ITAC International Trade Administration Commission of South Africa

Report No. 112

Review of the customs tariff dispensation on wheat, wheat flour and downstream products thereof

enabling FAIR TRADE

The International Trade Administration Commission (ITAC) of South Africa herewith presents **Report No. 112: REVIEW OF THE CUSTOMS TARIFF DISPENSATION ON WHEAT, WHEAT FLOUR AND DOWNSTREAM PRODUCTS THEREOF**

....

Ms N P MAIMELA
CHIEF COMMISSIONER

PRETORIA
..27../..05../ 2005

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 112

REVIEW OF THE CUSTOMS TARIFF DISPENSATION ON WHEAT, WHEAT FLOUR AND DOWNSTREAM PRODUCTS THEREOF

SYNOPSIS

The Commission decided to review the existing tariff dispensation for wheat, wheat flour and downstream products thereof. The review of the wheat tariff dispensation formed part of the Commission's overall initiative to review the tariff dispensation on grains and related downstream products.

The Commission initiated the formation of an industry led task team that consisted of representatives from the wheat producers and secondary industries, traders, the National Agricultural Marketing Council and the Department of Agriculture. The Commission entrusted the grain task team with collating all relevant information and making proposals for a future tariff regime for the wheat industry chain for consideration.

Comments were received from various role players including the BLNS countries.

As the South African wheat and flour producers do not experience price disadvantages against foreign competitors, the Commission found that there was no justification for an increase the in the duty on wheat and wheat flour

The Commission decided to recommend that:

- The current tariff system for wheat and wheat flour is replaced with appropriate *ad valorem* duties. The level of 2% was found to be appropriate, as this level is the existing *ad valorem* equivalent duty for wheat and wheat flour.
- The rates of duty on other wheat products are maintained.
- The provision for rebate of the duty on wheat imported by the SACU partners is maintained to support their downstream industries.
- Should there be evidence of possible subsidized importation, it should be addressed by using the appropriate trade remedy instrument, i.e. a possible countervailing duty application and not an increase in ordinary tariffs.
- The problem of exchange rate fluctuations cannot be addressed by way of the tariff.
- The wheat and downstream industries are at liberty to approach the Commission for duty reductions on intermediate inputs for a possible solution to the high cost structures encountered by the wheat industry.

1. **BACKGROUND**

1.1 The phasing-out of the Wheat Board in 1997 and the fixed price system ensured that wheat producers increasingly are exposed to international wheat markets. Adjustments to the marketing system of wheat took place. In a short space of time, the market adapted well to deregulation. A futures market for grains was developed which now trades more than 10 times the annual crop. Some of the functions previously performed by the Wheat Board were constituted into companies that are jointly controlled by the industry players. There is a South African Grain Information Service, and a South African Grain Laboratory functioning as an independent referee for all quality issues. The period following deregulation saw an improvement in co-operation between the value-chain participants. The quality of products improved substantially and there was a large increase in product ranges available to the consumer. Competition increased and, coupled with innovation, consumers benefited.

1.2 The current variable tariff dispensation with respect to wheat, wheaten flour and downstream products thereof was introduced at the recommendation of the then Board on Tariffs and Trade (BTT) in Report No. 3932: ***Revision of the Tariff Dispensation on Wheat, Wheaten Flour and Products Thereof***, dated 17 February 1999. The BTT found that protection by way of a Dollar-based reference system would protect the industry against abnormally low international prices that occurred from time to time due to international oversupply.

1.3 The BTT concluded that a reference price providing protection for the primary sector during periods when the world price for wheat dropped below the long-term average world price of $157/ton, would protect the industry against disruptive competition. The BTT maintained that a price level of $157/ton would address most of the distortions caused by the price support subsidies and surplus removal measures applied by some major wheat producing countries.

1.4 The BTT recommended that the customs duty on wheat be calculated as the difference between the reference price of US$157/ton for wheat and the 3-weeks moving average US No. 2 Hard Red Wheat price. Adjustments to the level of protection granted are made when the difference between the world price, on which the previous adjustment was based, and the 3-weeks moving average of the same price amounts to more than US$10 for 3 consecutive weeks.

1.5 To account for its higher value, the customs tariff on wheaten flour was set in the form of a specific duty at the level of 150% of the rate applicable to wheat. The rates of duty applicable to other downstream products range between 17 and 20 per cent ad valorem.

1.6 A provision for a rebate of the full duty in terms of Schedule No. 4 to the Customs and Excise Act, 1964, exists with respect to wheat imported by the BLNS countries.

2. INTRODUCTION

2.1 The Commission decided to review the existing tariff dispensation for wheat, wheat flour and downstream products thereof. The investigation of the wheat tariff dispensation forms part of the Commission's review of the tariff dispensation on grains and related downstream products, in an effort to develop a tariff regime that is relevant in the current economic environment.

2.2 The Commission initiated the formation of an industry led task team that consisted of representatives from the wheat producers and secondary industries, traders, the National Agricultural Marketing Council and the Department of Agriculture. The Commission entrusted the grain task team with collating all relevant information and making proposals for a future tariff regime for the wheat industry chain for consideration.

2.3 The notice of the review was published in the Government Gazette of 25 February 2005 as follows:

REVIEW OF THE CUSTOMS TARIFF DISPENSATION ON:

"Wheat, wheaten flour and downstream products thereof classifiable under tariff subheadings 10.01, 11.01, 11.03, 11.04, 18.06, 19.01 and 23.02."

3. THE TARIFF POSITION

3.1 The existing tariff position in respect of wheat and wheat products in the SACU is reflected in Table 1.

Table 1: Existing Tariff Position

TARIFF HEADING	TARIFF SUB-HEADING	DESCRIPTION	Statistical Unit	RATES OF DUTY		
				General	EU	SADC
10.01		**Wheat and Meslin**				
	1001.10	Durum wheat	Kg	free	free	free
	1001.90	Other	Kg	1,867c/kg	1,867c/kg	free
11.01		**Wheat and Meslin Flour:**				
	1101.00	Wheat or meslin Flour	Kg	2,80c/kg	2,80c/kg	free
11.03		**Cereal Groats, Meal and Pellets**				
	1103.1	**Groats and Meal**				
	1103.11	Of Wheat	Kg	20%	20%	free
	1103.20	**Pellets:**				
	110320.10	Of Wheat	Kg	20%	20%	free
	1103.21	Of Wheat	Kg	20%	20%	free
11.04		**Cereal Grains Otherwise Worked (for exmple, Hulled, Rolled, Flaked, Pearled, Sliced or Kibbled)(excluding Rice of heading no. 10.06);Germ of cereals, whole,rolled,flaked or ground**				
	1104.1	**Rolled or flaked grains**				
	110419.90	Of other cereals	Kg			

	1104.2	**Other worked grains (for example, hulled, pearled, sliced or kibbled)**				
	1104.29	Of other cereals	Kg			
18.06		**Chocolates and Other Food Preparations Containing Cocoa**	Kg			
	1806.90	Other	Kg	17%	free	free
19.01		**Malt Extract; Food Preparation of Flour, Groats, Meal Starch or Malt Extract, Not Containing Cocoa or Containing Less that 40 per cent by mass of cocoa calculated on a totally defatted basis, not Elsewhere Specified or Included;Food Preparations of Goods of Headigns no.04.01 to 04.04, not Containing Cocoa or Containing Less than 5 per cent by mass of cocoa calculated on totally deffated basis, not Elsewhere Specified or Included:**				
	1901.20	Mixes and Doughs for the preparation of baker's wares of heading no. 19.05	Kg	20%	20%	free
	1901.90	**Other:**				
	1901.90.20	Traditional African beer powder as defined in Additional Note 1 of Chapter 19	Kg	20%	20%	free
	1901.90.90	Other.	Kg	20%	20%	free
23.02		**Bran, Sharps and Other Residues, Whether or Not in the Form of Pellets, Derived From the Sifting, Milling or Other Working of Cereals of Leguminous Plants:**				
	2302.30	Of Wheat	Kg	free	free	free

3.2 The rebate provision for the BLNS countries under item 460.02/1001.90/01.06 reads as follows:

"*Wheat (excluding durum wheat), in such quantities and at such times as the Director-General: Agriculture may allow by a specific permit: provided that such permit shall be issued under such conditions as may be agreed upon by the Governments of the Republic, Botswana, Lesotho, Swaziland and Namibia: Provided further that wheat and wheaten flour obtained from such wheat cleared in terms of this rebate item, shall not be removed to the area of Botswana, Lesotho, Swaziland or Namibia.*"

3.3 In accordance with South Africa's WTO Minimum Market Access (MMA) commitments, South Africa is currently obliged to allow the importation of 100 000 tons of wheat at a rate of duty of a maximum of 14,4 per cent ad valorem (20 per cent of the bound rate).

4. ALTERNATIVE TARIFF DISPENSATION PROPOSED BY THE TASK TEAM

4.1 According to the wheat industry, the current system is inefficient. The days it took to publish a tariff ranged between 20 days and 164 days.

4.2 According to the industry, the level of the wheat import tariff is only triggered by the level of the world price and not by the level of the exchange rate. As a result wheat tariffs were triggered at times when South African Futures Exchange (SAFEX) prices were very high (above R2000/ton) and no tariffs were triggered when SAFEX prices were very low. Furthermore, the current wheat tariff dispensation does not take into account the various origins of the wheat that is imported.

4.3 Table 3 illustrates the basic calculation of the proposed alternative tariff dispensation. The weighted 10-year (Oct'94-Sep'04) FOB price for wheat imported to SA was calculated at $157.29/ton. This price not only represents the imports from the United States, but it weights the world prices according to the "grist" of wheat imports from the top 6 importing countries (representing more than 90% of SA imports). These are Argentina, Australia, United States, Canada, France and Germany (Table 2).

Table 2: Top 6 importers over the past decade

Top 6 importers of wheat over the past 10 years representing 91% of total imports	Argentina Trigo Pan	Australia ASW	Canada St Lawrence No1 CWRS 13.5 %	EU (France) FCW	EU (Germany) B Quality	US Gulf No2 Hard Winter Ordinary
10-year annual avg. price US $/ton	140.51	174.59	178.45	136.69	141.50	150.55
Weighted Imports: 1994 – 04	15.55%	21.87%	16.20%	5.21%	8.32%	32.84%

Source: SARS, International Grains Council, 2005

4.4 The world reference price is now inflated by 14% from $157.29 to $179.31 per ton based on the available literature on the impact of producer and export subsidies in wheat producing countries.

4.5 The next step is to include the fluctuations of the exchange rate in the trigger mechanism. In order to do this the $179.31 is multiplied by the 10-year moving average exchange rate. This implies that the weighted reference price in Rand terms will have to be adjusted once per annum when the new 10-year moving average exchange rate is calculated.

4.6 The published tariff is equal to the difference between $179.31/ton and the weighted monthly Rand import price of the grist of wheat that is imported. The price of the imported grist is calculated as a weighted average price of the four main "import centres" for South African imported wheat. These four are Australia, Argentina, the US and Germany, each receiving a weighting of 25%. This implies that if the Argentinean price decreases drastically, the weighted import price for that specific month will decrease, which will lead to a higher import duty. The argument for using these four import centres is that these are formally traded prices by the International Grains Council (IGC), which represent the four main origins from which wheat is imported. Although large volumes of wheat were imported from East European countries two years ago, there are no formally traded prices for these countries. Therefore, the German price has been included to serve as a proxy for the European import centre.

Table 3: An alternative wheat tariff dispensation

2003/04 PRODUCTION SEASON										
Weighted 10-year (Oct'94-Sep'04) world FOB price for wheat imported to SA						157.29				
Impact of subsidies						14.00%				
Inflated reference price						179.31				
10-year moving average exchange rate (Oct'93 - Sep'03)						6.02				
Weighted Reference price (R/ton) - for season 2003/04						1079.46				
Selection of imported wheat prices from 4 import centres	**Argentina Trigo Pan**	**Australia ASW**	**EU (Germany) B Quality**	**US Gulf No2 Hard Winter Ordinary**	**Weighted World Price($)**	**Exchange R/$**	**Weighted World Price (R)**	**Tariff**	**% of Weighted FOB Price($)**	**SAFEX**
Oct-03	149	177	168	151	161.46	7.05	1138.31	0.00	0.00%	1629.00
Nov-03	167	187	191	169	178.56	6.71	1198.16	0.00	0.00%	1666.00
Dec-03	161	188	202	170	180.13	6.52	1174.42	0.00	0.00%	1600.00
Jan-04	160	189	205	170	181.05	7.00	1267.34	0.00	0.00%	1703.00
Feb-04	148	189	203	164	176.19	6.77	1192.82	0.00	0.00%	1735.00
Mar-04	152	189	196	169	176.65	6.74	1190.60	0.00	0.00%	1714.00
Apr-04	160	194	191	172	179.19	6.55	1173.72	0.00	0.00%	1723.00
May-04	156	192	178	164	172.28	6.80	1171.48	0.00	0.00%	1715.00
Jun-04	144	185	159	158	161.35	6.43	1037.50	41.96	4.04%	1548.00
Jul-04	137	174	149	152	153.15	6.14	940.31	139.14	14.80%	1446.00
Aug-04	124	164	138	145	143.07	6.47	925.63	153.83	16.62%	1447.14
Sep-04	127	176	139	156	149.47	6.56	980.54	98.92	10.09%	1416.19
Weighted Imports:	**25.0%**	**25.0%**	**25.0%**	**25.0%**						

Weighted 10-year (Oct'94-Sep'04) world FOB price for wheat imported to SA						157.29				
Impact of subsidies						14.00%				
Inflated reference price						179.31				
10-year moving average exchange rate (Oct'94 - Sep'04)						6.36				
Weighted Reference price (R/ton) - for season 2004/05						1140.42				
Selection of imported wheat prices from 4 import centres	**Argentina Trigo Pan**	**Australia ASW**	**EU (Germany) B Quality**	**US Gulf No2 Hard Winter Ordinary**	**Weighted World Price($)**	**Exchange R/$**	**Weighted World Price (R)**	**Tariff**	**% of Weighted FOB Price($)**	**SAFEX**
Oct-04	125	177	140	155	149.31	6.40	955.55	184.87	19.35%	1398.89
Nov-04	116	182	147	162	151.76	6.05	918.15	222.27	24.21%	1346.36
Dec-04	111	180	151	160	150.59	5.73	862.89	277.53	32.16%	1268.95
Jan-05	107	180	145	157	147.34	5.94	875.17	265.25	30.31%	1295.05
Feb-05	116	174	136	154	145.06	5.85	848.62	291.81	34.39%	1320.12
Weighted Imports:	**25.0%**	**25.0%**	**25.0%**	**25.0%**						

4.7 February 2005 is used as an example to illustrate the calculation of the import tariff. In February the weighted (FOB) world price for import centres was $145.06/ton. This level is multiplied by the exchange rate of R5.85/US$, which results in a monthly weighted import price in Rand terms of R848.92. The difference between the weighted reference price for the production season 2004/05 (R1140.42) and the weighted import parity price of R848.62 for the month of February results in a tariff of R291.81 for the month of February. This tariff will be published in the Government Gazette on the third Friday of every month. This implies that the monthly calculation will always be concluded in the third week of every month (taking into consideration the average world prices and exchange rates of the past four weeks).

4.8 It is proposed that the critical elements of the tariff dispensation will be reviewed as follows:

- Average world reference price of imported grist: Reviewed every 3 years
- Impact of subsidies: Reviewed every 3 years
- 10-year moving average of exchange rate: Reviewed annually

4.9 The industry proposed that if the administrative issues surrounding a variable levy cannot be handled efficiently, the only other alternative would be a simple ad valorem tariff to the level of 30% on wheat.

4.10 In 1999, the Board of Tariffs and Trade made the recommendation that tariff protection on wheaten flour would be in the form of a specific duty at a level of 150% of the rate applicable to the wheat and that this tariff would be adjusted when the tariff on wheat would be adjusted. Protection was granted to the milling industry for a gradual and managed adjustment to greater levels of competitiveness (South African milling industry realised an average value conversion factor of 1:2,1 while international mills were converting wheat to flour at a ratio of 1:1,5). Table 4 illustrates how the milling industry has improved it efficiency over the past years to a level of 1:1,63 for the past three years. For the same period the average conversion factor for Argentina, Europe and the United States was calculated at 1:1,9.

Table 4: Conversion rate of South Africa and major wheat flour exporters

	Argent	EU	USA	SA	Avg Arg/Eu/US
1997	1.55	1.56	1.69	2.27	1.6
1998	1.71	1.94	1.73	2.02	1.8
1999	1.64	1.80	1.44	1.81	1.6
2000	1.45	1.66	1.51	1.71	1.5
2001	1.52	1.92	1.78	1.61	1.7
2002	1.40	2.30	1.74	1.56	1.8
2003	1.36	2.15	1.91	1.64	1.8
2004	1.62	2.21	1.76	1.55	1.9
2005*	1.67	2.19	1.87	1.72	1.9

Source: National Chamber of Milling, data from International Grains Council

4.11 From these results it is argued by the industry that the South African milling industry needs protection at a higher conversion rate than 1:1,5. According to the industry, the improvement in the efficiency of the milling industry over the past few years needs to be nurtured and maintained to ensure that wheat flour is produced at the most efficient levels. It is therefore proposed that the conversion rate is increased to a level of 1:1,8 and not the current average conversion of Argentina, Europe and the United States.

4.12 Surplus milling capacity in South Africa is currently estimated by the industry at 460 000 tons. With 76% conversion from wheat to flour the 311 041 tons exported to SADC countries in 2004 amounts to 409 264 tons. It is argued that the South African mills cannot compete with subsidized flour exports to Southern African countries and that subsidized flour exports can easily enter the South African wheat flour market from the neighbouring SADC countries.

4.13 It is therefore proposed by the industry that an additional provision is made to protect the domestic wheat flour industry at times when no wheat tariff is triggered by means of a 25 ad valorem tariff. It is recommended that the level of the ad valorem tariff be also reviewed every three years on the basis of the level of subsidization of wheat flour in the African markets.

4.14 Other than South Africa, Namibia is the only wheat producer within the Southern African Customs Union. The other Southern African Customs Union countries import wheat and wheat flour for local consumption. This wheat and wheat flour mainly comes in under the rebate of duty, in Schedule 4 to the Customs and Excise Act, 1964. The industry proposes that the recommendation by the previous BTT (Report 4090) that the rebate is phased out is supported.

4.15 According to the industry, their investigation has shown that the main disadvantages of a higher wheat tariff are:

- A tariff, by raising the domestic price of wheat, will encourage farmers to produce more, with the result that the SAFEX price of wheat will not increase by as much as the level of the tariff.
- The welfare loss to the economy is R254 million, but this is only at high tariff levels.
- While the tariff increased employment in those provinces where wheat is grown, it results in a net decrease in employment throughout the economy. However, this effect is small at less than a tenth of a percentage point.

4.16 The industry argues that none of these effects are large relative to the size of the South African economy, even when the effects are modelled at tariff rates far higher than those proposed here.

4.17 According to the industry, the main advantages of this tariff proposal are:

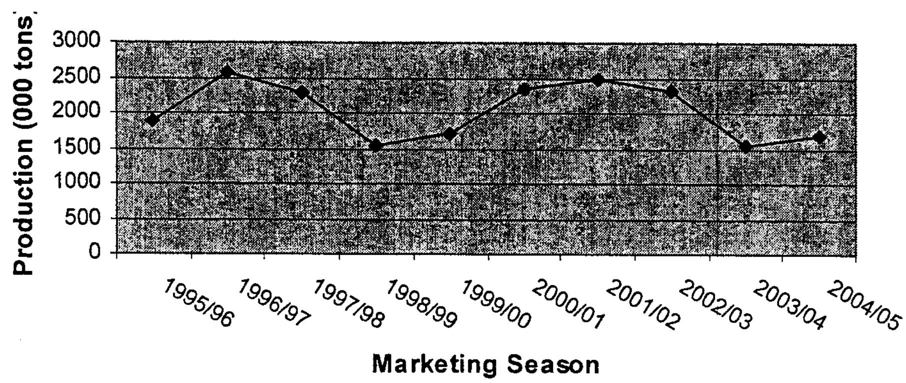
- The tariff is Rand based and takes into account the price levels at the 4 main import centres from which wheat is imported to South Africa
- It provides protection when it is needed, on condition that adjustments are made as frequently as required.
- The impact on the bread prices will be moderate (1.77%).

5. THE INDUSTRY AND MARKET

5.1 South Africa is a net importer of wheat with a self-sufficiency index of around 80% to 85%.

5.2 Wheat production ranged from 1.54 million tons to 2.57 million tons in the past ten years.

Figure 1: South African Wheat Production



5.3 Wheat in South Africa is produced mainly for human consumption, although small quantities of poorer quality wheat are marketed as stock feed. Roughly 60 per cent of the total quantity of flour and meal is used for the production of bread. The demand for wheat as a staple crop is largely determined by the size, composition, distribution and market behaviour of the population.

5.4 South Africa is a net importer of wheat. Wheat imports into South Africa during the period 2000 and 2004 showed an increasing trend and were mainly from Argentina, USA and Australia. These countries constituted more than 70% of the total imports into South Africa as follows: Argentina (29%), USA (23%) and Australia (19%). Other imports were from Germany (7%), Canada (6%) and Kazakhstan (5%). The remaining 11% was imported from other countries. The volume of imports during 2004 was 1,2 million tons, which constituted 79% of the total volume of production during that season. The average fob value of imports during 2004 was R1 062/ton.

5.6 The secondary industry consists of the wheat milling and baking industries.

5.7 The major product of the baking industry is bread and 70 to 80 percent of all flour produced is used for bread baking. National bread consumption is estimated at 2 800 million loaves per annum or approximately 62 loaves per person per annum. The baking industry has become very consumer driven since deregulation, which has resulted in considerable product development and diversification.

5.8 The import figures show that the importation of wheat flour into SACU is minuscule. Total domestic production is 12 million tons, while only six thousand tons are imported. Imports represent only 0,006% of the market demand.

5.9 The major wheat producing countries in the world are China, EU countries, the United States, India, Canada, Eastern European countries, Turkey, Australia and Argentina. These countries produce almost 90% per cent of the world's wheat production. The regular exporting countries are the EU countries, the USA, Canada, Australia and Argentina.

6. COMPETITIVE POSITION

6.1 According to the industry, the bread making quality of the South African bread wheat cultivars is excellent. If the cultivars are classified according to International Standards (kernel hardness) they compare with the best Canadian, Australian and American bread wheat cultivars. For a characteristic like flour extraction they are even superior to some Australian Hard wheat, some US Hard Red Winter wheat and some Canadian Prairie Spring wheat. However there are still significant differences in variability for kernel hardness between cultivars within the three main wheat production areas. Therefore, the main issue that should be addressed is not the quality of South African wheat cultivars, but the consistency of the quality.

6.2 In the accompanying figures, the South African wheat prices from July 1999 to January 2005 are compared with the import parity price of wheat from various origins and cultivars at different destinations.

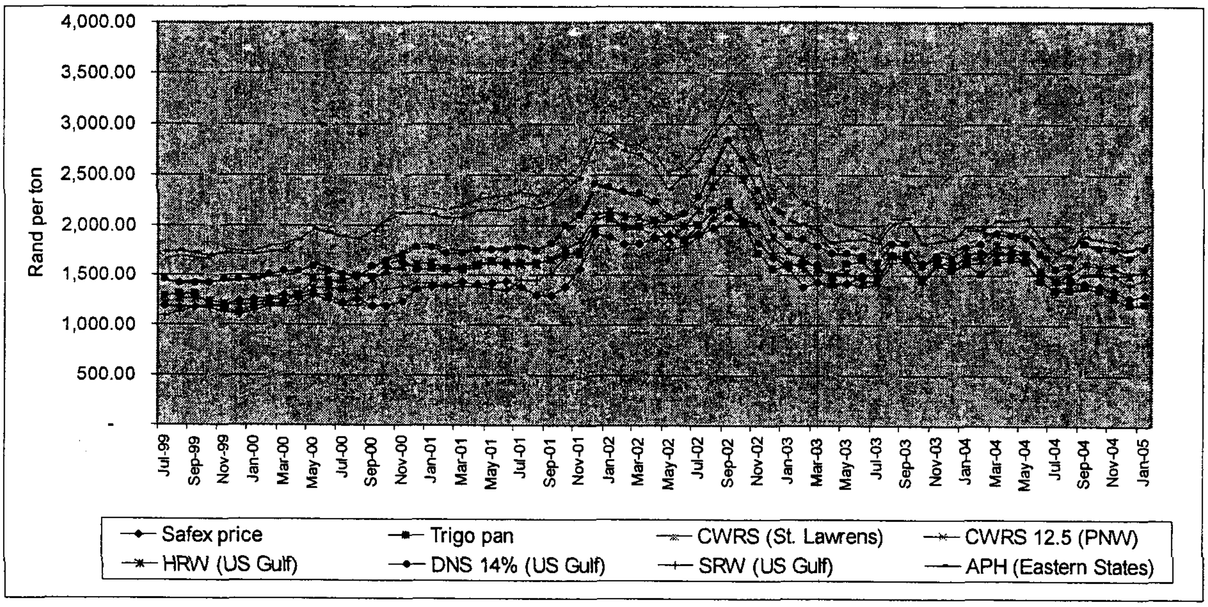


Figure 2: South African and import parity prices of various cultivars at Randfontein

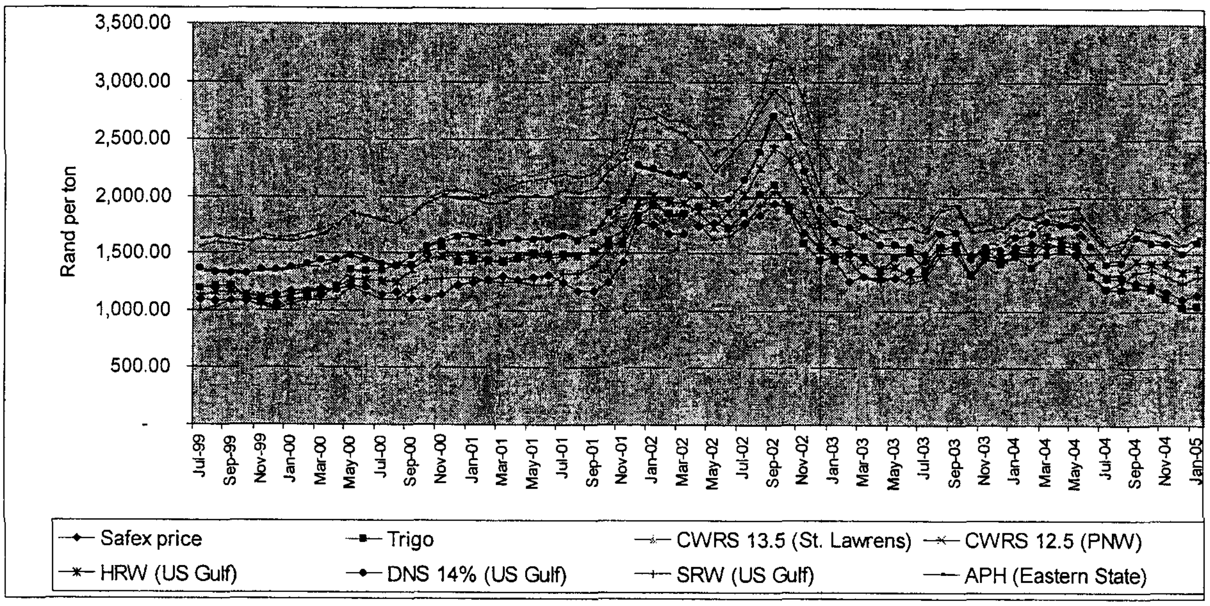


Figure 3: South African and import parity prices of various cultivars at Durban

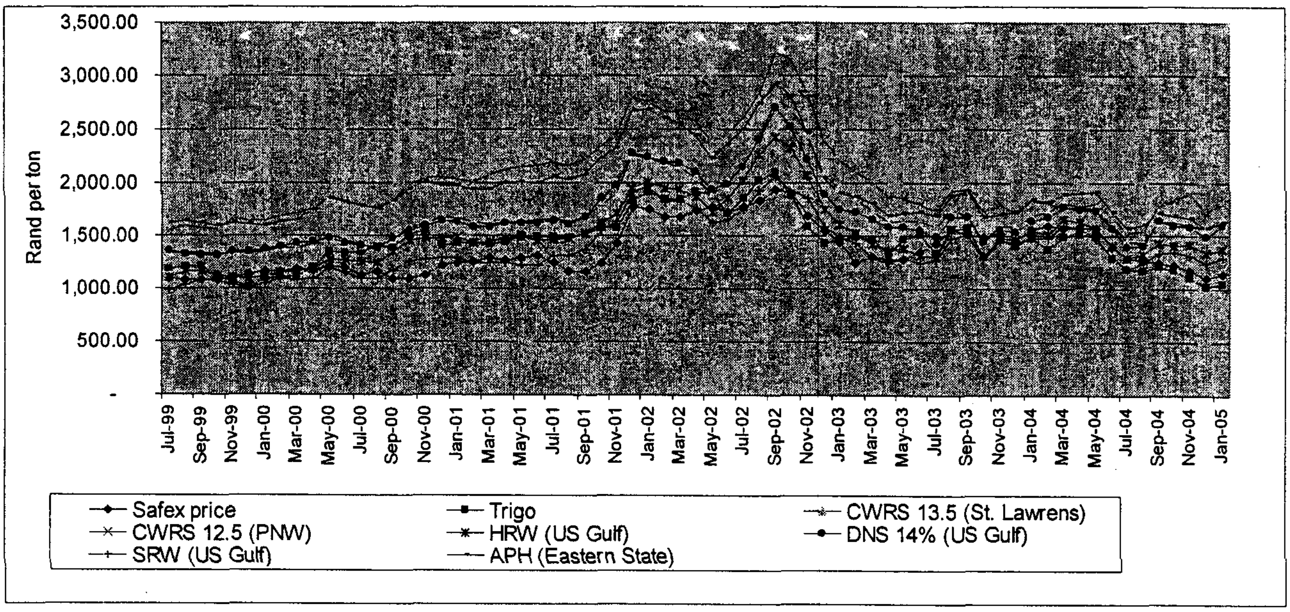


Figure 4: South African and import parity prices of various cultivars at Cape Town

6.3 It is clear from the figures shown above that South African prices follow import parity prices. It is also clear that in later years the Argentinean prices have become the benchmark against which local prices are set. Therefore, local prices of wheat are not always benchmarked against similar qualities

Table 5: SAFEX prices compared to prices of cultivars from other countries (R/t)

Month	Safex	Trigo pan Argen	CWRS 13.5 Canad	CWRS 12.5 Canad	APH Austr	HRW USA	DNS USA	SRW USA
Jan-04	1702	1615	1829	1963	1977	1682	1781	1619
Feb-04	1735	1521	1869	1950	1957	1663	1820	1626
Mar-04	1716	1637	1966	1911	2037	1803	1923	1743
Apr-04	1724	1665	1919	1914	2047	1774	1894	1715
May-04	1715	1637	1894	1951	2061	1721	1880	1630
Jun-04	1545	1440	1755	1826	1871	1553	1716	1452
Jul-04	1450	1345	1602	1691	1731	1452	1564	1354
Aug-04	1448	1350	1621	1723	1787	1500	1585	1419
Sep-04	1419	1390	1806	1947	1892	1606	1811	1516
Oct-04	1398	1354	1804	2020	1866	1585	1766	1524
Nov-04	1347	1280	1775	2059	1837	1590	1760	1487
Dec-04	1283	1204	1744	1903	1752	1509	1671	1415
Jan-05	1313	1217	1836	1977	1810	1550	1767	1467
Difference*	0	-96	523	664	496	237	454	154

Note: * Difference = SAFEX price minus import parity prices for January 2005

6.4 Turning to world prices, as opposed to import parity prices, and as can be gleaned from tables earlier in this report, it is evident that the SAFEX price paid to the South African wheat producer compares favourably with that paid to non-subsidised Australian farmers (an equivalent of R1018 per ton) and non-subsidised Argentinean farmers (an equivalent of R678 per ton).

6.5 The existing rates of duty on wheat and wheat flour were introduced on 13 August 2004. The 3-week moving average of the US No. 2 HWR fob (ord) Gulf price for wheat triggered an adjustment at US$154.00/ton on 29 June 2004. The corresponding R/$ exchange rate was 6.2248. The world reference price, the 3-week moving average and the exchange rate, as at the date of trigger, were applied to the formula to determine the customs duty on wheat and wheat flour as follows:

❖ World Reference Price: Less	$157.00/ton
❖ 3-Weeks Moving Average Price (US No.2 HRW (ord) Golf as at 29/08/2004)	$154.00/ton
❖ Difference:	$ 3. 00/ton
❖ R/$ Exchange Rate as at 29/08/2004:	6.2248
❖ Duty on wheat:	R18.67/ton or 1,867c/kg
❖ <u>Ad valorem</u> equivalent duty on wheat: (As a percentage of 3-weeks moving average price)	2%
❖ Duty on wheat flour: (150% of rate applicable to wheat)	R28.01/ton or 2,80c/kg
❖ Average fob value/ton of imports, 2004)	R1 890/ton
❖ <u>Ad valorem</u> equivalent duty on wheat flour: (As a percentage of average fob value/ton of imports, 2004)	2%

6.6 The futures exchange formed through trading on SAFEX is used as the main market indicator for domestic wheat prices. The exchange rate and international prices of wheat are the two factors that have the largest impact on local wheat prices. In 2002 when the Rand was relatively weak, the wheat price was above R2000 and the import tariff was R196/ton. Presently with a relatively stronger strong Rand, the wheat price is about R1 400/ton and the tariff is R18.67/ton.

6.7 A comparison of prices of US and Argentina with SAFEX prices showed that the SAFEX prices closely followed the import parity trend, especially that of the US No 2 HRW prices.

6.8 Due to a gradual decline in the US No.2 HRW prices over time, the 10-year average US No. 2 HRW price for the period 1994/95 to 2003/04 was $151/ton.

7. COMMENTS ON THE APPLICATION

7.1 The SACU partners stated that higher tariffs for protection of farmers would only be supported if they continue to receive rebates or any suitable alternative to compensate the milling industry. The continuation of the wheat rebates is imperative to ensure the long-term survival of the BLNS milling industry and also consumer access to competitively priced wheaten products. The BLNS Grain Industry Association supported the proposed Rand based system submitted by the wheat task team.

7.2 The local industry role players largely were in support of the proposed Rand based system submitted by the wheat task team. Premier Foods commented that the higher duties would have an unnecessary cost-raising impact and proposed that protection against subsidies be addressed by using the appropriate trade remedy instruments.

8. FINDINGS AND RECOMMENDATION

8.1 Given the above analysis, an especially as the South African wheat and flour producers do not experience price disadvantages against foreign competitors, the Commission found that there was no justification for an increase in the duty on wheat and wheat flour.

8.2 The milling industry especially does not experience any significant competition from imports. The existing duty of approximately R18 per ton and R28 per ton respectively for wheat and wheat flour converts to an equivalent duty of 2 per cent ad valorem.

8.3 In the light of the foregoing, the Commission decided to recommend that:

- The current tariff system for wheat and wheat flour is replaced with appropriate *ad valorem* duties. The level of 2% was found to be appropriate, as this level is the existing *ad valorem* equivalent duty for wheat and wheat flour.
- The rates of duty on other wheat products are maintained.
- The provision for rebate of the duty on wheat imported by the SACU partners is maintained to support their downstream industries.
- Should there be evidence of possible subsidized importation, it should be addressed by using the appropriate trade remedy instrument, i.e. a possible countervailing duty application and not by an increase in ordinary tariffs.
- The problem of exchange rate fluctuations cannot be addressed by way of the tariff.
- The wheat and downstream industries are at liberty to approach the Commission for duty reductions on intermediate inputs for a possible solution to the high cost structures encountered by the wheat industry.