REPORT NO. 439

CREATION OF A REBATE PROVISION FOR REFINED, BLEACHED AND DEODORISED BUT NOT FRACTIONATED PALM OIL USED IN THE MANUFACTURE OF EDIBLE FATS OR OILS

The International Trade Administration Commission of South Africa herewith presents its Report No. 439: **Creation of a rebate provision for refined, bleached and deodorised but not fractionated palm oil used in the manufacture of edible fats or oils,** with recommendations.

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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

...19...08...../2013

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

CREATION OF A REBATE PROVISION FOR REFINED, BLEACHED AND DEODORISED BUT NOT FRACTIONATED PALM OIL USED IN THE MANUFACTURE OF EDIBLE FATS OR OILS

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Synopsis

Sime Darby Hudson & Knight (Pty) Ltd applied for the creation of a rebate provision for refined palm oil, bleached and deodorised but not fractionated, classifiable under tariff subheading 1511.90. The subject product is used as a blend in the manufacture of edible fats or oils classifiable in tariff subheading 1517.90.

The Commission found that there are no local producers of palm oil or its substitutes in SACU.

Refined palm oil is a major input in the manufacturing of edible oils or fat. A rebate facility as recommended below would provide tariff relief to the local industry manufacturing edible oils and fats in the face of stiff competition from abroad. The support should enable the industry to improve its competitive position and fully utilise its existing production capacity.

The Commission recommends the creation of a rebate of duty facility for palm oil, refined, bleached and deodorised but not fractionated, classifiable in tariff subheading 1511.90, for the manufacture of edible fats or oils, classifiable in tariff subheading 1517.90.

The application and tariff position

1. ITAC received an application from Sime Darby Hudson & Knight (Pty) Ltd for the creation of a rebate provision for the duty free importation of refined but not fractionated palm oil classifiable under tariff subheading 1511.90. The subject product is used as a blend in the manufacture of edible fats or oils classifiable in tariff subheading 1517.90.

2. As motivation for the application, the applicant stated the following:

   i. All palm oil is imported and is currently subject to a 10% import duty. No substitute product is produced in the SACU region.

   ii. Vegetable oil prices have been highly volatile. The price increases have put severe pressure on the cost of manufacturing these products and ultimately on consumers.

iii. The rebate provision will allow Sime Darby Hudson and Knight and Unilever (a manufacturer of downstream products such as margarine) to reduce the price of the final products, invest in more training and the upgrading of facilities and create additional employment.

iv. The proposed blend will reduce the current volume of imported palm olein and stearin and initiate an increase in locally sourced sunflower oil, thereby creating an immediate positive impact on the local crushers of sunflower oil.

3. The proposed rebate provision was published on 19 April 2013 as follows in the Government Gazette for interested parties to comment:

Creation of a rebate of customs duty provision on:

"Palm oil, refined, bleached and deodorised but not fractionated, classifiable in tariff subheading 1511.90, for the manufacture of edible fats or oils, classifiable in tariff subheading 1517.90."

4. The existing tariff position for refined palm oil, is as follows;

Table 1: Tariff position of refined palm oil

Tariff Heading/Subheading	Description	Unit	Rates of duty			
			General	EU	EFTA	SADC
15.11	**Palm oil and its fractions, whether or not refined, but not chemically modified:**					
1511.10	- Crude oil	kg	10%	Free	10%	Free
1511.90	- Other	kg	10%	Free	10%	Free

5. The subject product is currently classifiable under tariff subheading 1511.90, and attracts a general rate of customs duty of 10% *ad valorem*. The tariff heading include other palm oil fractions such as palm stearin and palm olein.

6. The existing tariff position for the final product (edible fats and oils), is as follows;

Table 2: Tariff position for edible fats & oil

Tariff Heading/Subheading	Description	Unit	Rates of duty			
			General	EU	EFTA	SADC
15.17	**Margarine; edible mixture or preparations of animal or vegetable fats or oils of fractions of different fats or oils of this Chapter (excluding edible fats or oils or their fractions of heading 15.16):**					
1517.90	**-- Other:**					
1517.90.10	--Containing more than 10 per cent but not more than 15 per cent by mass of milk fats	kg	10%	Free	3.8%	Free
1517.90.20	--Edible mixture or preparation of a kind used as mould release preparations	kg	10%	Free	3.8%	Free
1517.90.90	--Other	kg	10%	Free	10%	Free

The industry and market

7. Crude palm oil is milled from the mesocarp or flesh of palm fruit. It is then further refined where impurities are removed and the palm oil is filtered, bleached and the odours removed. The final product is then a refined, bleached and deodorised but not fractionated palm oil, commonly referred to as RBD palm oil.

8. The RBD palm oil is a raw material used to manufacture an intermediate product (edible oil blend).

9. The world's major producers of palm oil are in Indonesia, Malaysia, Nigeria, Colombia and Thailand.

10. The RBD palm oil is imported into South Africa, where it is further bleached and deodorised to remove oxidation products and other impurities that originated during the transportation of the oil. A small portion is also hydrogenated to modify its melting characteristics.

11. The refined oil is blended domestically with coconut oil, sunflower oil, canola oil, linseed oil and other oils originating from palm oil, into a variety of proprietary blends to be included into margarines, pastry fats shortenings, confectionery fats and other food ingredients.

12. The applicant currently operates below full production capacity although sales volumes for edible oil blends have increased steadily over the period 2010 to 2012.

13. There is no fractionation facility in SACU. Domestically, palm oil is not fractionated further into palm stearin or palm olein, among others. South Africa is only involved in the downstream operations of the palm oil industry, which entails the manufacturing and distribution of edible oils and fats.

14. The relevant tariff subheading includes a host of other types of palm oil fractions. Thus, the trade statistics do not reflect the import figures for refined palm oil *per se*.

15. South Africa is a net importer of edible oils and fats. Imports of the subject product are mainly from Malaysia and Indonesia and exports are destined to a number of African countries such as Zimbabwe, Angola, the Republic of Congo, Mozambique and Malawi.

Comments received

16. Support for the application was received from the Department of Agriculture Forestry and Fisheries, the Malaysian Palm Oil Council, the National Agriculture Marketing Council, Central Edible Oils (Pty) Ltd, and Unilever South Africa. The main reasons cited for support were as follows:

    i. Palm fruit trees are not grown in South Africa and imports are from Malaysia and Indonesia.

ii. Unfractionated palm oil cannot substitute sunflower or soybean oil in the cooking oil market in South Africa.

iii. A rebate facility may reduce the cost of the final products manufactured using palm oil, and as a result stimulate demand for these products and indirectly result in an increase in demand for complementary oils in the blending process, such as locally produced sunflower and soybean oils.

17. The South African Oil Processers Association objected to the application indicating the following:

i. The SACU market share for margarine spreads and the baking fats industry has not declined; local manufacturers have re-formulated their products in order to mitigate increasing vegetable oil prices; and

ii. The decline in the sales volume of the applicant is as a result of inefficiency and high operating costs.

18. However, whilst the South African Oil Processers Association objected to the application, it concurred with the applicant that the known palm oil users in South Africa, including the applicant, do not have fractionation facilities. Therefore, there is no risk currently of fractionation of the imported refined palm oil that would compete directly with the products manufactured by members of the South African Oil Processers Association.

Findings

19. The Commission found that there are no local producers of palm oil or its substitutes in SACU.

20. Refined palm oil is a major input into the manufacturing of edible oils or fat. A rebate facility as recommended below would provide tariff relief to the local industry manufacturing edible oils and fats in the face of stiff competition from abroad. The support should enable the industry to improve its competitive position and fully utilise its existing production capacity.

Recommendation

21. In light of the foregoing, the Commission recommends the creation of a rebate of duty facility for palm oil, refined, bleached and deodorised but not fractionated, classifiable in tariff subheading 1511.90, for the manufacture of edible fats or oils, classifiable in tariff subheading 1517.90.