

REPORT NO. 410

Increase in the rate of customs duty on uncooked pasta, not stuffed or otherwise prepared classifiable under tariff subheading 1902.19

The International Trade Administration Commission of South Africa herewith presents its Report No.410: **Increase in the rate of customs duty on uncooked pasta, not stuffed or otherwise prepared classifiable under tariff subheading 1902.19**



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Siyabulela Tsengiwe
CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 410

Increase in the rate of customs duty on uncooked pasta, not stuffed or otherwise prepared classifiable under tariff subheading 1902.19

Synopsis

Pioneer Foods (Pty) Ltd, trading as Sasko Pasta, applied for an increase in the rate of customs duty on uncooked pasta, not stuffed or otherwise prepared, currently classifiable under tariff subheading 1902.19 at a general rate of duty of 30 per cent *ad valorem*.

The Commission, after careful consideration of the application and the comments received, found adequate justification for an increase in the general rate of duty on uncooked pasta, not stuffed or otherwise prepared, from 30 per cent *ad valorem* to 40 per cent *ad valorem*.

In reaching its findings and taking into account that the WTO-bound rate on pasta is 54% *ad valorem*, the Commission, on the one hand took the domestic industry's competitive position into consideration, and, on the other, the possible cost-raising impact of a higher duty on an important source of nutrition.

The Commission also took into account that pasta was not a staple food in the South African context.

The Commission found that the majority of dry pasta imports originate from the European Union, in particular from Italy, dutiable at free of duty in terms of the SA-EU Agreement, but that low-priced imports from Turkey have reached appreciable levels.

The Commission concluded that an increase in the rate of duty on pasta would improve the price-competitive position of the domestic industry in the face of fierce foreign competition. The support should lead to better utilisation of existing production capacity and further investment in this industry in a market that is growing significantly.

The Commission decided that the duty be reviewed after a period of three years, to determine its impact on the industry's competitive position, further development and the full value chain.

In the light of the foregoing, the Commission recommends that the general rate of duty on uncooked pasta, not stuffed or otherwise prepared, classifiable under tariff subheading 1902.19, be increased from 30 per cent to 40 per cent *ad valorem*.

1. THE APPLICATION AND TARIFF POSITION

1.1. Pioneer Foods (Pty) Ltd, trading as Sasko Pasta, applied for an increase in the rate of customs duty on uncooked pasta, not stuffed or otherwise prepared, currently classifiable under tariff subheading 1902.19 at a general rate of duty of 30 per cent *ad valorem*.

1.2. The applicant requested an increase to the WTO-bound rate of 54 per cent *ad valorem*.

1.3. As reasons for the application, the applicant stated that:

- The agro-processing sector has been identified in the Industrial Policy Action Plan (IPAP2) as an industry qualified to apply to ITAC for selective tariff increases on products with scope for job creation; and
- The local pasta processing industry has to compete with increased imports of low-priced “subsidised” products from Turkey.

1.4. The tariff structure of pasta reads as follows:

Tariff heading	Tariff sub-heading	Description	Unit	Rate of duty			
				General	EU	EFTA	SADC
19.02		Pasta, whether or not cooked or stuffed (with meat or other substances) or otherwise prepared, such as spaghetti, macaroni, noodles, lasagne, gnocchi, ravioli, cannelloni; couscous, whether or not prepared					
	1902.1	Uncooked pasta, not stuffed or otherwise prepared:					
	1902.11	Containing eggs	kg	30%	Free	11.4%	Free
	1902.19	Other	kg	30%	Free	11.4%	Free

1.5. The application was published in the Government Gazette on 20 July 2012 for comments by interested parties.

2. INDUSTRY AND MARKET

- 2.1. Pasta is made from unleavened dough made from durum and/or bread wheat flour and water. The product can be categorized in two basic styles: Dried and fresh. Dried pasta is the focus of this application.
- 2.2. Pasta is produced in the SACU by Botswana, Namibia and South Africa. Dry pasta makes up approximately 75% of the total pasta market in the SACU. Between 70 000 tons and 80 000 metric tons of pasta is currently consumed annually, with 85%, i.e. approximately 65 000 metric tons, manufactured domestically.
- 2.3. The SACU market for pasta shows significant growth. This is attributed to pasta's convenience and reputation as a low-fat food.
- 2.4. Tiger Brands (Pty) Ltd is the SACU market leader in the production of pasta, followed by the applicant and a number of smaller producers such as FG La Pasta (Pty) Ltd, La Pasta Delizia (Pty) Ltd, Lauro House of Pasta CC, M G Pasta (Pty) Ltd, Mamma G's (Pty) Ltd, MARS Africa (Pty) Ltd, Maxim packers (Pty) Ltd, Pasta Gallo CC, Pasta Italia (Pty) Ltd, Pasta Regalo (Pty) Ltd, Unilever SA Foods (Pty) Ltd, Pasta Nova (Pty) Ltd, Namib Mills (Pty) Ltd and Ngwane Mills (Pty) Ltd.
- 2.5. The SACU producers of pasta are able to meet the full SACU market requirements for pasta.
- 2.6. From 2009 to 2011, imports of uncooked pasta increased by 67%, from 8 568 metric tons to 14 275 metric tons.
- 2.7. Imports from the European Union, mainly from Italy, increased between 2009 to 2011 from 5 883 metric tons to 8 236 metric tons. In 2011, imports from the European Union comprised approximately 58% of total imports.
- 2.8. Imports of uncooked pasta from Turkey constituted approximately 28% of total imports in 2011. Although Turkey's imports constitute a smaller percentage of total imports than that of Italy, imports increased significantly from 1 081 metric tons in 2009 to 3 928 metric tons in 2011.
- 2.9. The domestic industry's exports of uncooked pasta decreased by approximately 30%, from 2 657 metric tons in 2009 to 1 873 metric tons in 2011.

3. COMPETITIVE POSITION

- 3.1. Durum wheat (and flour) a major input cost item, is classifiable at free of duty, enabling the applicant to source durum wheat at internationally competitive prices. A variable tariff formula applies to bread wheat (and flour). In terms of this tariff formula, the duty currently is zero.

- 3.2. In addition, a rebate provision exists that provides for a rebate of the full duty on semolina of wheat for the manufacture of pasta.
- 3.3. However, information at the Commission's disposal indicates that the domestic industry is experiencing substantive price disadvantages vis-à-vis Turkish producers.

4. **COMMENTS ON THE APPLICATION**

- 4.1. The domestic pasta manufacturers, specifically Tiger Brands (Pty) Ltd, Pasta Nova (Pty) Ltd, and La Pasta Delizia cc supported the application.
- 4.2. Importers and retailers of the subject product, namely Martiq 1005 cc, Casmo Importers t/a May Importers, Fenleys Trading cc, Rialto Foods (Pty) Ltd, Coltrade International cc, Golden Food Packers Cape cc, Impact Distributors (Pty) Ltd, M&L Distributors (Pty) Ltd, Liberty Foods (Pty) Ltd, Shoprite Checkers (Pty) Ltd and Woolworths Foods (Pty) Ltd objected to the application, in the main due to the cost-raising effect of higher duties.
- 4.3. The Embassy of the Republic of Turkey commented that, under a situation where tariffs against the EU cannot be increased in terms of the SA-EU Trade, Development and Cooperation Agreement, the Republic of Turkey has become the focus of applications for tariff increases.
- 4.4. The Embassy submitted that Turkey provides export subsidies only in 16 of the 44 listed products in its agriculture commitment register to the WTO, and that it does not breach its WTO obligations in this regard. The Embassy emphasised that these support measures concern the production of agricultural products that cannot be related to the exportation of pasta and that if there is an effort to do so, claims to this effect need to be based on sound evidence which in this particular case does not appear to exist.
- 4.5. The National Agricultural Marketing Council (NAMC) submitted that the increase in the tariff poses the risk that domestic pasta prices could increase, in contrast to the stable price trends for pasta experienced in South Africa since July 2010; and that South African pasta imports will become highly dependent on Italian imports, increasing South Africa's vulnerability to any changes in Italy's ability to export pasta.

5. **FINDINGS**

- 5.1. On balance, the Commission, after careful consideration of the application and the comments received, found adequate justification for an increase in the general rate of duty on uncooked pasta, not stuffed or otherwise prepared, from 30 per cent *ad valorem* to 40 per cent *ad valorem*.

- 5.2. In reaching its findings, and taking into account that the WTO-bound rate on pasta is 54% *ad valorem*, the Commission, on the one hand, took the domestic industry's competitive position into consideration, and, on the other, the possible cost-raising impact of a higher duty on an important source of nutrition.
- 5.3. The Commission also took into account that pasta was not a staple food in the South African context.
- 5.4. The Commission found that the majority of dry pasta imports originate from the European Union, in particular from Italy, dutiable at free of duty in terms of the SA-EU Agreement, but that low-priced imports from Turkey have reached appreciable levels.
- 5.5. The Commission concluded that an increase in the general rate of duty on pasta would improve the price-competitive position of the domestic industry in the face of fierce foreign competition. The support should lead to better utilisation of existing production capacity and further investment in this industry in a market that is growing significantly.
- 5.6. The Commission decided that the duty be reviewed after a period of three years, to determine its impact on the industry's competitive position, further development and the full value chain.

6. **RECOMMENDATION**

- 6.1. In the light of the foregoing, the Commission recommends that the general rate of duty on uncooked pasta, not stuffed or otherwise prepared, classifiable under tariff subheading 1902.19, be increased from 30 per cent to 40 per cent *ad valorem*.

[03/2012]