

REPORT NO: 341

**INCREASE IN THE RATE OF CUSTOMS DUTY ON
CALCIUM PROPIONATE**

The International Trade Administration Commission of South Africa herewith presents its
Report No. 341: **Increase in the rate of customs duty on calcium propionate.**



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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. 341

INCREASE IN THE RATE OF CUSTOMS DUTY ON CALCIUM PROPIONATE

Synopsis

Orthochem (Pty) Ltd applied for an increase in rate of duty on calcium propionate classifiable under tariff subheading 2915.50.30, from free of duty to 15 % ad valorem.

The Commission concluded that an increase in the general rate of duty to 15% ad valorem (WTO bound rate) would afford the industry adequate support in its efforts to meet the challenges of foreign competition, fully utilise its production capacity and achieve increased economies of scale, and to reduce the marginal cost of production. The increase in duty would not have an undue cost-raising impact especially as the product is being used in very small quantities in food products.

The Commission therefore decided to recommend an increase in the rate of customs duty on calcium propionate. The Commission further decided that the customs duty on calcium propionate be reviewed in a period of 5 years to assess the industry's performance.

THE APPLICATION AND TARIFF POSITION

Orthochem (Pty) Ltd applied for an increase in the rate of duty on calcium propionate classifiable under tariff subheading 2915.50.30 from free of duty to 15 % ad valorem.

The reason for the application, as submitted by the applicant, is that the product in question is manufactured in the SACU and that the existing free of duty dispensation is a disadvantage to the domestic industry manufacturing calcium propionate, especially in the face of stiff price competition experienced from foreign producers of calcium propionate.

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

The tariff position for calcium propionate is shown in the table below:

Heading	Sub-heading	Article Description	Rate of Duty			
			General	EU	EFTA	SADC
29.15		Saturated acyclic monocarboxylic acids and their anhydrides,halides, peroxides and peroxyacids; their halogenated, sulphonated, nitrated or nitrosated derivatives:				
	2915.50	Propionic acid, its salts and esters:				
	2915.50.30	-- Calcium propionate	free	free	free	free

INDUSTRY AND MARKET

Orthochem is currently the sole manufacturer of calcium propionate in the SACU.

Calcium propionate is used in the manufacture of animal feeds and food products such as bread, muffins, fresh pasta and croissants. Calcium propionate serves as a nutritional supplement, bread preservative, and generally extends the shelf life of food products.

The key raw material used in the manufacture of calcium propionate is propionic acid. Propionic acid is produced in large quantities by only 4 companies worldwide. It was produced by SASOL but production was discontinued. It now has to be imported. The calcium propionate production process is continuous and energy intensive with long start-up and shutdown times and large fixed costs.

Orthochem has been operating since 1985. At present the company holds approximately 80% of the SACU market for calcium propionate.

Import statistics show that imports of calcium propionate into the SACU, especially from the USA and East Asia have been increasing.

The SACU market increased from R36 million 2007 to R44 million in 2009.

COMMENTS ON THE APPLICATION

No comments or objections were received from the industry during the publication period.

FINDINGS

The Commission found that the applicant is experiencing price disadvantages against some foreign producers of calcium propionate.

The Commission concluded that an increase in the general rate of duty to 15% ad valorem (WTO bound rate) would afford the industry adequate support in its efforts to meet the challenges of foreign competition, fully utilise its production capacity and achieve increased economies of scale, and to reduce the marginal cost of production. The increase in duty would not have an undue cost-raising impact especially as the product is being used in very small quantities in food products.

The Commission therefore decided to recommend an increase in the rate of customs duty on calcium propionate. The Commission further decided that the customs duty on calcium propionate be reviewed in a period of 5 years to assess the industry's performance.

RECOMMENDATION

The Commission recommends that the general rate of customs duty on calcium propionate, classifiable under tariff subheading 2915.50.30, be increased from free of duty to 15% ad valorem.

(32/2009)