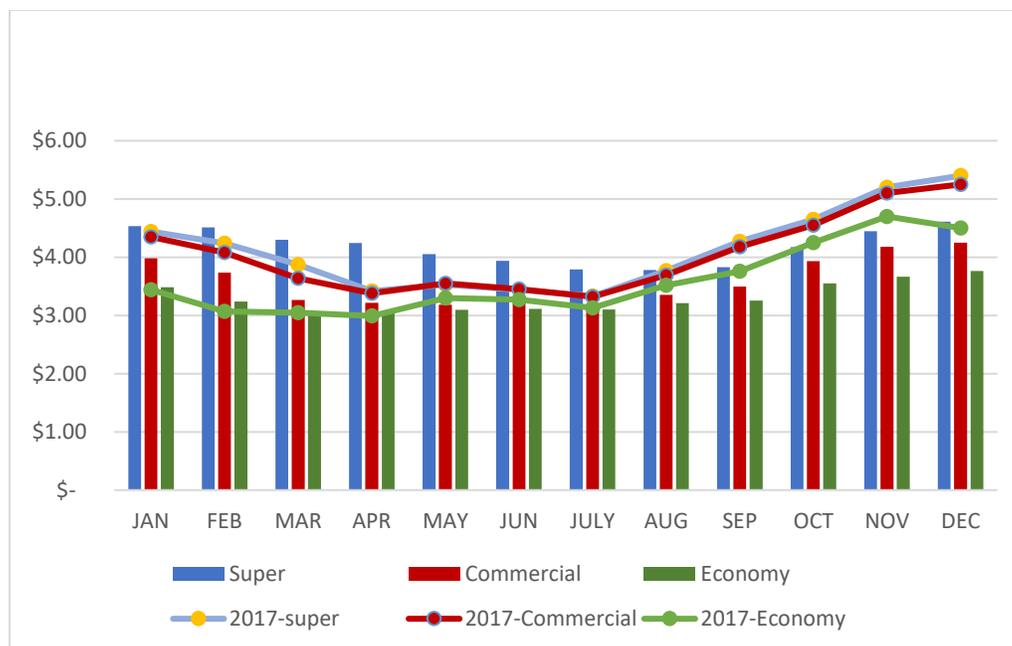
2. Beef Sector

2.1 Cost Drivers

a) Demand factor

The livestock industry witnessed strong growth in the demand for beef during the second half of 2017, coinciding with the peak agricultural marketing season. As shown in the graph below, wholesale prices of beef rose sharply above the average prices.

Comparison of 2017 Beef Wholesale Prices to Long-term Average Monthly Prices



b) The supply of slaughter stock

A rise in the number affluent consumers has created specialised butcheries catering to their required preference for quality cuts of beef which retail between \$14 – 22/kg.

The supply of slaughter stock fell sharply during the third and fourth quarters of 2017. The crippling drought of the 2015/16 season forced smallholder farmers, owners of 90% of the national herd, to destock. This resulted in a record number of 288,000 slaughter sales to abattoir operators.

Restocking by farmers in 2016/17 season has drastically reduced the number of cattle sold for slaughter to 260 000. The higher producer prices on live cattle markets also pushed consumer prices up.

c) Outbreak of disease

Most cattle slaughter stock come from the Masvingo province and the outbreak of Foot and Mouth Disease in both the Masvingo and Midlands provinces has severely reduced the supply of slaughter stock and meat yield as cattle which are usually pen-finishing could only be moved for direct slaughter to minimise the spread of the virus.

d) Low offtake from resettled farms

Newly resettled farmers in cattle rearing areas have not yet fully stocked their farms with good quality commercial herds and so they have not yet significantly contributed to the offtake of slaughter stock.

e) Shortage of cash

The preference for cash transactions by cattle producers has increased the cost of procuring cattle as a premium is paid by buyers to obtain cash and is a new cost item which has increased wholesale and retail prices by between 10 – 20%.

f) Point-of-sale machines in supermarkets

The availability of point-of-sale machines in supermarkets has attracted low income consumers who are not able to make purchases at their local meat retail outlets. Overwhelmed by demand, supermarkets increased the retail price of economy grade to parity with commercial grade.

g) Foreign currency shortages and premium on imports

From farm to retail outlet, beef cattle value chain stakeholders use imported equipment and chemicals, all of which require foreign currency. The inadequate and unpredictable allocation of foreign currency by the Reserve Bank of Zimbabwe has resulted in importers purchasing foreign currency from independent sources at a premium of as much as 80%. The unexpected cost of foreign currency is an important driver affecting meat prices.

h) Regulatory cost of compliance

The beef industry is burdened by duplication of regulatory mandates from different government departments collecting license fees, inspection fees, development and environmental levies which increase to the cost of production as well as add up to more than 10% of the slaughter price of an animal.

Regulatory agencies have gazetted new statutory instruments (SI) to collect additional revenues such as SI 129 of 2017 which legislates a levy of 1c on day old chicks, \$10 per head of cattle slaughtered and 1c per litre of milk produced.

2.2 Proposal for Reducing Prices

All major abattoir operators have already reduced beef wholesale prices significantly from 8 – 20% with the highest reduction for commercial, economy and manufacturing grades. The meat industry has agreed to everything possible to ensure that meat remains affordable for consumers.

Furthermore, the meat industry commits to:

- i) Stabilising wholesale beef prices at January 2018 prices for at least the next quarter;
- ii) Reviewing wholesale prices as the macroeconomic environment improves in terms of foreign currency allocations and cash shortages;
- iii) Reviewing wholesale prices when recommendations and reforms aimed at reducing regulatory cost are implemented; and
- iv) Periodically publish the average wholesale prices for commercial, economy and manufacturing grades of beef.

It is also proposed that:

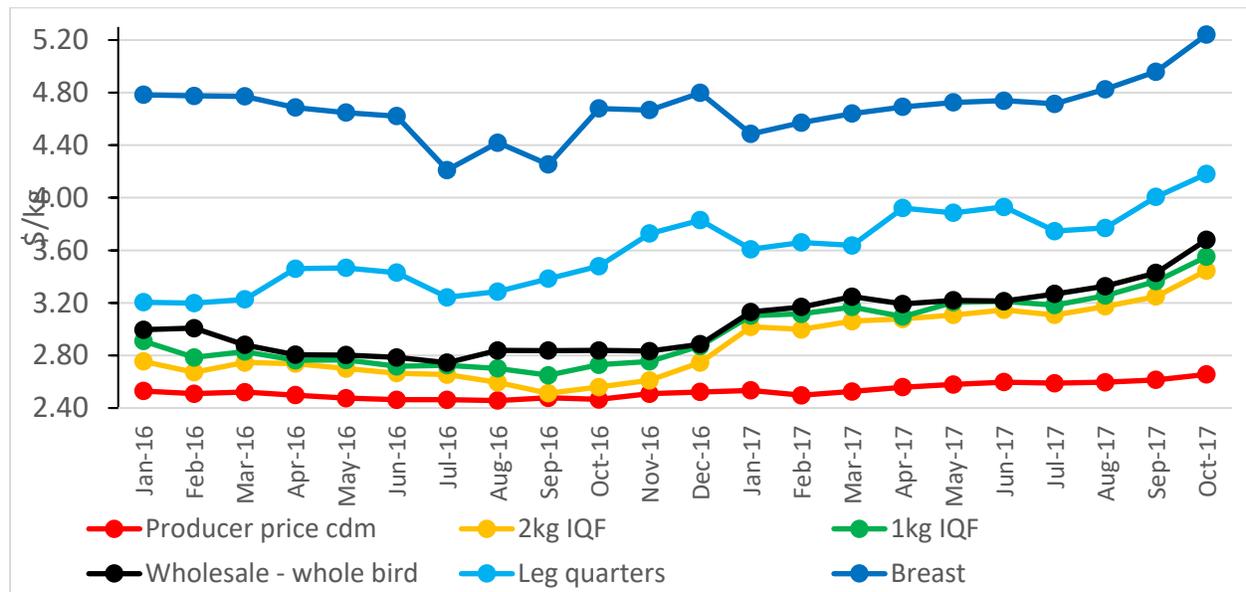
- i) To improve the competitiveness of the livestock value chain, government implements the reforms from the Ease of Doing Business Rapid Result Initiatives (RRI's) for the Agriculture and Manufacturing sectors to reduce the regulatory cost of compliance by 50%.

The multiple regulatory charges by various government agencies including levies applied by Rural District Councils (RDC), Department of Livestock and Veterinary Services, Agricultural Marketing Authority, municipalities, Environmental Management Agency and the National Biotechnology Authority add nearly \$116 per head slaughtered.

- ii) Suspension of SI 129 of 2017 to allow for comprehensive stakeholder consultations as it was drafted without referral to stakeholders and at a time when weekly RRI stakeholder meetings were being held. SI 129 duplicates other development levies that already exist in the livestock industry (e.g. Dairy Revitalisation Programme, the RDC Livestock Development Levy and animal health service fees).
- iii) Prioritise allocation of foreign currency for the import of veterinary drugs and medicines.

3. Poultry Sector

Poultry Meats Wholesale Prices, January 2016 to October 2017



The poultry industry is recovering from the impact of the outbreak of Avian Influenza (AI) which adversely affected the production and supply of day old chicks (DOC), broiler meat and eggs onto the market in the second half of 2017.

The loss of poultry breeding capacity was worsened by the ban on imports of hatching eggs from South Africa where several outbreaks of AI have been recorded. The poultry industry was given a reprieve of six months on the duty of 40% to import hatching eggs from as far afield as Europe and South America to rebuild capacity.

3.1 Market Situation

The rising cost of chicken meat and eggs during the last quarter of 2017 reflect the shortages in production of DOCs, especially felt by smallholder poultry farmers who normally account for 60% of poultry meat production. They also dominate the supply of chicken into high density areas which was consequently affected by more pronounced shortages and higher prices.

Compared to 2016, the shortage of DOCs was driven by the decline of 27% in imports of hatching eggs and the high landed cost of \$45 per 100 compared to \$30 in 2016.

3.2 Cost Drivers

(a) Shortage of DOCs

The shortage of DOCs affected smallholder poultry producers during the October and November 2017 period, critical to ensure the adequate supply of chicken for the festive season. Smallholders normally account for 60% of the DOC market and chicken meat production.

(b) Landed cost of hatching eggs

In 2016, locally produced DOCs were selling at \$65 per 100 chicks. The current need to import hatching eggs has increased their price by almost 70% to \$110 per 100 chicks. High transport costs from European and South American sources as well as the limited supply of imported eggs because of foreign currency constraints has led to an increase in the price of DOCs.

(c) Reduced supply of DOCs to smallholder poultry producers

The shortage of DOCs led to reduced supply to smallholder producers in favour of poultry outgrowers serviced by suppliers of DOCs. Smallholder farmers therefore did not have reliable access to DOCs with the result that retail market prices increased for live birds and poultry meat sold by the piece in high-density areas, traditionally well-serviced by smallholder poultry farmers.

(d) High cost of soyameal

The ban on soyameal imports to promote local crushing of soyabeans has pushed the price of soyameal from \$450/mt to \$750/mt. This is also partly due to the

limited foreign currency allocation for procuring soyabeans available on regional markets at \$350/mt. The policy that imported soyabeans must be free from genetic modification has also added to their landed cost.

(e) Shortages of foreign currency

Beyond hatching eggs imports, the shortage of foreign currency has affected the price of all imported inputs included veterinary drugs and medicines, feed, fuel and equipment.

3.3 Proposal for Reducing Prices

The rising cost of chicken meat which pushed wholesale prices of chicken from \$2.80/kg in December 2016 to \$3.75/kg in December 2017 has reduced the demand from low income consumers who are traditionally the largest market segment in terms of total sales. Sustaining the demand for poultry meat and eggs in this market is of strategic interest to the industry.

To contain retail prices within reasonable margins, the industry has already taken the following actions:

- i) Contracts with supermarket chains will stipulate fair retail price margins, supported by wholesale price discounts or sharing the cost of promotional campaigns;
- ii) More poultry companies have invested in their own poultry breeding stock and ventured into production of DOCs chicks to increase their supply onto the market.
This development will increase the growth in DOC production and create greater stability in their supply; and
- iii) Periodically publish the wholesale prices of major poultry products to keep consumers and retailers informed.

It is also proposed that:

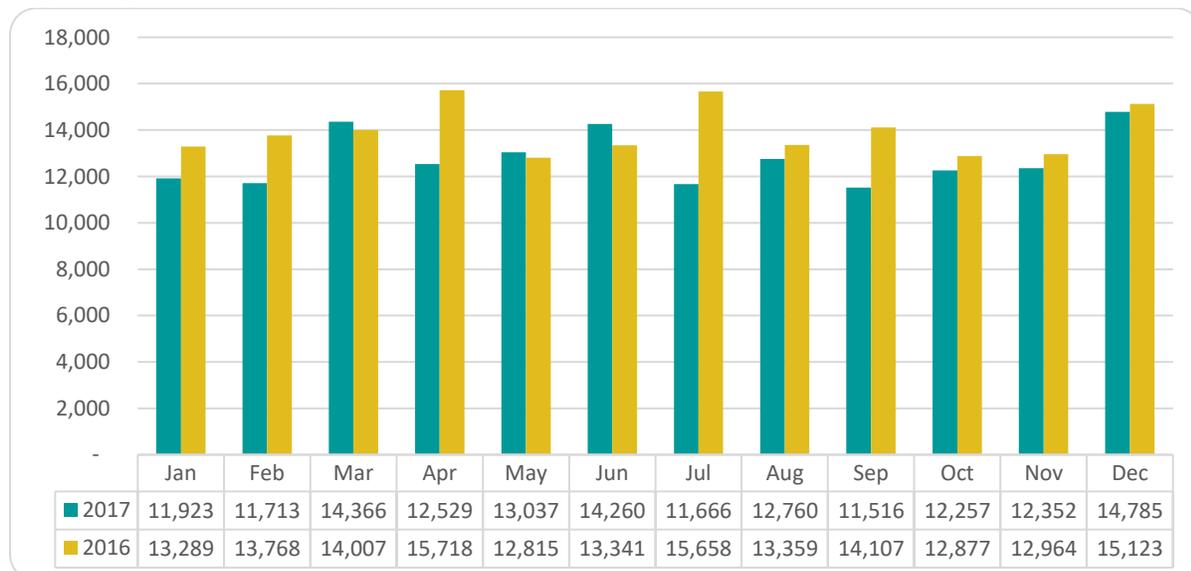
- i) SI 124 of 2017, the suspension of duty on hatching eggs imports, be extended by a further six months.
- ii) The allocation of foreign currency be increased to hatcheries who have been granted import quotas and who supply smallholder producers.

- iii) Import documentation and clearance procedures be streamlined under one roof to eliminate duplication of regulatory functions and reduce the regulatory cost of compliance.

4. Pork Sector

The rising pork prices are driven by the increased costs of production, due primarily by supply factors. Commercial pork production over the first ten months of 2017 declined by 9% from 139,000mt produced in 2016 to 128,000mt in 2017.

Pig Slaughters: January 2016 to December 2017



In December 2017, pork producer prices were \$4.60/kg dressed weight compared to \$2.70/kg in 2016. Wholesale prices were \$5.20/kg, reflecting a wholesale price gross margin of 13%.

Retail prices in the major supermarkets range from \$8.50 (fresh pork shoulders) to \$19.30 for different cuts while pork bones are \$5.60 and retail margins are as high as 45%.

4.1 Cost Drivers

- a) Shortage of foreign currency

This is the primary driver of the rising cost of production.

- b) Cost of stockfeeds
The cost of stockfeeds has increased significantly, driven by import cost of soya meal and additives.
- c) Cost of Imported genetics
This has a major impact on the cost of production as genetics are sourced from South Africa.
- d) Cost of imported drugs and vaccines
Beyond the import of genetics, the shortage of foreign currency has affected the price of all imported inputs included veterinary drugs and medicines, feed, fuel and equipment.

4.2 Proposal for Reducing Prices

The increased retail price of pork meat is reducing market demand for pork and pork products. Specifically, the sector is committed to implementing the following measures:

- i) Increasing productivity of the current national sow population.
- ii) Partnering the Pig Industry Board to increase commercial production from smallholder farmers as part of the Command Livestock programme.
- iii) Increasing the domestic production of maize and soybeans to reduce the cost of feeds.

It is further proposed that:

- i) That adequate foreign currency be availed for the importation of soyameal and additives estimated at 2.6 million per month.
- ii) The regulatory cost of compliance be reduced, especially with regards to imports of pig genetics and feed raw materials.