ITAC

International Trade Administration Commission of South Africa

Report No. 239

Temporary rebate of the duty on soya oilcake for use in the manufacture of animal feed

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FAIR TRADE

The International Trade Administration Commission of South Africa (ITAC) herewith presents Report No. 239: TEMPORARY REBATE OF THE DUTY ON SOYA OILCAKE FOR USE IN THE MANUFACTURE OF ANIMAL FEED

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...14.../...08.../ 2007

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 239

TEMPORARY REBATE OF THE DUTY ON SOYA OILCAKE FOR THE MANUFACTURE OF ANIMAL FEED

SYNOPSIS

The Commission, after recommending the creation of a temporary rebate for soya beans for extraction of soya bean oil to be used in the production of biodiesel, considered the creation of a rebate provision for soya oilcake for the manufacture of animal feed. Soya oilcake is classifiable under tariff subheading 2304.00 with a rate of duty of 6.6% ad valorem in the general column and free of duty in the EU and SADC columns.

The application was published in the Government Gazette of 3 November 2006 for comment. Various comments, supporting and objecting to the creation of a rebate for soya oilcake, were received.

The Commission after having taken into account all the comments received, decided that, on balance, a rebate provision for soya oilcake was justified. It therefore recommended a temporary rebate for soya oilcake.

1. Introduction

1.1 The Commission considered the creation of a rebate provision for soya oilcake for use in the manufacture of animal feed. Soya oilcake is classifiable under tariff subheading 2304.00 with a rate of duty of 6.6% ad valorem in the general column and free of duty in the EU and SADC columns.

1.2 On 3 November 2006 the application was published in the Government Gazette for comment.

2. The application and the tariff position

2.1 The reasons for the application were:

- The Commission already approved a temporary rebate for SACU producers of biodiesel, on soya beans, based on the shortages experienced in the SACU market. If a similar rebate were not created for soya oilcake, which is also subject to significant shortages as soya beans, an unfair trading environment would be created, favouring the biodiesel producers in a market removed from their core business area.

- The Animal Feed Manufacturers Association (AFMA) objected to the creation of a rebate provision for soya beans for the manufacture of biodiesel. According to them it will be unfair to create the rebate for soya beans without simultaneously reducing the duty on soya oilcake. They supported the local industry producing soya beans and imported the balance of their requirements.

- The rebate provision created for soya beans will give the users thereof a near-monopoly in supplying soya oilcake, a mere by-product obtained during the biodiesel production process, at import parity prices to animal feed manufacturers who sell to farmers to feed their livestock, therefore increasing input costs to downstream industries.

2.2 The tariff structure for Soya beans and Soya bean oilcake is shown in Table 1 below:

Table 1: Tariff structure of Soya beans and Soya bean oil cake (Raw material)

Heading	Sub-Heading	Article Description	Stat. Unit	Rate of Duty		
				General	EU	SADC
12.01	1201.00	Soya beans, whether or not broken	Kg.	8%	Free	Free
23.04	2304.00	Oilcake 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	Free

(Source: SARS)

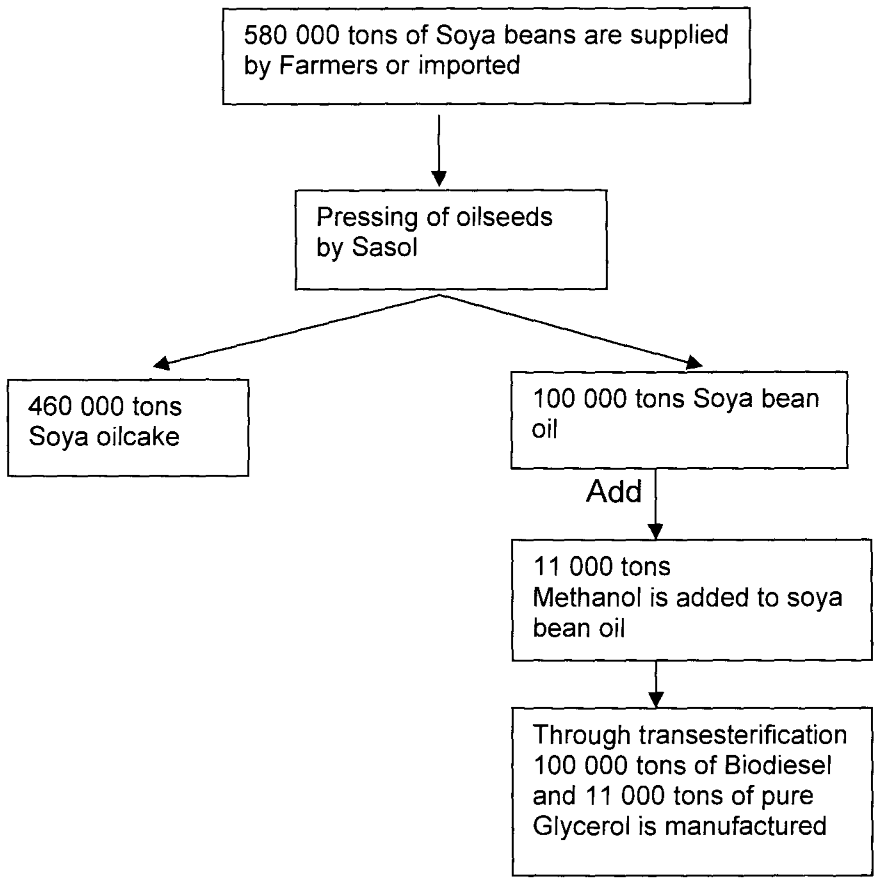
2.3 In terms of South Africa's WTO commitments, the bound ceiling rate for soya beans is 40% and 33% for soya oilcake.

3. Biodiesel production process and industry information

3.1 The project will use 580 000 tons of soya beans as primary feedstock. The extraction of 580 000 tons of soya beans will result in 120 000 tons of soya oil and 460 000 tons of soya oilcake. Through the process of transesterification (blending of a vegetable oil with alcohol) the soya oil is blended with 11 000 tons of Methanol to produce 100 000 tons of biodiesel and 11 000 tons of Glycerol. Both soya oilcake and glycerol production will replace existing imports.

3.2 The process is as explained in Diagram 1 below:

Diagram 1: Biodiesel production process



3.3 Soya oilcake is the ideal protein with the right characteristics at the most affordable price for use in the animal feed industry. On average, a standard poultry feed consists of 20% soya oilcake. The demand for soya oilcake increased by 37.8% from 2003 to 2006. The total demand for soya oilcake in South Africa during the 2005/06 marketing year was ± 850 000 tons.

3.4 The SACU is a net importer of soya oilcake and because of the current drought only an estimated 180 000 tons of soya beans will be produced in the 2006/07 season. This is a decrease of 57% from the 2005/06 season. The local manufacturers of animal feed will have to import between 75% and 80% of their needs of soya oilcake, paying between R55 million and R60 million in customs duties per annum on an input used in the manufacture of mainly chicken feed.

3.5 Despite the huge shortage of local supply of soya oilcake, the local feed manufacturing industry was, and still is, required to pay an import duty at the level of 6.6% ad valorem on all soya oilcake imported.

4. Publication comments

4.1 The Animal Feed Manufacturers Association supported the creation of a rebate provision as they have been a net importer of soya oilcake and the duty payable increases costs to downstream industries unnecessarily. According to them it will be unfair to create a rebate for soya beans without reducing the duty on soya oilcake to free of duty. They supported the local industry producing soya beans and imported the balance of their requirements.

4.2 Grain SA, representing the SACU grain industry, did not support the creation of the rebate as the domestic soybean producer price is mainly derived from the landed price of imported soya oilcake and therefore a rebate of the customs duty on soya oilcake will have a negative effect on the domestic soybean producer price.

4.3 The Department of Trade and Industry (DTI) commented by saying that a liberalization of the tariff regime for soya or soya byproducts and/or the implementation of a rebate on the importation of these products might jeopardize opportunities for the manufacturing of bio-fuels from soya or soya byproducts.

4.4 The National Department of Agriculture objected to the creation of a rebate provision for soya beans and therefore did not support the creation of a rebate for soya oilcake, indicating that farmers should be identified to grow soya beans.

4.5 Sasol objected to the creation of a rebate of the duty on soya oilcake as the duty serves as support and encouragement for the SACU production of soya beans and soya oilcake.

5. Findings and recommendation

5.1 The Commission already approved a temporary rebate for SACU producers of biodiesel, on soya beans based on the shortages experienced in the SACU market. If a similar rebate were not created for soya oilcake, which is also subject to significant shortages as are soya beans, an unfair trading environment would be created, favouring the biodiesel producers in a market removed from their core business area. Soya oilcake, as mentioned above is a mere by-product obtained during the biodiesel production process.

5.2 The rebate provision for soya beans, created for the producers of biodiesel, gives the biodiesel industry a near-monopoly in supplying soya oilcake at import parity prices to animal feed manufacturers who sell to farmers to feed their livestock, therefore increasing input costs to downstream industries.

5.3 Soya oilcake is the ideal protein with the right characteristics at the most affordable price for use in the animal feed industry, mainly the poultry industry.

5.4 The SACU is a net importer of soya oilcake and the local manufacturers of animal feed will have to import between 75% and 80% of their needs of soya oilcake, paying between R55 million and R60 million in customs duties per annum on an input used in the manufacture of mainly chicken feed. The current duty thus has a significant cost-raising effect on the agro-processing industry.

5.5 Despite the huge shortage of local supply of soya oilcake, the local feed manufacturing industry was, and still is, required to pay an import duty at the level of 6.6% ad valorem on all soya oilcake imported.

5.6 In the light of the foregoing and after having taken all the comments received into account, the Commission decided that, on balance, a rebate provision for soya oilcake was justified and therefore decided to recommend the creation of a rebate provision for a period of three years for soya oilcake, in such quantities, at such times and under such conditions as the International Trade Administration Commission may allow by specific permit, for use in the manufacture of animal feed. The rebate provision should be implemented on 1 July 2008 and expire on 30 June 2011.