

Report No. 242

Reduction in the rate of customs duty on calcium salts of palm fatty acids used as additives in animal feed (Megalac)

The International Trade Administration Commission of South Africa herewith presents its **Report No. 242: REDUCTION IN THE RATE OF CUSTOMS DUTY ON CALCIUM SALTS OF PALM FATTY ACID USED AS ADDITIVES IN ANIMAL FEED (MEGALAC) FROM 20% AD VALOREM TO FREE OF DUTY.**



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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 242

REDUCTION IN THE RATE OF CUSTOMS DUTY ON CALCIUM SALTS OF PALM FATTY ACID USED AS ADDITIVES IN ANIMAL FEED (MEGALAC) FROM 20% AD VALOREM TO FREE OF DUTY.

Synopsis

The Commission considered an application from Nutribase cc, for a reduction in the rate of duty on Calcium Salts of Palm Fatty Acid used as Additives in Animal Feed (Megalac), a by-pass fat, which is used in the animal feed industry and is classifiable under tariff subheadings 2309.90.92, from 20% ad valorem to free of duty.

As reasons for the application the applicant alleged that milk producers in South Africa pay higher prices for feed due to the 20% duty which is currently imposed on Megalac. The applicant stressed that as there are no domestic manufacturers of by-pass fats used in the animal feed industry, the current rate of duty is not justifiable.

The Commission found that Megalac, or any suitable substitute, is not manufactured in the SACU, and that the customs duty serves no protective purpose.

The Commission therefore recommends that the duty on Megalac be reduced from 20% ad valorem to free, through the creation of a duty free separate tariff line under tariff sub-heading 2309.90 as follows: "**calcium salts of palm fatty acid used as additives in animal feed**".

The application and the tariff position

Nutribase cc, hereafter referred to as the applicant, applied for a reduction in the rate of customs duty on Megalac a by-pass fat classifiable under tariff subheading 2309.90.92 (HS 2007), which currently attracts a duty of 20% under the general column and EFTA, 12.6% under the EU column and free of duty under the SADC column.

The current tariff structure of Megalac is shown below:

Tariff heading	Tariff subheading	Description	Statistic al unit	Rate of duty			
				General	EU	EFTA	SADC
23.09		Preparations of a Kind Used in Animal Feeding					
	2309.90.92	Other	Kg	20%	12.6%	20%	Free

Megalac is a combination of fatty acids and calcium that is linked together by a chemical bond to form calcium soap. It has been developed for the animal feed industry and provides animals, in particular high yielding dairy cows and sheep, with a vital source of energy during lactation. It is an energy-dense feed material, which delivers fatty acids to the small intestine whilst avoiding the negative effects on the rumen.

The reasons advanced for the application were that milk producers in South Africa pay higher prices for feed due to the 20% duty which is currently imposed on Megalac and as there are no domestic manufacturers of by-pass fats used in the animal feed industry, the current rate of duty is not justifiable.

The application was published in the Government Gazette on 13 April 2007 for interested parties to comment. The Animal Feed Manufacturing Association and the Milk Producer's Organization supported the application citing that reducing the import duty on Megalac would benefit the consumer and more directly the dairy farmers, who are already in an adverse competitive position due to "international cost inflation and subsidies paid in developed countries". The Department of Agriculture also supported the reduction on condition that there are no substitute products produced within SACU. Trade and Investment South Africa (TISA), a division of the dti, supported the application citing that if the product is not manufactured within the SACU region there is no justification to maintain an import tariff for such a product, especially if it is an intermediate product, such as Megalac. The tariff only results in unnecessary cost implications for further downstream value addition.

Findings

The Commission found that there is currently no local production of by-pass fats (Megalac) in SACU. A similar product (Calcifat) used to be produced in South Africa but production ceased in 2006 when the producer company was placed under liquidation.

The Commission found that the animal feed and dairy industries are major agricultural industries that provide significant employment within SACU. A reduction in the rate of duty would therefore have a positive effect for the downstream industries in the dairy sector.

Recommendation

The Commission therefore recommends that the duty on Megalac be reduced from 20% ad valorem to free, through the creation of a duty free separate tariff line under tariff sub-heading 2309.90 as follows: "**calcium salts of palm fatty acid used as additives in animal feed**".