
GOVERNMENT NOTICES • GOEWERMENTSKENNISGEWINGS

DEPARTMENT OF TRADE, INDUSTRY AND COMPETITION

NO. 6687

30 September 2025



***competition*commission**
south africa

POULTRY MARKET INQUIRY

TERMS OF REFERENCE

FINAL

30 SEPTEMBER 2025

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1. INITIATION OF AND LEGAL BASIS OF THE MARKET INQUIRY

- 1.1. The Competition Commission ("Commission") will conduct a market inquiry into the poultry industry value chain, the "Poultry Market Inquiry" ("PMI"). Section 43A(1) of the Competition Act 89 of 1998 ('the Act') defines a market inquiry, as a formal inquiry in respect of the general state of competition, the levels of concentration and structure of a market for particular goods or services, without necessarily referring to the conduct or activities of any particular named firm. The PMI will consider if any adverse effects are present in the poultry industry value chain arising from any feature or combination of features that impedes, restricts or distorts competition.
- 1.2. The poultry industry including broiler chicken and egg production is the largest contributor to the agricultural sector in South Africa. It accounts for approximately 17.8% of all agricultural output and 42.9% of all animal products¹ with a total annual gross value of production of almost R72 billion in 2022.² The beef industry is the second largest contributor, accounting for approximately 10.1% of all agricultural production and 24.4% of all animal products.³ The poultry industry in South Africa employs (direct and indirect) approximately 134 000 people. Furthermore, it also supplies 54.8% of the country's locally produced red and white meat protein. Approximately 78% of the poultry birds are used for meat production while the remaining 22% are for egg production.
- 1.3. Poultry producers specialise in either broiler production, for chicken meat or commercial egg production. The poultry value chain includes feed production, the supply of grandparent and parent stock, the supply of day-old broiler chicks and layer pullets (day-old chicks reared for commercial egg production). It also includes raising broilers for meat or point-of-lay hens for eggs, as well as processing (abattoirs) and marketing. Poultry products are sold to consumers through retail and restaurant, the catering industry and other food companies such as bakeries and wholesale channels.
- 1.4. The broiler industry continues to seek support and protection through import tariffs and the imposition of anti-dumping duties. Stakeholders such as broiler producers maintain that these measures are necessary to protect local producers and preserve employment

¹ See South African Poultry Association (SAPA) (2023): Poultry Industry Stats Summary.

² Who Owns Whom (2023). "The Poultry and Egg Industry in South Africa, SIC codes 30111b and 61210a".

³ See South African Poultry Association (SAPA) (2023): Poultry Industry Stats Summary.

against 'unfair' imports. However, such tariffs can negatively affect consumers generally, and low-income consumers in particular, who rely on chicken as a key source for protein.

- 1.5. The industry has faced challenges from avian flu outbreaks, impacting commercial egg production, and load-shedding. The Department of Trade, Industry and Competition ("DTIC") acknowledges the negative impact avian flu has on the poultry industry but highlights ongoing support to manage outbreaks in the short and medium term.⁴ Since November 2023, there have been no major avian flu outbreaks, and the poultry industry has restored production levels to 21.4 million birds slaughtered per week in 2024. The Commission also notes that the government has made significant progress in addressing loadshedding with no recent occurrences.
- 1.6. 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. These features appear to include structural indicators, observed industry outcomes and certain conduct along the value chain. While the precise impact remains subject to further investigation, a market inquiry aimed at examining these aspects could potentially lead to benefits in the industry which foster competitiveness and consumer welfare.
- 1.7. The South African poultry industry appears to be dominated by few, large and vertically integrated companies. The Commission's 2021 Concentration Study found that each stage of the value chain activity, shows elevated levels of concentration extending from the production of important key inputs to the end products that are sold through retailers or restaurants. In addition to concentration, vertical integration appears to result in independent producers relying on larger firms for key inputs such as feed and day-old chicks. Whilst contract farming may contribute to the entry of emerging farmers, these do not seem to operate as fully independent competitors but rather form part of the

⁴ See Parliamentary Monitoring Group, Poultry Master Plan & Sugar Master Plan: DTIC briefing; Agro processing Master Plan: DoA briefing (with Deputy Minister) – Meeting Summary: <https://pmg.org.za/committee-meeting/39400/>. Also see article dated 01 July 2025 titled "Agriculture issues first permit to vaccinate against Avian Influenza" which notes the Minister of Agriculture announcement that, in the coming days, South Africa will embark on its first-ever vaccination of poultry as a proactive measure to minimise the risk of highly pathogenic avian influenza (HPAI) outbreaks. <https://www.gov.za/news/media-statements/agriculture-issues-first-permit-vaccinate-against-avian-influenza-01-jul-2025#:~:text=The%20Minister%20of%20Agriculture%2C%20John%20Steenhuisen%2C%20is%20pleased,risk%20of%20highly%20pathogenic%20avian%20influenza%20%28HPAI%29%20outbreaks.>

integrated operations of the dominant companies, dependent on them for various aspects of their activities. The market structure may pose significant barriers to independent entry at scale and could potentially encourage conduct that reinforces these barriers.

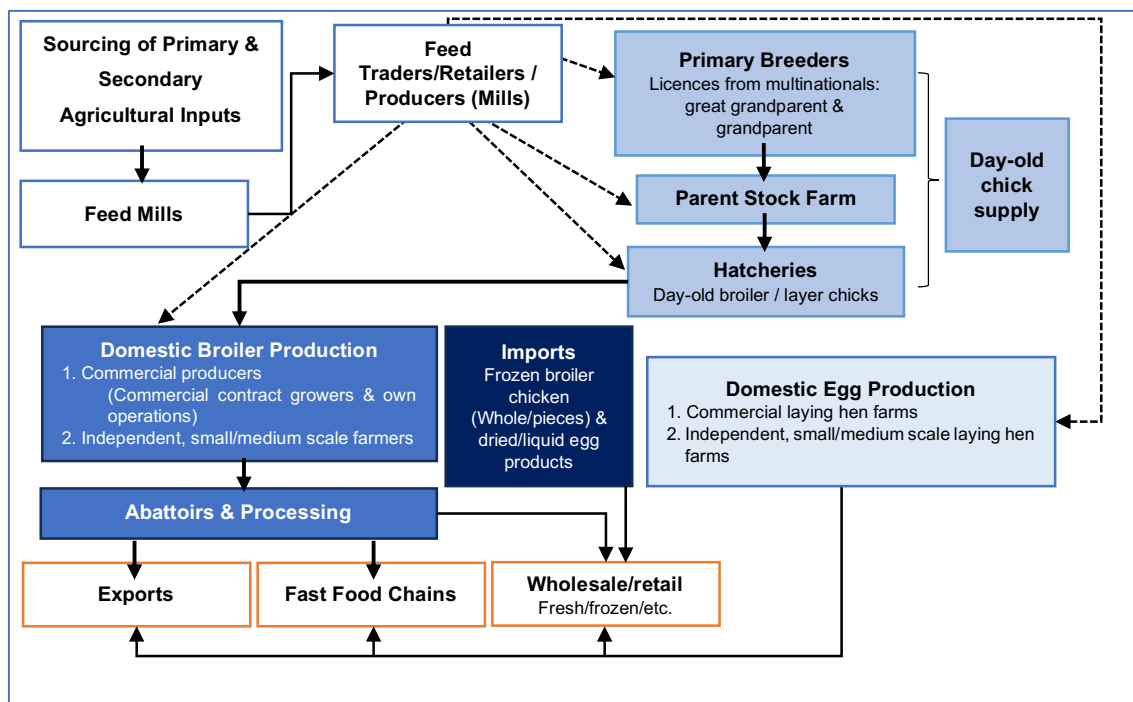
- 1.8. The PMI is initiated in terms of section 43B(1)(a) of the Act, on the basis that the Commission has reason to believe that there may be market features within several markets along the poultry value chain which may impede, distort or restrict competition, or undermine the purposes of the Act, and which may have material implications for the poultry industry in South Africa, and ultimately consumers.
- 1.9. On 06 February 2024, the Commission published a notice in the *Government Gazette* ("Gazette"), inviting the public to provide comments on the proposed draft terms of reference of the PMI (including the proposed scope). The Commission received and carefully considered submissions from stakeholders operating at various levels of the poultry value chain.
- 1.10. Accordingly, these Terms of Reference ("ToR") are published in terms of section 43B(2) of the Act read together with section 43B(4). Under these sections, the Commission is required to publish a notice in the *Gazette* announcing the establishment of the market inquiry at least 20 business days before the inquiry commences. This notice must set out the terms of reference for the market inquiry and invite members of the public to provide information to the market inquiry. At a minimum, the notice must include a statement of the scope of the inquiry, and the expected timeframe for competition.
- 1.11. Although the ToR defines the initial scope of the market inquiry, it is not exhaustive and only sets out the parameters currently envisaged. Additional and/ or related matters may arise during the course of the inquiry. Should the Commission consider it necessary to amend the ToR, whether by adding new matters or excluding those currently identified, such amendments may be made in accordance with section 43B(5) of the Act. Any such amendments will be formally published and communicated as required by the Act.
- 1.12. In accordance with section 43C of the Act, on completion of the market inquiry, the Commission will publish a report of the market inquiry in the *Gazette* and submit the final report to the Minister of Trade, Industry and Competition ("the DTIC Minister").

1.13. The Commission is committed to the principles of fairness, transparency and integrity and will conduct the PMI in accordance with these principles. The Commission will allow stakeholders fair and reasonable opportunity to provide input, considering the legislated timeframe within which the inquiry ought to be completed. All submissions that are received will be considered by the Commission before final findings and conclusions are made.

2. BACKGROUND TO THE POULTRY MARKET VALUE CHAIN

2.1. The poultry market features a complex value chain with high levels of vertical integration and concentration. The majority of South Africa's broiler chicken and egg products are produced by large commercial firms that are vertically integrated across the value chain, from the genetics and day-old chicks to animal feed production, slaughtering, processing, and distribution level. The figure below summarises the poultry value chain in South Africa.

Figure 1: Poultry industry value chain



Source: Commission's own summarised interpretation based on market research and previous cases

- 2.2. Poultry production starts with sourcing genetic material from global intellectual property holders of breeding stock. For broilers, the main breeds are Cobb 500 (owned by Cobb-Vantress), Ross 308, and Arbor Acres (both owned by Aviagen). In 2021, the Indian River breed was also introduced into the South African market.
- 2.3. The primary commercial egg-laying breeds available in South Africa are Lohmann, Hy-Line, and Dekalb Amerlink.
- 2.4. The rearing process for day-old chicks derived from genetic material is similar for both broilers and layers:
 - 2.4.1. Genetic stock is imported into South Africa, where breeder's rear grandparent or parent stock birds that produce fertilised eggs. These eggs are then transferred to hatcheries for incubation and hatching, producing day-old chicks.
 - 2.4.2. Broiler day-old chicks are typically reared for an average of 32.9 days until slaughter.⁵ For egg production, day-old chicks (also known as pullets) are reared for approximately 21 weeks until they start laying commercial eggs.
- 2.5. The affordability and quality of day-old chicks are critical for efficient production and cost management. South Africa is an importer of genetics, specifically at the grandparent and great-grandparent levels,⁶ which gives local producers access to quality genetic pools worldwide. Importing at these levels incurs higher feed costs at the grandparent stage, raising the overall cost of the supply of day-old chicks.⁷ Exchange rate fluctuations also impact the cost of imported genetic material.⁸ Variations in the price of day-old chicks is also determined by the supply arrangement with day-old chick suppliers. That is, some integrated companies may supply day-old chicks at cost and others at market value.

⁵ See SAPA broiler industry stats summary for 2022.

⁶ Broiler breeder genetics are imported into South Africa at great-grandparent and grandparent level with limited imports at the parent stock level. Currently, imports of fertile eggs at any level of the breeding cycle are prohibited in South Africa. As a result, the complete biological cycle includes the breeding and rearing of grandparent and parent stock prior to the rearing of commercial day-old chicks where the complete production process requires 12 to 22 months. Hence, feed costs also play a major role at these levels of the value chain, impacting on the overall price of day-old chicks for broiler and egg production.

⁷ BFAP (2023). Evaluating the competitiveness of the South African broiler value chain.

⁸ Ibid. For example, a depreciation in the Rand (ZAR) increases the cost of genetic material relative to the rest of the world.

- 2.6. Feed is another essential input alongside genetics and day-old chicks, accounting for approximately 70% of the industry's variable costs. Feed is manufactured by feed mills from a range of inputs that are combined by mills according to specifications for the type of chicken (broiler or layer) and its age:
- 2.6.1. Primary agricultural inputs: Several grains are used in the feed manufacturing process with the most important being maize, the dominant energy source for animals. Other grains may include soya, barley, wheat, oats, and sorghum.
- 2.6.2. Manufacturing by-products: By-products from other agro-processing activities are also important feed ingredients. These include oil cakes, which provide protein, as well as wheat bran, flour, maize chop, gluten meal, germ, and straw.
- 2.6.3. Vitamins, minerals, and medicines are either imported or sourced domestically, including from the mining industry to supplement grains and oilseeds in feed production.
- 2.7. Feed prices constitute the most significant cost driver in the production of chicken meat and commercial eggs. Preliminary observations indicate that broiler producers have had periods where they could not recover the cost of feed through prices when feed costs have increased. However, producers have also not transmitted lower feed prices to the price of chicken meat. Similarly, egg producers have been unable to fully pass on feed price increases.
- 2.8. Broiler and egg production occur on farms owned by large commercial players or contract growers.
- 2.9. The four largest chicken producers; Astral, RCL, Country Bird, and Sovereign, account for nearly 63% of South Africa's chicken production. Fully grown broilers are slaughtered at abattoirs and processed for retail and hospitality sectors. Since domestic production does not produce enough chicken to meet consumption, imports of frozen chicken play a critical role. In 2024, 399 689 tonnes of chicken were imported into the country. Most of these imports (66.5%) were of mechanically deboned chicken used in processed meat

production, followed by frozen pieces and offal averaging above (25.5%).⁹ South Africa uses an active trade policy regime to manage the price at which imports come into the country. This regime includes quotas, import duties, and anti-dumping duties. All of these are subject to change as market conditions evolve.

2.10. Egg producers rear their own point-of-lay hens, as the quality of the rearing process has a direct bearing on the efficiency with which the hen will produce eggs. The final stage is marketing where the outputs are eggs and spent hens. Eggs are bought and sold by the major retailers, the hospitality sector, and informal traders. Three large firms accounted for an estimated 51% of total egg production in 2022/3.¹⁰

2.11. Contract growing has increasingly become a prominent model in the poultry industry, with a growing share of production occurring outside the operations of large integrated players. This approach is common globally, allowing large producers to manage and transfer risk to smaller independent growers. Broiler production by contract farmers accounted for an estimated 60–80% in 2022, up from 51% in 2009.¹¹

2.12. The price paid to contract farmers is determined by the contractor, with deductions for input costs such as feed. While all contractors use similar systems, minor differences exist, primarily in bonus payment structures. Compensation consists of three components: a fixed margin per kilogram, a cost recovery element based on tournament pricing, and an optimal bonus linked to performance standards. The margin and cost components are used by all contractors with small differences in the size of the margin as well as the formula used to adjust the margin over time. The bonus payment is not available to all producers as some contractors' base compensation solely on fixed margin and cost recovery component.¹²

2.13. The entry of contract growers has partly been enabled by the sale of poultry farms by major poultry producers to new contract farmers (e.g. Daybreak Farms sold seven farms

⁹ SAPA Chairperson's Report 2024.

¹⁰ Who Owns Whom (2023). "The Poultry and Egg Industry in South Africa, SIC codes 30111b and 61210a".

¹¹ Competition Commission (2021). "Measuring Concentration and Participation in the South African Economy: Levels and Trends," main report, November 2021.

¹² Davids, T & Meyer, F (2017). "Price formation and competitiveness of the South African broiler industry in the global context".

to black poultry producers).¹³ Given the advantages of being part of an integrated value chain in this industry, there are benefits to independent farmers becoming contract growers. Contract growers cover the most crucial broiler production stage and allow these farmers and large corporates to potentially increase efficiencies in the integrated value chain. The contract grower model also allows for the spread of broiler production at any given cycle over several farms which may impede the pursuit of scale economies but may provide protection with respect to bio-security considerations given that disease outbreaks and appropriate quarantine measures can be adopted on a smaller, less disruptive scale.

- 2.14. Transport logistics play a vital role throughout the poultry value chain, covering the movement of feed, supplies, fertilised eggs, day-old chicks, live birds, and processed meat. Domestically, road transport serves all poultry-related activities, from suppliers to producers and onwards to, wholesale and retail markets. Due to the short shelf life of processed or commercial eggs, distribution is a critical marketing function and is often managed by producing companies or closely affiliated contractors. Processed broiler meat requires specialised cold chain logistics, including temperature-controlled refrigerated transport to storage facilities and then to points of sale or customers. In some cases, large commercial growers may manage their own cold storage and logistics or rely on third-party service providers for long-distance or interprovincial distribution.

Recent Developments in the Poultry Industry

- 2.15. The Commission notes that Daybreak Foods, a major South African poultry producer, entered business rescue due to significant financial difficulties. On 20 May 2025, the Public Investment Corporation ("PIC") issued a media release endorsing the Daybreak Foods board's decision to pursue business rescue to avoid liquidation and protect approximately 3,000 jobs.¹⁴ The PIC also confirmed it has implemented measures to stabilise Daybreak Foods, including a R74 million injection of working capital to meet immediate liquidity needs.

¹³ Competition Commission (2021). "Measuring Concentration and Participation in the South African Economy: Levels and Trends," main report, November 2021.

¹⁴ <https://www.pic.gov.za/DocMedia/PIC%20supports%20Daybreak%20Foods%20business%20rescue%20process.%20announces%20a%20reconstituted%20Board.pdf>. PIC also states that the business rescue practitioner will now be appointed to evaluate the disruption to operations and help develop a credible turnaround strategy, working closely with Daybreak's board of directors.

2.16. Historically, in 2015, the PIC announced its acquisition of Daybreak Farms for approximately R1.19 billion, with ownership split evenly among three government entities: the Government Employees Pension Fund (33%), the Compensation Fund (33%), and the Unemployment Insurance Fund (33%).¹⁵ At acquisition, Daybreak Foods was described as an integrated poultry operation that; (i) supplies its own broiler farms with day-old chicks, which are grown and sold as fresh and frozen whole chickens and portions, and (ii) owns established feed milling operations, securing an integrated supply of specialist feeds for chicken rearing.

2.17. According to the PIC, the rationale for acquiring Daybreak Foods was to promote transformation in the agriculture sector, one of the least transformed sectors in the country. The investment also seeks to support job creation and preservation, enhance food production to improve food security, and establish economic platforms to address poverty in rural communities.¹⁶ The Commission recognises that the challenges facing vertically integrated firms like Daybreak Foods are of significant concern due to their impact on industry transformation and employment. These difficulties may also reflect broader barriers in the poultry industry that constrain transformation and limit the entry of new competitors. The market inquiry tool may be suited to addressing these barriers to entry and expansion across the poultry value chain.

3. MARKET FEATURES OF THE POULTRY VALUE CHAIN

3.1. Section 43A defines a market inquiry as "a formal inquiry into the general state of competition, the levels of concentration, and the structure of a market". The focus is not necessarily on the conduct of any single firm, but rather identifying whether any market feature, or combination of features, impedes, restricts, or distorts competition. Section 43A(3) of the Act, specifies that market features include market structure, observed market outcomes, and the conduct of firms operating within, supplying to, or acquiring from the market. These categories guide the Commission's investigation of features reasonably believed to adversely affect competition in the poultry industry.

¹⁵ See PIC presentation <https://www.pic.gov.za/DocPresentations/22.-Daybreak-Farms.pdf>.

¹⁶ See PIC presentation <https://www.pic.gov.za/DocPresentations/22.-Daybreak-Farms.pdf>.

Structure

3.2. As noted, the South African poultry value chain is highly concentrated and characterised by vertical integration. The largest broiler and egg producers operate across the entire value chain, from key inputs to retail branding. These integrated firms supply inputs both internally and to contract growers, as well as to independent and emerging farmers and producers, creating dependence on larger competitors:

3.2.1. Genetic material: The global market for broiler genetics is highly concentrated, with Aviagen Inc. and Cobb-Vantress LLC controlling about 90% of broiler breeds. In South Africa, only four companies hold distribution rights for these breeds: Ross 308 is supplied by Astral; Cobb 500 by RCL; and Arbor Acres, introduced in 2006 and exclusively used by Country Bird Holdings is directly linked to Arbor Acres S.A., a subsidiary of Synapp International, which is the majority shareholder of Country Bird Holdings.¹⁷

3.2.2. For egg-laying hens: Lohmann and Hy-Line dominate the commercial breeds in South Africa. Quantum Foods holds the rights to import Lohmann grandparent stock of the Lohmann chicken breed to South Africa,¹⁸ while Hy-Line South Africa (Pty) Ltd (Hy-line SA)¹⁹ independently imports Hy-Line grandparent stock. The Dekalb Amberlink breed used in egg production is distributed by Serfontein Poultry.

3.2.3. Day-old chick supply: Local distributors control the value chain from importing breeding stock to supplying day-old chicks. These distributors supply parent stock to their integrated breeding operations and to unintegrated companies, typically contract breeders, maintaining control over supply. Parent birds produce fertilised eggs, which hatcheries (integrated, contracted, or independent)

¹⁷ See Country Bird Holdings website: <https://www.cbh.africa/our-strategic-partners/> which explains that Arbor Acres was introduced into the South African poultry industry in 2006 and it is the exclusive breed of choice for Country Bird's Supreme Poultry broiler operations in South Africa. Arbor Acres S.A. is a wholly owned subsidiary of Synapp International. In turn, Synapp International is the majority shareholder of Country Bird Holdings [See <https://www.cbh.africa/our-story/>].

¹⁸ Quantum Annual Report 2022.

¹⁹ Hy-line SA is an independent breeding stock provider that is the South African distribution subsidiary of Hy-line International and unaffiliated to any downstream entities.

incubate to produce day-old broiler chicks. These chicks are then sold to independent farmers, contract growers, or integrated producers.

3.2.4. Feed: In 2020, South Africa had 30 feed manufacturers, with three vertically integrated companies producing 75% of feed namely: Meadow Feeds (Astral), Epol (RCL Foods), and Afgri.²⁰ Nova, part of Quantum Foods, is another key feed producer. Independent feed mills constitute roughly 25% of the industry.

3.2.5. Egg supply: Market data shows that large firms dominate egg production, with Quantum Foods and Kuipers supplying about 51% of the market.²¹ Approximately 75% of eggs are sold through the formal sector, primarily major retailers and the hospitality sector.

3.2.6. Broiler production and supply: RCL and Astral have jointly held over 35% of the local broiler market share since 2015. Excluding exports, their combined share approaches 50%. Emerging producers have not significantly challenged the of these players.

3.3. Not only is the poultry value chain concentrated at every level, but vertical integration means that it is typically the same large companies that dominate at each level. Access to breeding stock enables these companies to dominate the process of developing day-old chicks and the use of those chicks in broiler or egg production. Although contracted growers are used to expand capacity, major companies seem to retain significant control over key inputs and market channels. The table below provides an overview of some of the larger integrated poultry producers in South Africa.

Table 1: Integrated poultry producers in South Africa

	Feed	Breeder / Parent Stock / Hatchery	Day-old chick (broiler) / pullet supplier	Reared live broilers / layers	Abattoirs	Broiler Processing & Supply	Egg Production
Astral Foods	X	X	Broiler	X	X	X	
Country Bird Holdings	X	X	X	X	X	X	
RCL Foods	X	X	Broiler	X	X	X	

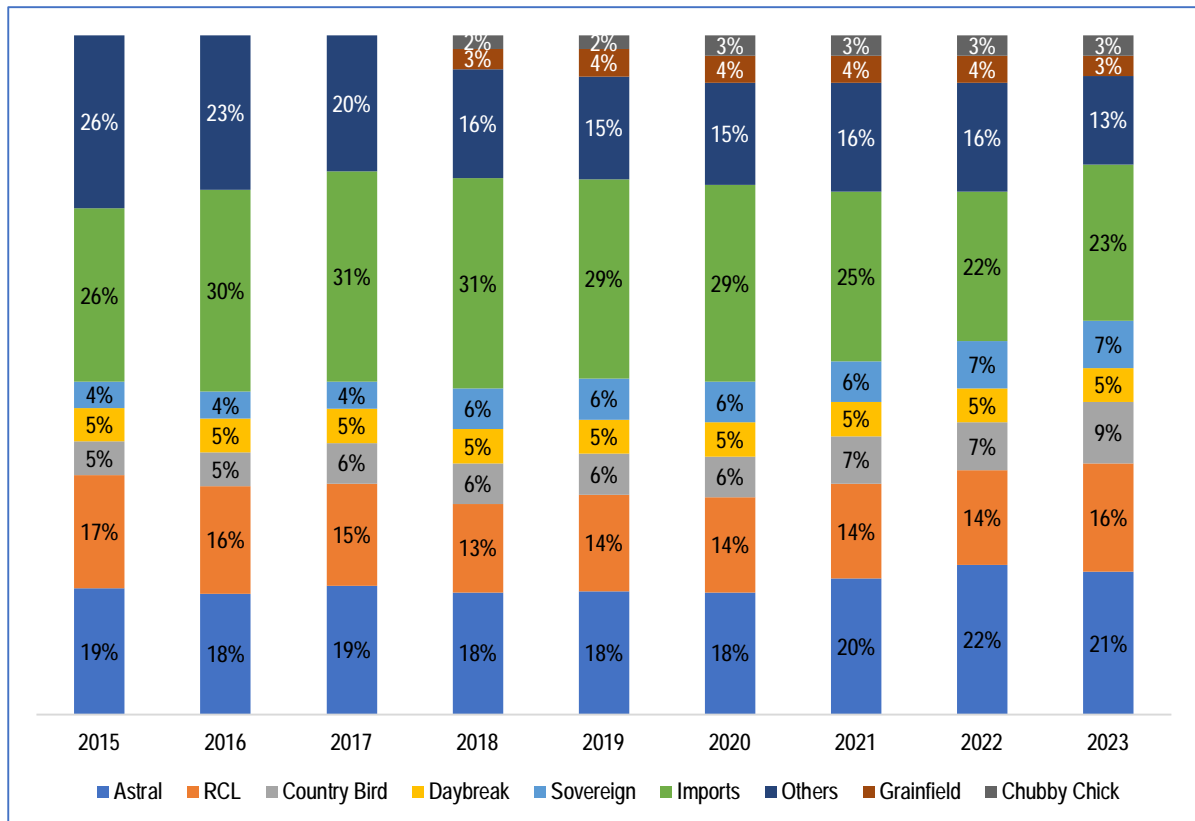
²⁰ DALRRD. "A Profile of the South African Broiler Market Value Chain 2021". Available at: <http://webapps1.daff.gov.za/AmisAdmin/upload/Broiler%20Market%20Value%20Chain%20Profile%202021.pdf> [Accessed on 18 October 2023]

²¹ Who Owns Whom. 2023. The Poultry and Egg Industry in South Africa.

Quantum Foods	X	X	Broiler & layer pullets	Broilers (contract) & layers			X
Sovereign Foods	X	X	Broilers	Broilers	X	X	
Kuipers Group	X	X	Broilers	Broilers & layers	X	X	X

3.4. The structure of the poultry industry has not changed materially in recent years, despite the governments' industrial policy interventions and active trade policies. The figure below shows that the largest broiler producers' market shares have all grown since 2015, while those of other players has shrunk alongside shrinking imports from 2016 to 2023. As such, concentration levels remain high raising the risk of anti-competitive conduct and imbalanced relationships that impede participation by emerging producers.

Figure 2: Market shares in the South African broiler market



Source: Astral Annual Results Presentations, 2015-2023.

Outcomes

3.5. The concentration levels and vertical integration observed in poultry production may limit opportunities for new entrants to compete with established producers. As a result,

transformation within the industry appears to be progressing slowly. Contract growers, while an important part of the value chain, remain highly dependent on integrated producers for key inputs such as feed and day-old chicks. This dependence may also constrain their ability to develop independent routes to market through retail or fast-food channels.

- 3.6. Some stakeholders have suggested that vertical integration is a necessary step towards building an efficient, sustainable, and internationally competitive poultry sector. At the same time, the Commission notes that the Act emphasises the importance of creating equitable opportunities for small and medium-size enterprises (“SMEs”) and historically disadvantaged persons (“HDPs”). In this regard, any efficiencies (if demonstrated) associated with vertical integration need to be balanced against its potential risks, this includes but not limited to, the possible creation or reinforcement of barriers to entry for smaller farmers and the exclusion of SMEs and HDPs that rely on vertically integrated firms for critical inputs.
- 3.7. Surveys conducted by the South African Poultry Association (“SAPA”) highlight several challenges facing subsistence and small-scale broiler and egg producers.²² According to SAPA, approximately 37 and 65 broiler producers exited the market in H1 and H2 of 2023, while 31 egg producers exited in both H1 and H2 of 2023.²³ Aside from the more generic challenges all businesses face in the current economic environment, the following sector-specific challenges appear to hinder the ability of new and small producers to compete effectively with larger established producers:
- 3.7.1. Difficulties in sourcing fertile hatching eggs and good-quality day-old chicks, as well as issues relating to late deliveries and substandard chicks.
- 3.7.2. High input costs, especially for feed, medication, transport, and point-of-lay hens.

²² See (i) SAPA Annual Report 2022. Available at: <https://www.sapoultry.co.za/wp-content/uploads/2023/06/SAPA-AR-2022.pdf> and (ii) SAPA 2023 Industry Profile.

- 3.7.3. Challenges in accessing reasonably priced feed and vaccines, poor or erratic water and electricity supply, and limited access to abattoir services, particularly for remote producers.
 - 3.7.4. Limited working capital (for feed, chicks, and medication), constrained access to finance (for maintaining or upgrading facilities), cashflow difficulties (due to customer defaults), and low or negative profits arising from high costs and production challenges.
 - 3.7.5. Other concerns raised by SAPA include unstable or weak market conditions, high mortality rates linked to disease and adverse weather, and limited training. A shortage of independent abattoirs, which restricts small and independent producers from accessing formal markets. Many are unable to meet tractability requirements (e.g. barcoding), confining them largely to the informal sector.
- 3.8. As noted, South Africa imports a significant volume of chicken to close the domestic supply gap. These imports are subject to a tariff regime intended to protect local producers from unfair competition. While global trade dynamics such as feed subsidies abroad and limited demand for brown meat in developed countries may contribute to unfair competition, it also appears that domestic factors, including aspects of industry structure, could be constraining competitiveness in international market.

Conduct

- 3.9. Contract farming has increasingly come under scrutiny by regulators and policymakers in other jurisdictions, where concerns have been raised about power imbalances that arise through information asymmetries and tournament-style remuneration systems. In the United States, both the Department of Agriculture ("USDA") and the Federal Trade Commission ("FTC") have, over several years, raised concerns and received a range of complaints about the use of tournament systems to pay growers and the ways in which they may enable contractors to exercise market power. Research indicates that broiler

grower contracts in the United States and South Africa share several similar characteristics.²⁴

3.9.1. One concern is transparency regarding what contract growers could potentially earn, especially where integrators have a high-level of discretion that can adversely affect growers. To remedy these concerns, the USDA recently amended regulations under the Packers and Stockyards Act to add a series of disclosures to enhance transparency in the relationship between growers and integrators.²⁵

3.9.2. The FTC has highlighted concerns about the wide discretion that contractors have when they evaluate fully-grown chickens and determine the prices to be paid to contract growers under the tournament system. Specifically, there are concerns that prices are subject to wide and often inexplicable variations from year to year. Related concerns include the lack of regulations or standards to ensure uniform quality of chicks and feed supplied to growers, which are critical determinants of outcomes under tournament system.²⁶

3.9.3. In both the USA and South Africa, contracts typically require growers to finance production capital such as land, buildings, and equipment. USA. contracts also impose detailed, contractor-specific specifications (e.g., square footage, ventilation, water systems). Reports suggest that these requirements tie growers into exclusive, long-term relationships with contractors, raising switching costs and reinforcing dependency.

3.10. Beyond reinforcing asymmetrical bargaining dynamics between large producers and emerging farmers, the structure of the market itself may create barriers to accessing retail and other end-user customers. Large producers benefit from established

²⁴ Davids, T & Meyer, F (2017). "Price formation and competitiveness of the South African broiler industry in the global context"

²⁵ USDA. (2023). Transparency in Poultry Grower Contracting and Tournaments – A Rule by the Agricultural Marketing Service. Available online: <https://www.federalregister.gov/documents/2023/11/28/2023-24922/transparency-in-poultry-grower-contracting-and-tournaments>.

²⁶ FTC (2023). "Poultry Growing Tournament Systems: Fairness and Related Concerns – Written Submission if Federal Trade Commission Chair Lina M. Kahn" Available online: https://www.ftc.gov/system/files/ftc_gov/pdf/Comment%20of%20Lina%20M.%20Khan%20on%20USDA%20ANPR%20re%20Poultry%20Growing%20Tournament%20Systems.pdf.

commercial relationships that new entrants may find difficult to replicate. This challenge may be compounded by dumped imports, which constrain producer prices, limit cost recovery, and contribute to further consolidation.

- 3.11. Contracting is also common at other levels of the value chain, such as parent stock breeding and hatcheries for one-day-old chicks. These arrangements can similarly create dependency, as contractors remain reliant on large integrated firms for input and market access. This reliance is likely to embed power imbalances in contract design and execution, potentially leaving contracted producers in adverse market conditions.

The role of retailers, quick-service restaurants, and processed food companies

- 3.12. Stakeholders have also requested that the PMI examine the role and the potential bargaining power of downstream participants such as retailers, quick-service restaurants, and food processors. These players act as critical market gatekeepers, shaping consumer access and influencing opportunities for new poultry producers.

- 3.13. Comments received suggest that the retail sector itself is concentrated. The Commission's Concentration Tracker Study indicates that the top five supermarket chains account for over 60% of formal food retail sales, while a separate recent study places this figure at above 70%.²⁷

- 3.14. Stakeholder input further highlights ways in which retail concentration may influence competition dynamics:

- 3.14.1. Volume Discounts and Retailer Pricing Practices: Large supermarket chains often impose trading terms such as listing fees, rebates, advertising allowances, promotion fees, extended payment periods, and settlement discounts. Collectively, these terms are estimated to account for 10–15% of product costs to supermarkets, placing pressure on supplier margins. Smaller producers, lacking economies of scale, struggle to absorb such terms. For example, rebates

²⁷ See Who Owns Whom Report (2025), the Wholesale and Retail of Food in South Africa ("the WOW Retail Report") WOW Retail Report at p 60.

of up to 15.5% have been demanded on egg purchases, alongside internal volume-based bonus targets that small producers are unable to meet.

3.14.2. Supplier Development Potential: Retailers can play a meaningful role in building supplier capabilities through supplier development programmes. While some positive results have been reported, many initiatives, particularly those from the mid-2000s, were short-lived and often treated more as black economic empowerment compliance or corporate social responsibility exercises than as long-term, commercially driven partnerships to grow local suppliers.

3.14.3. Retail Mark-ups versus Farm-Gate Prices: Poultry and egg producers lack bargaining power in negotiations with retailers. Significant mark-ups by retailers illustrate this dynamic. For instance, retail mark-ups on large eggs averaged 102% between 2018 and 2022 before falling to 65% in 2023 as retailers sought to cushion consumers from avian flu-related price increases. Similarly, average mark-ups on fresh whole chicken were 84.5% in 2022 and 75.5% in 2023, while fresh chicken portions carried mark-ups of 93% and 90.7% in those years.

Government intervention in the poultry industry

3.15. The poultry industry has been identified by government as a priority sector, given its high employment and transformation potential, as well as the significant impact of poultry products (e.g., eggs and chicken portions) on food prices for low-income households.

3.16. The South African Poultry Sector Master Plan ("Master Plan"), signed in November 2019, was intended to support the sector's development and transformation. Its objectives include expanding and improving production, stimulating domestic and export demand, and addressing trade-related issues. A range of action programmes have been implemented through commitments by industry, institutions, and stakeholders, for example, investments in production facilities, employment creation, onboarding of emerging contract growers, and funding support.

3.17. However, available evidence suggests that these action programmes may not fully address structural features that may impede, distort or restrict competition. In a presentation to the Parliamentary Portfolio Committee on Agriculture (3 September

2024), the DTIC observed that concentration and vertical integration in poultry production have constrained opportunities for new entrants to compete with established producers.²⁸ This indicates that the Master Plan, while valuable, may be limited in addressing structural outcomes, such as over-concentration and unequal bargaining dynamics, that could negatively affect competition. For instance, although the onboarding of contract growers has enabled some entry, concerns remain about contract terms and conditions and the potential power imbalances that may restrict the growth of emerging farmers. The Commission therefore views its role as complementary to the Master Plan, particularly in assessing and addressing such competition-related concerns.

- 3.18. The PMI is not intended to replace government interventions led by the DTIC or other institutions. Rather, it seeks to complement them by focusing on market features that may impede, distort or restrict competition, with the broader aim of supporting growth, transformation, and competitiveness in the poultry sector for the benefit of all participants and ultimately, consumers, especially low-income households that rely heavily on poultry products.

4. SCOPE OF THE INQUIRY

- 4.1. Consistent with section 43B of the Act, the PMI will assess whether there are features in the South African poultry industry that impede, restrict, or distort competition, or undermine the purposes of the Act. The poultry market spans the entire value chain, from genetics through to retail and wholesale customers, and includes all suppliers to each stage, such as feed, transport, and logistics.

- 4.2. The main objectives of the inquiry into the poultry value chain (chicken meat and eggs) are to:

- 4.2.1. Assess whether there are market features which distort competition across the value chain, including pricing and access to key inputs such as genetic stock, parent stock, feed, fertile eggs, day-old chicks of pullets (for both broiler and egg-laying hen rearing), abattoirs, and cold-chain logistics. This will include

²⁸ See DTIC Presentation titled "DTIC, Presentation to the Portfolio Committee on Agriculture, the Poultry Sector Masterplan" dated 3 September 2024.

examining (i) the financial performance of market participants and its drivers (e.g. cost structures) and (ii) barriers to entry and expansion.

- 4.2.2. Assess the efficiencies arising from vertical integration, including whether vertical integration is necessary for an efficient, sustainable, and internationally competitive poultry sector.
- 4.2.3. Assess (i) the international competitiveness of the local poultry industry and (ii) the impact of imports on domestic competition, including the impact on local producers, consumers, and broader welfare (e.g., employment).
- 4.2.4. Assess the role of large integrated producers as potential gatekeepers of key inputs, particularly feed and day-old chicks, genetic and parent stock and the implications for SMEs and HDPs.
- 4.2.5. Assess whether commercial relationships between contract growers and integrated producers are characterised by bargaining power imbalances or information asymmetries and examine how these dynamics affect competitive outcomes and the growth and sustainability of small-scale producers, including the prospects for independent competitors with market access.
- 4.2.6. Assess the role of retailers, quick-service restaurants, and food processors in facilitating new entry and access to markets by large and independent producers, including SMEs and HDPs, along with the availability and pricing of cold chain storage and logistics, whether private or communal. This will include the assessment of potential bargaining power dynamics in negotiations between buyers at the retail level of the value chain (i.e. retailers, quick service restaurants and food processors) and poultry producers (contract terms, pricing, mark-ups, rebates and promotions costs). The assessment will also include consideration of how these dynamics differ for large producers compared with SMEs and HDPs.
- 4.2.7. Determine appropriate remedies where adverse effects on competition or the purposes of the Act are found, consistent with section 43C(3) of the Act.

Exclusion of Electricity, Ports and Rail as standalone themes

- 4.3. The Commission received comments from stakeholders requesting the PMI be extended to assess inefficiencies and pricing of electricity, ports, and rail services, as these affect the competitiveness of poultry producers. The Commission considered these submissions and is mindful that government and relevant institutions have already introduced measures to address these challenges.

4.3.1. Electricity

Policy initiatives to improve competition and efficiency in electricity supply include:

- 4.3.1.1. The Block Exemption for Energy Suppliers granted by the DTIC Minister (24 March 2023), exempting certain practices and agreements between energy suppliers to improve efficiencies in the energy sector;
- 4.3.1.2. The National Energy Regulator of South Africa ("NERSA") rigorous review process for Negotiated Pricing Agreements, and Eskom's tariff regulation by NERSA through a transparent public participation process; and
- 4.3.1.3. Reforms by the Presidency and National Treasury to liberalise the electricity market, enabling Independent Power Producers to supply electricity under Power Purchase Agreements without NERSA approval.

4.3.2. Ports

Policy initiatives to improve competition and efficiency in ports include:

- 4.3.2.1. The Block Exemption for Ports, Rail and Key Feeder Road Corridors ("The Block Exemption for Ports and Rail") granted by the DTIC Minister (8 May 2025). The purpose of this exemption is to exempt

certain collaborative practices and agreements to reduce costs and improve efficiency.

4.3.2.2. The Port Tariff Incentive Programme ("PTIP"), developed by the Ports Regulator of South Africa in consultation with the National Ports Authority, the DTIC, the Department of Transport, and various other government departments. The PTIP is designed to support the growth and development of specific industries by offering, among other things, tariff incentives through port tariff adjustments.

4.3.2.3. The corporatisation of the Transnet National Port Authority ("TNPA") as an independent subsidiary of Transnet, announced in June 2021 and advanced in 2024, to establish TNPA as a financially autonomous entity capable of generating its own revenue, attracting investment, and improving efficiency.

4.3.3. Rail

Policy initiatives to improve competition and efficiency in ports include:

4.3.3.1. The Block Exemption for Ports and Rail, aimed at addressing challenges faced by the rail industry, reducing costs, and improving efficiency.

4.3.3.2. The National Rail Policy (adopted 12 May 2022), which sets out reforms such as third-party access, private sector participation, and the creation of an independent Transport Economic Regulator.

4.3.3.3. The Interim Rail Economic Regulatory Capacity ("IREC"), created through a Memorandum of Understanding between the Ministers of Transport and Public Enterprises, developed Transnet's Rail Network Statement to provide mainline access to third-party operators.

4.3.3.4. Publication of the Rail Network Statement (10 December 2024) by Transnet Freight Rail's Infrastructure Manager, outlining terms for third-party access, with the IRERC overseeing applications.

4.4. The Commission is of the view that electricity, ports, and rail cannot be considered as standalone themes within the PMI. Significant reforms are already underway to address inefficiencies, competition, and pricing in these sectors. Nevertheless, the Commission may take account of electricity, rail, and port issues when examining cost drivers, challenges, and pricing within the poultry value chain.

5. MARKET INQUIRY TIMELINES

5.1. The PMI will commence 20 business days after publication of the final ToR, on a date to be communicated. The final report will be completed within 18 months of commencement, as required by sections 43B(2) and 43B(4)(a) of the Act, unless extended by the DTIC Minister in terms of section 43B(4)(b).

5.2. Details of the administrative phases of the inquiry, together with Guidelines for Participation, will be made available on the Commission's website once the final ToR are published. At that stage, members of the public and businesses will be invited to make written representations and provide information to the inquiry.

6. MARKET INQUIRY PROCESSES

6.1. In terms of section 43B of the Act, the Commission may conduct a market inquiry in any manner. For certainty, the following processes may apply, depending on the circumstances.

Issuing of Requests for Information and Powers of Summons

6.2. At any stage of the inquiry, the Commission may request information from any person or firm believed to hold information relevant to the issues identified in the ToR.

6.3. In addition, in terms of section 43B(3)(c) read with section 49A of the Act, the Commissioner may summon any person believed to:

6.3.1. Furnish information relevant to the inquiry; or

6.3.2. Possess or control a book, document or object relevant to the inquiry.

6.4. Such a person may be required to appear before the Commission for interrogation at a specified time and place, or to deliver the relevant material to the Commission.

Public Hearings

6.5. The Commission must conduct hearings in public, as expeditiously as possible, and in accordance with the principles of natural justice. Hearings may be informal or inquisitorial in nature.

6.6. The Commission may, however, order that a matter be heard in camera (i.e. in chambers), including through oral submissions made in person, by telephone, or via video conference, if this is in the interests of justice or expediency. The Commission will seek to limit the extent of in camera hearings.

6.7. The Commission may condone technical irregularities arising during inquiry proceedings.

6.8. The Commission may admit as evidence any relevant oral testimony, document, or other material, whether or not, given under oath or admissible in court. However, it may refuse evidence that is unduly repetitious.

6.9. Public hearings may take different formats, depending on the needs of the PMI and stakeholders, provided the above principles are upheld. Possible formats include:

6.9.1. Full panel hearings, facilitated by evidence leaders, with the Inquiry Chairperson presiding;

6.9.2. Seminars chaired by a single panel member;

6.9.3. Technical team workshops, led by the technical team, with panel attendance optional.

6.10. Details on the conduct of each hearing format will be published on the Commission's website in due course.

6.11. The purpose of public hearings, regardless of format, will be to engage stakeholders directly on their submissions, the issues identified by the inquiry, and potential remedial measures. Stakeholders will also be able to raise additional issues, provided these falls within the ToR.

7. OUTCOME OF THE INQUIRY

7.1. In terms of section 43C of the Act, where the Commission finds an adverse effect on competition, it must determine the actions required. Specifically, it must consider:

7.1.1. Whether to make recommendations to any Minister, regulator, or affected firm to remedy, mitigate, or prevent the adverse effect; and

7.1.2. What specific action should be taken.

7.2. Under section 43D of the Act, the Commission has a duty to remedy adverse effects on competition. It may take steps to remedy, mitigate, or prevent such effects.

7.3. Any remedial action must be reasonable and practicable, considering:

7.3.1. The nature and extent of the adverse effect;

7.3.2. The nature and extent of the proposed remedy;

7.3.3. The relationship between the effect and the remedy;

7.3.4. The impact of the remedy on competition in the relevant and related markets;

7.3.5. The availability of less restrictive means to remedy, mitigate or prevent the adverse effect on competition; and

7.3.6. Any other relevant factor arising from any information obtained by the Commission during the market inquiry.

7.4. Based on information obtained during the inquiry, the Commission may also:

7.4.1. Initiate a complaint and enter a consent order with any respondent, with or without further investigation;

7.4.2. Initiate a complaint against a firm for further investigation;

7.4.3. Initiate and refer a complaint directly to the Tribunal without further investigation;

7.4.4. Take any other action within its powers under the Act, as recommended in the inquiry report; or

7.4.5. Take no further action.

7.5. Section 43E(4) of the Act requires the Commission, before publishing its final report, to take appropriate steps to communicate (confidentially where necessary) any provisional finding, decision, remedial action, or recommendation to materially affected parties. The Commission will consider submissions from such parties before finalising its report.

7.6. Any interested person materially and adversely affected by a determination of the Commission may, within the prescribed period, appeal to the Tribunal.

[END]