

REPORT NO: 340

**INCREASE IN THE RATES OF CUSTOMS DUTY ON
LYSINE AND ITS ESTERS; AND FEED
SUPPLEMENTS CONTAINING BY MASS 40 PER
CENT OR MORE LYSINE, WHETHER OR NOT
CONTAINING ADDED ANTIBIOTICS OR ADDED
MELENGESTROL ACETATE**

The International Trade Administration Commission of South Africa herewith presents its Report No. 340: **INCREASE IN THE RATES OF DUTY ON LYSINE AND FEED SUPPLEMENTS, CONTAINING BY MASS, 40 PER CENT OR MORE LYSINE, WHETHER OR NOT CONTAINING ADDED ANTIBIOTICS OR ADDED MELENGESTROL ACETATE.**



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CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 340

INCREASE IN THE RATES OF CUSTOMS DUTY ON LYSINE AND FEED SUPPLEMENTS, CONTAINING BY MASS, 40 PER CENT OR MORE LYSINE, WHETHER OR NOT CONTAINING ADDED ANTIBIOTICS OR ADDED MELENGESTROL ACETATE

Synopsis

SA Bioproducts (Pty) Ltd applied for an increase in the rates of duty on lysine and similar feed supplements classifiable under tariff subheadings 2922.41 and 2309.90.65, respectively, from free of duty to 10 % ad valorem.

The Commission found that the applicant is in a position to meet the full requirements of the SACU animal feed industry, the major downstream user of its products.

The Commission found that the applicant is experiencing price disadvantages against foreign producers of similar products and decided to recommend an increase in the rates of duty on lysine and similar feed supplements from free of duty to 10% ad valorem, to enable the applicant to beat back fierce foreign competition and better utilize its existing production capacity.

THE APPLICATION AND TARIFF POSITION

SA Bioproducts applied for an increase in rates of duty on lysine and similar feed supplements classifiable under tariff subheadings 2922.41 and 2309.90.65, respectively, from free of duty to 10 % ad valorem.

The reasons for the application, as submitted by the applicant, are that Lysine is manufactured in the SACU in the required quantities and that it will always meet domestic demand, and that the existing free of duty dispensation for lysine and similar feed supplements is a disadvantage in the light of the price competition experienced from foreign producers of similar products.

The application was published in the Government Gazette of 29 January 2010, for interested parties to comment.

The tariff position for lysine and feed supplements is shown in the table below:

Tariff heading	Tariff sub-heading	Description	Stats unit	Rate of duty			
				General	EU	EFTA	SADC
2922		Oxygen-function amino-compounds:					
	2922.4	Amino-acids (excluding those containing more than one kind of oxygen function), and their esters; salts thereof:					
	2922.41	Lysine and its esters; salts thereof	kg	0%	0%	0%	0%
2309		Preparations of a kind used in animal feeding:					
	2309.90	Other:					
	2309.90.65	Feed supplements, containing, by mass, 40 per cent or more lysine, whether or not containing added antibiotics or added melengestrol acetate	kg	0%	0%	0%	0%

The products in question were subject to the following safeguard duties recommended in the Commission's Report No.250 of 6 September 2007, which were gradually phased out as follows:

Period	Rate of safeguard
11 May 2007 to 10 May 2008	27%
11 May 2008 to 10 May 2009	18%
11 May 2009 to 11 April 2010	9%

THE INDUSTRY AND MARKET

SA Bioproducts is currently the sole manufacturer of lysine in the SACU. The raw material, sugar, used in the manufacture of lysine is obtained from Tongaat Hullet Sugar Ltd.

Lysine is an amino acid that is used in its pure form by animal feed manufacturers to "top up" the lysine present from the bulk proteins that make up the basic ingredients of the feed (such as soya meal, fishmeal, etc) to formulate feeds for poultry and pigs that contain the optimum amino acid content for health and growth. Lysine is produced by fermentation and is supplied to the markets either in solid form (lysine hydrochloride (78% lysine) or lysine sulphate

(normally around 50% lysine) or liquid form (lysine free base at 50% lysine or lysine sulphate at around 25% lysine).

Lysine is generally blended to create so-called "compound feeds" which is a mix of a range of agricultural materials such as maize, soya meal, sunflower oilcake, fishmeal etc. together with other ingredients such as amino acids (like lysine and threonine), vitamins and minerals. Lysine is also used in the manufacture of ProNutro, body-building supplements and hospital drips. SA Bioproducts is currently able to meet the domestic requirements of the downstream manufacturing industry.

The demand for lysine is cyclical and interdependent with the demand for agricultural products such as maize, soya meal, sunflower oil cake, etc, that are alternative substitute products used for the manufacture of animal feed.

SA Bioproducts started operations in 1993, in a joint venture between AECI Ltd and the Industrial Development Corporation (IDC). In 2003, SA Bioproducts signed a joint venture agreement with a German firm, Amino GmbH. In terms of this relationship, SA Bioproducts produces amino acids also for the pharmaceutical and human nutritional applications. It now produces some 30% of the world production of the amino acid Iso-leucine for the pharmaceutical industry.

In 2008, the company was acquired by Lallemand Inc of Canada. Through this acquisition, the company has been given more financial stability resulting in increased diversification. It will be installing equipment to allow it to manufacture yeasts.

The trade data shows that there was an increase in the imports of lysine and feed supplements into the SACU between 2008 and 2009, especially from East Asia, at prices undercutting those of SA Bioproducts.

The SACU market increased from an estimated R92 million in 2006 to R 150 million in 2009. SA Bioproducts has a significant share of the SACU market and its value of production increased by 72% from 2006 to 2009. In the same period, export sales volumes increased by 12%. SA Bioproducts currently operates at over 60% capacity.

SA Bioproducts commenced a program, in partnership with Tongaat Hullet Sugar Ltd, enabling the production of refined quality white sugar. This new technology was expected to be implemented by April 2010. However, SA Bioproducts indicated that Tongaat Hullet

Sugar Ltd elected to suspend the programme due to developments within the sugar industry. To counter this and minimizing its raw material costs, SA Bioproducts has recently commissioned equipment to allow the use of final molasses as raw material input for its production. The development of new technology through in-house research and development in the production of lysine has led to a reduction of 30% in the unit variable cost of production.

SA Bioproducts indicated that due to the impact of the financial crisis and recession, the company has had to limit all discretionary spending and as a consequence, the company's research and development effort on lysine had to be reduced.

COMMENTS ON THE APPLICATION

Two objections were received from the industry using lysine as feed supplement stating that the increase in duty would have a cost-raising impact on the downstream manufacturers of animal feed.

FINDINGS

As the applicant is experiencing price disadvantages against similar imported products, the Commission decided to recommend an increase in the rate of duty on lysine and feed supplements from free of duty to 10% ad valorem, to enable the applicant to beat back fierce foreign competition and better utilize its existing production capacity.

The Commission found that a moderate level of 10% ad valorem (WTO bound rate) would lead to improved economies of scale and not have an undue cost-raising impact and would provide adequate support for the industry to consolidate its position as an important link in the nutritional and animal feeds value chain both in its linkages to the primary cane growers and sugar refineries as well as the downstream nutritional and animal feed industries. These other industries in the value chain are equally supported through tariff assistance.

The Commission further decided that the increase in the rates of customs duty be reviewed in a period of 5 years to assess the industry's performance.

RECOMMENDATION

The Commission recommends that the general rates of customs duty on lysine and its esters; salts thereof and feed supplements, containing by mass, 40 per cent or more lysine, whether or not containing added antibiotics or added melengestrol acetate, classifiable under tariff subheadings 2922.41 and 2309.90.65 respectively, be increased from free of duty to 10% ad valorem.