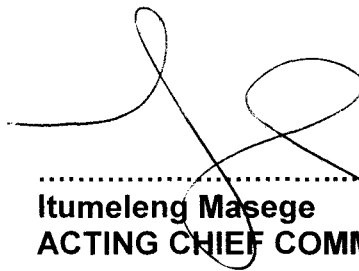


Report No. 235

Review of the customs tariff dispensation on maize, maize flour and downstream products thereof

The International Trade Administration Commission (ITAC) of South Africa herewith presents **Report No. 235: REVIEW OF THE CUSTOMS TARIFF DISPENSATION ON MAIZE, MAIZE FLOUR AND DOWNSTREAM PRODUCTS THEREOF**



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Itumeleng Masege
ACTING CHIEF COMMISSIONER

PRETORIA
...19.../...04.../ 2007

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 235

REVIEW OF THE CUSTOMS TARIFF DISPENSATION ON MAIZE, MAIZE FLOUR AND DOWNSTREAM PRODUCTS THEREOF

SYNOPSIS

The Commission decided to review the tariff dispensation for maize, maize flour and downstream products thereof. The review of the maize tariff dispensation formed part of the Commission's overall initiative to review the tariff dispensation on grains.

ITAC initiated the formation of an industry-led task team on maize and entrusted it with collating all relevant information and making proposals for a future tariff regime for the maize industry chain for consideration by the Commission.

The task team on maize consisted of representatives from the maize producers and secondary industries, traders, the National Agricultural Marketing Council and the Department of Agriculture.

Comments were received from various role players including the BLNS countries.

The Commission found that changes in the structure of the current variable tariff formula as requested by the maize producers would result in unacceptably high cost-raising duties approaching levels in excess of an ad valorem equivalent of 35%. The South African maize and maize flour producers do not experience price disadvantages vis-à-vis foreign producers.

Against the background of a steeply increased world maize price as a result of the high demand for maize used in bio-ethanol production, the Commission was all the more concerned about the cost-raising impact of an increase in the duty on maize on consumers who have maize and maize flour as a staple food and on the related poultry and pork and other animal feed industries. The animal feed industries consume roughly 50% of the total maize crop. An increase would adversely affect the competitive position of these related industries. The poultry and pork industries are experiencing fierce competition from Brazil where the domestic price of maize is lower than in the SACU. The South African price is an approximate import parity price and is roughly equivalent to the price at which imported maize can be landed.

The Commission therefore concluded that an amendment of the tariff regime for maize would have an unnecessary cost-raising impact on downstream producers and consumers and decided to recommend that the existing variable tariff formula for maize and maize flour and the current levels of duty on downstream products thereof, be maintained.

However, it was decided that the implementation process be streamlined in the light of the concerns raised by the grains and downstream milling industries about the slow and convoluted implementation process, as follows: When conditions for an adjustment to the tariff are met in terms of an approved variable tariff formula, the appropriate specific duty so triggered is communicated via the responsible dti divisions and ITAC, to the customs authorities at SARS for speedy implementation and not, as at present, routed via the Office of the DG, Deputy Minister, Minister and Deputy Minister of Finance.

1. BACKGROUND

- 1.1 Prior to deregulation in 1997, the marketing of maize was regulated through a single channel marketing system administered by the Maize Board. The single channel marketing system was terminated on 1 May 1997 and all non-tariff measures applied in the maize sector were abolished and replaced with customs tariffs. The deregulation process ensured that maize producers increasingly are exposed to international maize markets. The period following deregulation saw an improvement in co-operation between the value-chain participants. The quality of products improved substantially. Increased competition was followed by an increase in efficiency and productivity.
- 1.2 The South African Futures Exchange (SAFEX) for agricultural products was established in a free market-trading environment. The futures prices set through trading on SAFEX are used as price indicators in the trade of agricultural products. SAFEX is presently a division of the Johannesburg Stock Exchange (JSE) and trades more than 10 times the annual crop. Some of the functions previously performed by the Maize Board were constituted into companies that are jointly controlled by the industry players. There is a South African Grain Information Service (SAGIS), and a South African Grain Laboratory functioning as an independent referee for all quality issues.
- 1.3 The current variable tariff dispensation with respect to maize, maize flour and downstream products thereof was introduced by the recommendation of the then Board on Tariffs and Trade (BTT) in Report No. 3976: ***Revision of the Tariff Dispensation on Maize and Maize Products***, dated 21 June 1999. The BTT found that protection by way of a Dollar-based reference system would protect the industry against abnormally low international prices that then occurred from time to time due to international oversupply.

- 1.4 The BTT recommended that the customs duty on maize be calculated as the difference between the reference price of US\$110/ton for maize and the 21-day moving average of US No. 2 Yellow maize (fob) Gulf price. Adjustments to the level of protection granted were made when the difference between the world price, on which the previous adjustment was based, and the 21-day current moving average of that price amounted to more than US\$7 for 21 consecutive trading days.
- 1.5 The duty on maize flour is set in the form of a specific duty at the level of 150% of the rate applicable to maize. As maize flour is more expensive per kilogram than maize, the ad valorem equivalent duties for maize and maize flour are approximately the same.

2. INTRODUCTION

- 2.1 The Commission decided to review the existing tariff dispensation for maize, maize flour and downstream products. The investigation of the maize tariff dispensation forms part of the Commission's review of the tariff dispensation on grains and related downstream products, in an effort to develop a tariff regime that is relevant in the current economic environment and would not have an unnecessary cost-raising impact for downstream producers.
- 2.2 The Commission facilitated the establishment of the industry-led task team on maize that consisted of representatives from the maize producers and secondary industries, traders, the National Agricultural Marketing Council and the Department of Agriculture. The Commission entrusted the task team with collating relevant information and making proposals for a future tariff regime for the maize industry chain for consideration.
- 2.3 The notice of the review was published in the Government Gazette of 22 April 2005 as follows:

REVIEW OF THE CUSTOMS TARIFF DISPENSATION ON:

"Maize and downstream products thereof classifiable under tariff subheadings 10.05, 10.08, 11.02, 11.03 and 11.04."

3. THE TARIFF POSITION

- 3.1 The existing tariff position in respect of maize and maize products in the SACU is reflected in Table 1 below:

Table 1: Tariff Position

TARIFF HEADING	TARIFF SUB-HEADING	DESCRIPTION	Stats Unit	RATES OF DUTY		
				General	EU	SADC
10.05		Maize (Corn)				
	1005.10	Seed	kg	free	free	free
	1005.90	Other	kg	free	free	free
10.08		Buckwheat, Millet and Canary Seed; Other				

		Cereals				
	1008.90	Other cereals	5%	5%	free	free
11.02		Cereal Flours (Excluding that of Wheat or Meslin)				
	1102.20	Maize (corn) flour	kg	free	free	free
11.03		Cereal Groats, Meal and Pellets				
	1103.1	Groats and meal				
	1103.13	Of maize (corn)	kg	5%	5%	free
11.04		Cereal Grains Otherwise Worked (for Example, Hulled, Rolled, Flaked, Pearled, Sliced or Kibbled), (Excluding Rice of heading 10.06); Germ of cereals, whole, Rolled, Flaked or Ground				
	1104.2	Other worked grains (for example, hulled, pearled, sliced or kibbled)				
	1104.23	Of maize (corn)	kg	5%	5%	free

(Source: Jacobsens)

4. ALTERNATIVE TARIFF DISPENSATION PROPOSED BY THE TASK TEAM

- 4.1 According to the maize industry, the variable nature of the duty structure in place as well as the length of the period between the triggering and the publishing of a tariff needed to be addressed urgently. The industry indicated that the current dispensation has not succeeded in protecting the domestic industry.
- 4.2 The task team employed the Bureau for Food and Agricultural Policy (BFAP), a joint initiative of the Universities of Pretoria and Stellenbosch, to make proposals on alternative tariff systems for maize.
- 4.3 The BFAP's alternative No. 1 was what was termed the maize tariff calculator. The proposed alternative system took into account the possible effect of world subsidies on world maize prices, the Rand/Dollar exchange rate and premiums received for South African maize on international markets.
- 4.4 In terms of this model a world reference price (a 10 year average of USA & Argentinean fob prices) was inflated by 10% to cover for the average premium that South African maize receives on international markets and level of subsidies. The world reference was converted to Rand, using the 10 year (1994/95 – 2003/04) moving average of the Rand/\$ exchange rate of R6.36. The Rand based reference price was calculated to be R763.20/ton.
- 4.5 The next step was to calculate a current weighted world price, which is the monthly average of the Argentinean and USA maize prices as reported by the International Grains Council (IGC). The monthly average maize prices in Argentina and the USA as reported by the IGC for April 2005 were US\$84/ton and US\$96/ton respectively, with an average of US\$90/ton. The exchange rate during April 2005 was R6.16/US\$. The Rand based weighted world price was R554.40/ton. The tariff calculation is illustrated in Table 2 below:

Table 2: Tariff Calculation

World Reference Price	R763.20/ton
Less:	
Weighted World Price	R554.40/ton
Tariff	R208.80/ton

- 4.6 The BFAP's alternative No. 2 was based on the principle of a target price, which is calculated as the average of the import parity and export parity price. When the spot price is below the target price, a tariff is triggered. This tariff is equal to the 21-trading day moving average of the difference between the target price and the spot price. If the spot price increases above the target price, no tariff is triggered.
- 4.7 The BFAP suggested that a new import tariff be published in the Government Gazette, issued on the third Friday of every month. The BFAP stated that publishing a tariff once a month would prevent possible distortions in the process of publishing, as is currently the case. Moreover, the benefits would increase due to the improved sensitivity of the so-called import tariff calculator.
- 4.8 Lastly, the BFAP stated that the ad valorem tariff, its final alternative, is the most straightforward and well-known tariff dispensation and is frequently used by many trading nations all over the world. The level of the ad valorem tariff can range between 0% – 70%, which is the bound rate set within the World Trade Organization (WTO) obligations. The BFAP made no proposal pertaining to a possible ad valorem level applicable to maize.

5. THE INDUSTRY AND MARKET

- 5.1 Maize is the most important grain crop in South Africa, being both the major feed grain and staple food for the majority of South Africans. During the 2003/2004 marketing season, maize contributed the second largest amount (11.6%) to the gross value of agricultural production with a gross value of R8.32 billion (*NDA, Abstracts of Agriculture 2005*).
- 5.2 South Africa produced between 7.2 and 10.1 million tons of maize per annum in the past five years (2001/202 to 2004/05), with an average of 9.2 million tons per annum (5.6 million tons of white and 3.6 million tons of yellow maize). It can be said that, except for some speciality flours for use in exotic foods, South Africa is largely self sufficient as far as maize and maize flour is concerned.
- 5.3 The total area planted to maize decreased gradually by 22% from 3,66 million tons in 1993/94 to 2,84 million tons in 2004/05. However, as mentioned, South Africa managed to meet its annual maize requirements almost entirely from domestic production. This, according to the task team, was the result of implementing more efficient production technologies and practises by producers, withdrawal of marginal lands from production and development of high yielding maize cultivars.

- 5.4 There was a steady increase in the annual demand for maize in the animal feed industry from 3 million tons in the 2000/01 to 3.7 million tons in the 2004/05 marketing seasons. The demand for maize for human consumption remained relatively stable at approximately 3.7 million tons during the same period. The total commercial consumption increased from 6.7 million tons in 2000/01 to 7.2 million tons in 2004/05.
- 5.5 South Africa exports maize mainly to the BLNS countries, Zimbabwe, Kenya, Mozambique, Zambia, and Mauritius and in some years to Japan. White maize meal is the major staple food of the population and accounts for 94% of white maize meal consumption. South Africa exported a total of 1.1 and 0.7 million tons of maize during the 2003/04 and 2004/05 marketing seasons respectively.
- 5.6 The majority of maize imports into South Africa originate from Argentina and the United States. Maize imports increased by 16% in 2004 but decreased by 85% in 2005. Imports from Argentina constituted 85% and 96% of the total imports in 2004 and 2005 respectively. The total volume of maize imports during 2004 and 2005 were 6.4% and 0.9% when expressed as a percentage of domestic production. When expressed as a percentage of total commercial demand in South Africa, the volume of maize imports were 6.7% and 1.0% respectively.
- 5.7 The secondary industry converts maize to maize-meal for human consumption, animal feed and starch. The industry primarily uses white maize for human consumption and yellow maize for animal feeds. The concentration in the milling industry has arisen naturally from the many years of the controlled marketing system.
- 5.8 The average milling capacity utilisation is 3.7 million tons or 79.5% of the available capacity. The estimated potential capacity of the entire milling sector is 5 million tons.
- 5.9 The majority of maize flour imports during 2005 originated from the USA and constituted 98.8% of total imports. The imports of maize flour (1102.20) during 2004 and 2005 comprised 0.003% and 0.09% of actual maize meal production in South Africa.
- 5.10 The animal feed sector is divided into the formal feed sector (Members of the Animal Feed Manufacturers Association - AFMA) and the other manufacturers. The other manufacturers include the feedlots, smaller feed mills and home mixers. The non-AFMA members use similar materials as that used by AFMA-members. The animal feed sector supplies feed to all farmed animals in the SACU. According to the AFMA, maize constitutes approximately 55% of the 4.2 million tonnes of feed produced and sold by its members.
- 5.11 The major maize producing countries in the world are Argentina, USA, China, China and Brazil. World maize consumption fairly exceeded world production from 2000/01 to 2003/04. As a result, there has been a

gradual decrease in the available stock from 172 million tons in 2000/01 to 104 million tons in 2003/04, a decrease of 39.5%.

6. COMPETITIVE POSITION

- 6.1 In SACU, maize is traded on the SAFEX market, which is widely used by participants across the sector. The prices realised on the market are used as references for both the region and the world. The 10-year average producer price for white and yellow maize was R687/ton and R739/ton respectively.

Table 3: Comparison of SACU Maize Producer and SAFEX Prices

Period	SACU Maize Producer Prices (R/ton)		SAFEX Prices	
	White Maize	Yellow Maize	White Maize	Yellow Maize
1995/96	304	304	599	599
1996/97	484	475	638	593
1997/98	538	734	848	652
1998/99	530	575	692	647
1999/00	676	668	787	795
2000/01	567	552	683	697
2001/02	1,038	1,179	1313	1172
2002/03	1,156	1,407	1555	1303
2003/04	887	850	1012	1048
2004/05	690	650	823	863
2005/06	697	635	879	817
2006/07	1 219	1 210	1 414	1 405
Average	732	770	937	883

Source: Grain SA

- 6.2 The international maize market experienced a surge in international maize prices during the latter part of 2006. According to the industry, the sharp increase was in response to rising concerns in the international maize market about the declining trend in the world's maize stocks. The maize producer price for the period 2005/06 – 2006/07 of white maize and yellow maize increased by 75% and 90% respectively. These higher prices are attributed to the high oil price and its influence on the price of bio-ethanol.
- 6.3 The exchange rate and international prices of maize are the two factors that have the largest impact on local maize prices. Comparisons of import parity prices of maize with SAFEX prices showed that the SAFEX prices closely followed the import parity trend and are an approximation of import parity prices.
- 6.4 The 10-year average (1995/96 – 2004/2005) USA No. 3 Yellow Gulf (fob) maize price was US\$109/ton. A landed cost was calculated at R1 035/ton using the freight rate, insurance and discharging costs obtained from the SAGIS website. The average exchange rate (1995/96 – 2003/05) was used to convert US Dollars to Rands. The average landed cost and the SACU maize producer price indicated that the SACU maize producers enjoyed a significant price advantage over the period

1995/96 to 2004/2005, as is the case at present in the light of rising international prices.

7. COMMENTS ON THE APPLICATION

- 7.1 The SACU partners supported a regular review of the existing tariff system on maize given the dynamic production and trade environment within the maize industry, with particular reference to addressing the need for protection against imports. The maize milling industry, according to the SACU partners, is not much threatened by imports from outside the SACU region. The current level appears to be sufficient to provide protection that would be needed by the SACU millers.
- 7.2 The Department of Agriculture in South Africa agreed with an intervention that would stabilise the price level for the SACU producers to bring back a degree of certainty for future production planning. The Department stated that any amendment to the rebate facilities for agricultural commodities would jeopardise the region's free trade flow of maize.
- 7.3 The **dti**, maintained that the maize tariff dispensation should be governed by way of a variable tariff system. It was further submitted that the maize industry only needs protection if the world price falls below \$110 per ton.
- 7.4 The local primary industry role players largely were in support of the proposed BFAP alternative No. 1 proposal submitted by the maize task team, which would afford them protection in excess of 30% ad valorem.
- 7.5 The secondary industry indicated that there was no justification for an import duty on maize and therefore supported the use of anti-dumping, countervailing and special safeguard measures to protect the producers of maize and other downstream products against injurious dumping and subsidies and other surges in imports and not use ordinary duties to address this. The industry supported the principle that, should there be any tariff on the raw materials, the downstream products should enjoy proportionally higher protection based on maize utilisation.

8. FINDINGS AND RECOMMENDATION

- 8.1 The Commission found that changes in the structure of the current variable tariff formula as requested by the maize producers would result in unacceptably high cost-raising duties approaching levels in excess of an ad valorem equivalent of 35%. The South African maize and maize flour producers do not experience price disadvantages vis-à-vis foreign producers.
- 8.2 Against the background of a steeply increased world maize price as a result of the high demand for maize used in bio-ethanol production, the Commission was all the more concerned about the cost-raising impact of

an increase in the duty on maize on consumers who have maize and maize flour as a staple food and on the related poultry and pork and other animal feed industries. The animal feed industries consume roughly 50% of the total maize crop. An increase would adversely affect the competitive position of these related industries. The poultry and pork industries are experiencing fierce competition from Brazil where the domestic price of maize is lower than in the SACU. The South African price is an approximate import parity price and is roughly equivalent to the price at which imported maize can be landed.

- 8.3 The Commission concluded that an amendment of the tariff regime for maize would have an unnecessary cost raising impact on downstream producers and consumers and decided to recommend that the existing variable tariff formula for maize and maize flour and the current levels of duty on downstream products thereof, be maintained.
- 8.4 However, the Commission decided that the variable tariff formula implementation process be streamlined in the light of the concerns raised by the grains and downstream milling industries about the slow and convoluted implementation process, as follows: When conditions for an adjustment to the tariff are met in terms of an approved variable tariff formula, the appropriate specific duty so triggered is communicated via the responsible **dti** divisions and ITAC, to the customs authorities at SARS for speedy implementation and not, as at present, routed via the Office of the DG, Deputy Minister, Minister and Deputy Minister of Finance.