REPORT NO. 324

Review of the customs tariff dispensation for oil-cakes of tariff headings 23.04, 23.05 and 23.06

The International Trade Administration Commission (ITAC) of South Africa herewith presents **Report No. 324: Review of the customs tariff dispensation for oil-cakes of tariff headings 23.04, 23.05 and 23.06.**

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Siyabulela Tsengiwe
CHIEF COMMISSIONER

PRETORIA

..16.../...03../ **2010**

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 324

Review of the Customs Tariff Dispensation for oil-cakes of Tariff Headings 23.04; 23.05 and 23.06.

Synopsis

The review of the existing tariff dispensation for oil-cakes of tariff headings 23.04; 23.05 and 23.06 was a proactive initiative by ITAC in response to requests from the Department of Agriculture, Forestry and Fisheries (DAFF) to review the duties on all oil-cakes, and from the Animal Feed Manufacturers Association (AFMA) to reduce the rate of duty or to create a rebate facility for soya bean oil-cake of tariff heading 23.04 to be used in the manufacture of animal feed.

The review covered the oil-cakes classifiable under tariff headings 23.04, 23.05 and 23.06 carrying a duty of 6.6 per cent ad valorem in the general and EFTA columns and free of duty in the SADC and EU columns.

The Commission found that vegetable oil-cakes of tariff headings 23.04; 23.05 and 23.06 are produced in the SACU.

The Commission found that there is currently a substantial shortage in the SACU supply of soya bean oil-cake which is the most important source of protein to the animal feed manufacturing industry.

However it was found that a reduction or a rebate of the customs duties on oil-cakes would, in the current circumstances, have an adverse effect on the competitive position of the domestic oilseed processing sector.

In light of the above, the Commission recommended that the current levels of customs duties on oil-cakes classifiable under tariff headings 23.04; 23.05 and 23.06 be retained as these products are manufactured in the SACU. The Commission further recommended that the tariff dispensation for oil-cakes be reviewed after a period of three years allowing for a thorough assessment of the financial and economic feasibility of upgrading or expanding the current, below optimum, soya bean crushing capacity in South Africa and to offer the industry a window of opportunity for making the necessary investments to increase oilseed crushing capacity.

THE APPLICATION AND TARIFF POSITION

The review of the existing tariff dispensation for oil-cakes was a proactive initiative by ITAC in response to requests from the Department of Agriculture, Forestry and Fisheries (DAFF) and the Animal Feed Manufacturers Association (AFMA).

The DAFF submitted that a review of the customs duty on all oil-cakes be undertaken especially considering that oil-cake is a major input into beef and poultry production. The AFMA subsequently also requested a reduction in the duty on soya bean oil-cake classifiable under tariff heading 23.04 to free of duty.

The review covers the oil-cakes classifiable under tariff headings 23.04, 23.05 and 23.06, attracting a duty of 6.6 per cent ad valorem in the general and EFTA columns and free of duty in the SADC and EU columns. Table 1 below shows the currently applicable tariff structure for vegetable oil-cakes.

Table 1: Existing tariff position of vegetable oil-cakes

Heading	Sub-Heading	Article description	Statistical Unit	Rate of Duty			
				General	EU	EFTA	SADC
23.04		Oil-cake and other solid residues, whether or not ground or in the form of pellets resulting from the extraction of soya-bean oil	Kg	6, 6%	Free	6.6%	Free
23.05		Oil-cake and other solid residues, whether or not ground or in the form of pellets resulting from the extraction of ground-nut oil	Kg	6,6%	Free	6,6%	Free
23.06		Oil-cake and other solid residues, whether or not ground or in the form of pellets resulting from the extraction of vegetable fats or oils					
	2306.10	Of cotton seed	Kg	6,6%	Free	6,6%	Free
	2306.20	Of linseed	Kg	6,6%	Free	6,6%	Free

Heading	Sub-Heading	Article description	Statistical Unit	Rate of Duty			
				General	EU	EFTA	SADC
	2306.30	Of sunflower seeds	Kg	6,6%	Free	6,6%	Free
	2306.4	Of rape or colza seed					
	2306.41	Of low erucic acid rape or colza seeds	Kg	6,6%	Free	6,6%	Free
	2306.49	Other	Kg	6,6%	Free	6,6%	Free
	2306.50	Of coconut or copra	Kg	6,6%	Free	6,6%	Free
	2306.60	Of palm nuts or kernels	Kg	6,6%	Free	6,6%	Free
	2306.90	Other	Kg	6,6%	Free	6,6%	Free

INDUSTRY AND MARKET

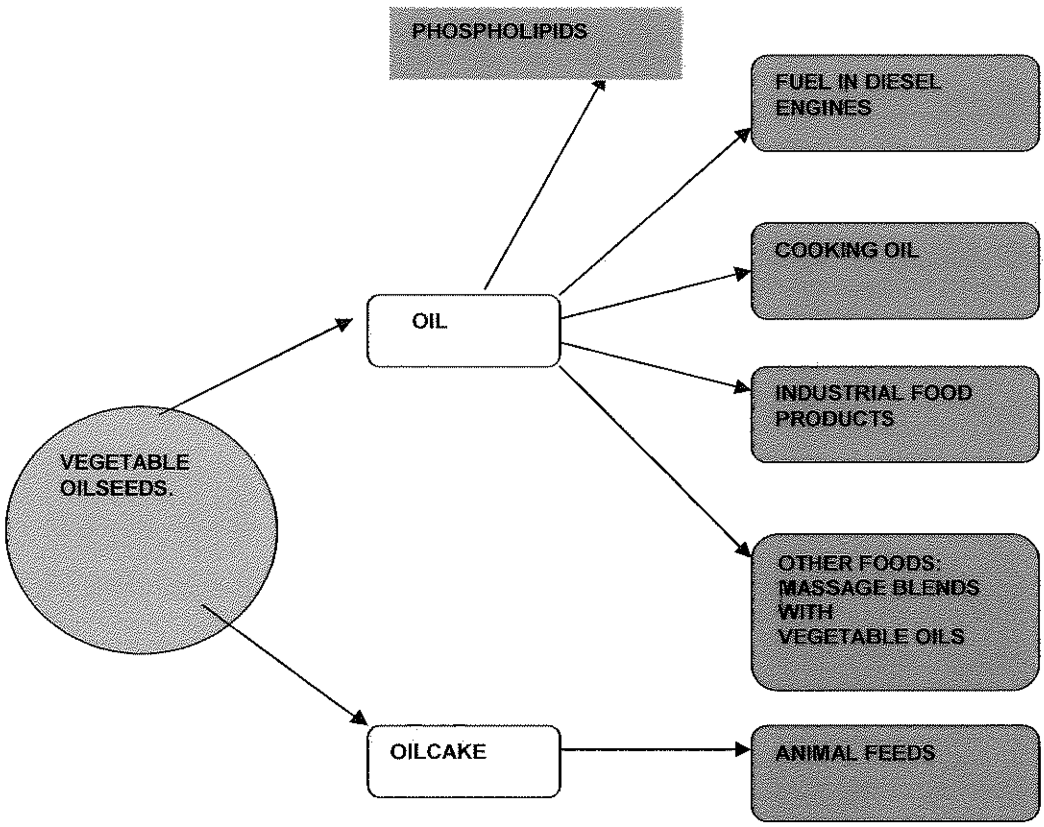
Vegetable oilseeds are regarded as some of the most important field crops in the SACU. This is due to their contribution to the gross value of production for agricultural commodities, but also in terms of their value-addition to other commodities and products (few of the oilseeds are consumed in raw form).

The vegetable oilseed industry comprises four main players, namely:

- The oilseed producers (primary industry);
- Crushers and refiners (secondary industry producing oils and oil-cake); and
- Users of oils and oil-cakes.

The uses of vegetable oilseed are depicted in Figure 1 below.

Figure 1: The uses of vegetable oilseeds



As can be seen in figure 1 above, the demand for oilseeds originates mainly from animal feed manufacturers who use it for feed rations and from demand for vegetable oils for industrial use and human consumption.

Oil-cakes of tariff headings 23.04; 23.05 and 23.06 are, in general, manufactured from oilseed available in the SACU. However, SACU is a net importer of processed oilseed products. With respect to the gross value of production, sunflower seed, groundnuts and soya beans are the most important oilseeds in the SACU.

Sunflower seed oil-cake

Sunflower is the third largest grain crop produced in South Africa after maize and wheat. The majority of sunflower seed, almost 70%, is destined for the expressers. When sunflower seeds are crushed, the oil obtained from the crushing amounts to 40% of the total content of the primary seed, 44% is oil-cake or sunflower meal, and the remaining 16% is waste.

The sunflower oil obtained from crushing the seeds can be divided into edible oil and non-edible oils. The edible oils are used in the production of various products destined for human consumption, such as margarine, salad dressings and for the preparation of food. The non-edible oils obtained from crushing are used in the manufacture of paints, shoe polish, beauty products, etc.

The largest portion of oil-cake production is used in the manufacture of animal feed rations. A small portion of the seeds is used in primary form in animal feeds as well as in breakfast cereals for human consumption.

The processing of sunflower seed is highly capital intensive and requires sophisticated technology and specialised knowledge. The industry does not import any significant volumes of sunflower seed, but imports sunflower crude oil. Of the sunflower seed produced locally, 72% is used domestically.

Groundnuts oil-cake

The production of groundnuts is mostly higher than its consumption, which is an indication that South Africa is self-sufficient in terms of groundnut production and therefore it is often not necessary to import, except in rare cases where there are shortages of groundnuts, for instance in 2002/2003 where consumption exceeded local production, making it necessary to import to meet the local demand. The crushing of groundnuts results in approximately equal amounts of oil and oil-cake. The oil-cake obtained from crushing is used in peanut butter, prepared baby food and animal feedstuffs.

Soya bean oil-cake

During the processing of soybeans, when the seed is pressed, crude oil is released from the seed while other products that are derived from the process, are soya beans oil-cake. The crushing of soya beans yields approximately 80% soya beans oil-cake and 17% soya beans oil.

There is a growing interest in soya beans products in South Africa because of the health benefits associated with these products. Soya beans consumption in the country is estimated at 25% for oil and oil-cake, 60% for animal feed, and 15% for human consumption. Soya beans oil-cake constitutes the largest portion of all the imported oil-cakes.

The demand is largely from the crushing or processing industries. Domestically, soya beans are sold to expressers who produce oil and oil-cake (which is used as animal feed) and can be sold as seeds. Soya beans are also sold directly to consumers for the edible market.

Use of soya beans in the Animal Feed Industry

Soya beans oil-cake is an important source of protein used in poultry and pork diets and to a lesser extent in ruminant (cattle and sheep) diets. On average, a standard poultry feed consists of 20% soya beans oil-cake. Although sunflower oil-cake can be used as a substitute product, such use is limited due to its less desirable physical characteristics.

Compared to soya beans oil-cake, sunflower oil-cake contains a lower level of protein and a lower level of energy, but contains higher levels of fibre (less suitable for poultry diets).

To ensure the same level of protein in a diet as would be the case when using soya beans oil-cake, the manufacturer of animal feeds will have to use alternative sources of protein such as fish meal. However, this will make the diet very expensive as the price of fish meal is higher than that of the price of soya beans oil-cake. Full fat soya can also be used in small quantities, due to the fact that too much full fat soya can lead to poor feed quality. Thus, soya beans oil-cake is the ideal protein source with the right characteristics at the most affordable price for protein used in the animal feed industry.

Local supply of soya oil-cake

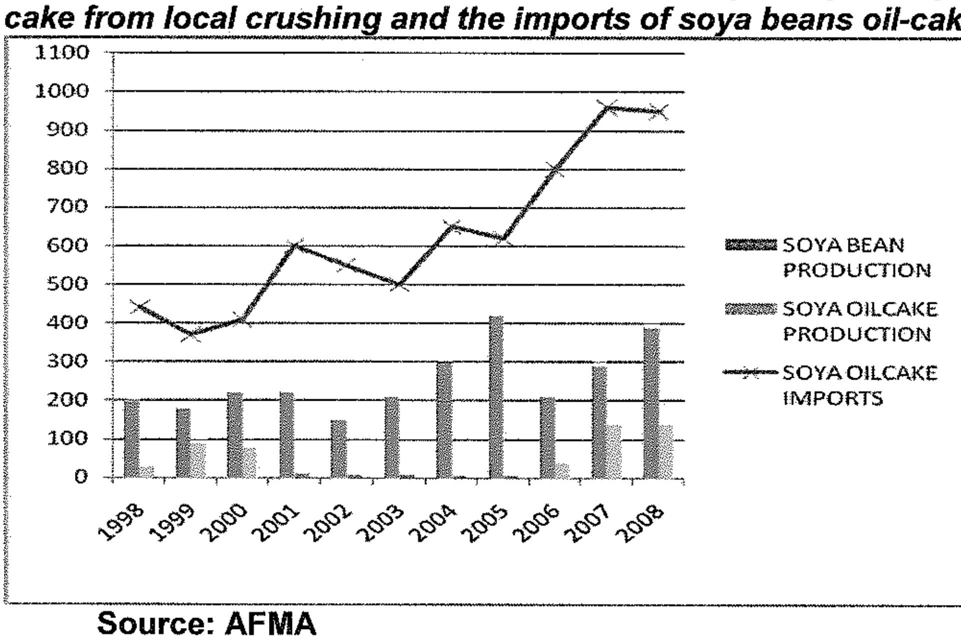
The local supply of soya beans for soya oil (for the human market) from which soya beans oil-cake is derived as a by-product originates from the following three crushers:

- Majesty Oil (with a capacity of app. 6000 - 7000 tons per month),
- Willowton Oil (with a capacity of app. 8 000 tons per month), and
- Neadan Oil (with a capacity of app. 8 000 tons per month).

Together these three crushers have a potential supply capacity of approximately 264 000 – 276 000 tons per annum. Willowton is equipped to do both soya beans and sunflower crushing. The decision as to which product to crush is determined by the crushing margin between soya and sunflower.

Figure 2 below indicates the local production of soya beans, the quantity of soya beans oil-cake from local crushing and the imports of soya beans oil-cake – of which the majority is imported from Argentina.

Figure 2: Local production of soya beans, the quantity of soya beans oil-cake from local crushing and the imports of soya beans oil-cake



Source: AFMA

Figure 2 indicates the gap that exists between the supply and demand for soya beans oil-cake every year (the gap between the green bar and the purple line for the same period), meaning that soya beans oil-cake needs to be imported to satisfy the local demand.

Local demand for soya bean oil-cake

Total demand for soya beans oil-cake in South Africa has since the 2005/06 marketing year (± 850 000 tons) grown to a demand of ± 1 262 000 tons in the 2007/08 marketing year, representing an increased demand of 48% within 2 years.

The total quantity of soya beans oil-cake used by members of AFMA in the production of animal feeds amounted to approximately 20% of total raw material used during animal feed manufacturing.

The current national demand for soya beans oil-cake in South Africa of approximately 1,3 million tons per annum and outstrips domestic supply by a considerable margin.

Even though there has been a dramatic increase in the supply of cotton oil-cake which can also be used in animal feeds, cotton oil-cake is used in the manufacturing of dairy feeds and is unfit for use in poultry diets.

Cost and prices

According to AFMA, the cost of feed, both for rearing poultry (broilers, layers and breeders) as well as cattle and sheep (ruminants), amounts to approximately 65 – 70% of the total cost associated with rearing these livestock. This makes it the single largest input for any farmer in the livestock industry.

Soya oil-cake constitutes approximately 25% of the total feed cost, which translates into 17.5% of the total costs associated with rearing these livestock.

COMMENTS ON THE APPLICATION

The review was published in the Government Gazette for interested parties to comment. Comments on the review were received from Grain SA, the Spice Pod (Pty) Ltd, (a SACU manufacturer of paprika powder used in the manufacture of spices), the National Agricultural Marketing Council (NAMC), the Department of Agriculture Forestry and Fisheries (DAFF) as well as the South African Oil Processors Association (SAOPA). All the respondents, except for the Spice Pod (Pty) Ltd were opposed to a reduction or rebate of the customs duty on vegetable oil-cakes.

Grain South Africa, which represents South African grain producers, submitted that they were opposed to a reduction in the duties on oil-cake as such reduction would have a harmful effect on the domestic oilseed production sector. The sustainable production of soya beans, in their view, is directly linked to the current import tariff dispensation for oil-cake.

Grain SA also emphasised that soya beans is one of the locally produced crops with the largest potential to contribute towards profitable and sustainable agricultural crop production on a small developing and commercial scale.

Spice Pod (Pty) Ltd, a SACU manufacturer of paprika powder used in the manufacture of spices, requested a reduction on paprika oil-cake classifiable under tariff subheading 2306.90 as it is not manufactured in the SACU in sufficient quantities.

The NAMC and DAFF submitted that a reduction or a rebate of the customs duties on oil-cake would have an adverse effect on the domestic oilseed production sector as there has been a notable increase in especially the production of soya beans. Taking into account that the international prices of soya beans are already under pressure, the removal of the soya oil-cake import duty would adversely affect the local producer prices for soya beans, according to DAFF and NAMC. It was also submitted that, with proper investment and coordination, soya beans oil-cake production could increase over a period of time especially given the increase in soya bean production which could spur investment in downstream crushing capacity.

The SAOPA responded by opposing a reduction in the customs tariffs on oilseed. SAOPA's opposition is especially based on the demand of soya bean oil cake that exceeds the supply as South African farmers have never been able to supply the soya bean demand for processors to expand their production capacity. This however has changed in the recent years and SAOPA has plans to expand and build new crushing facilities. The oilseed crushers are already in the process of increasing their crushing capacity.

FINDINGS

The Commission found that oil-cakes of tariff headings 23.04; 23.05 and 23.06 are manufactured in the SACU.

The Commission considered that there is currently a shortage in the SACU supply, especially of soya beans oil-cake which is the most important source of protein for the feed manufacturing industry.

However, the Commission found that a reduction or a rebate of the customs duties on oil-cake would have an adverse effect, not only on the competitive position of the oilseed production sector (the farmers) in its linkage to an important outlet for their crop in the oilseed value chain, but also on that of the crushers (oilcake producers) as a reduction would lower their already moderate duty structure relative to the duty protection effectively enjoyed by the farmers on the input side and the feed manufacturers on the output side.

Although the oilseed processing industry, especially the soya beans industry, is experiencing structural challenges on the crushing side, the Commission is of the opinion that soya beans oil-cake production could be increased given the space and time, especially in the light of the increase in soya bean production which could induce investment in downstream crushing capacity. Members of SAOPA have already undertaken ventures to increase capacity for the manufacture of soya beans oil-cakes.

The Commission found that the existing duties should serve as encouragement and support to the crushing industry while its efforts to restructure and increase market penetration and price competitiveness, are continuing.

RECOMMENDATION

In light of the above, the Commission recommended that the current levels of customs duties payable on oil-cakes classifiable under tariff headings 23.04; 23.05 and 23.06 be retained as these products are manufactured in the SACU. The Commission further recommended that the tariff dispensation for oil-cakes be reviewed after a period of three years allowing for a thorough assessment of the financial and economic feasibility of upgrading or expanding the current, below optimum, oilseed and especially soya bean crushing capacity in South Africa and to offer the industry a window of opportunity for making the necessary investments to increase oilseed crushing capacity.

[40/2008]