

Report No. 200

Temporary rebate of the duty on soya beans for extraction of soya bean oil to be used in the production of biodiesel

The International Trade Administration Commission of South Africa (ITAC) herewith presents Report No. 200: TEMPORARY REBATE OF THE DUTY ON SOYA BEANS FOR EXTRACTION OF SOYA BEAN OIL TO BE USED IN THE PRODUCTION OF BIODIESEL



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31/10/2006

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 200

TEMPORARY REBATE OF THE DUTY ON SOYA BEANS FOR EXTRACTION OF SOYA BEAN OIL TO BE USED IN THE PRODUCTION OF BIODIESEL

SYNOPSIS

The Commission considered an application by Sasol and the Central Energy Fund for the creation of a rebate provision for soya beans for extraction of soya bean oil to be used in the production of biodiesel. Soya beans are classifiable under tariff subheading 1201.00 with a rate of duty of 8% ad valorem in the general column and free of duty in the EU and SADC columns.

The applicants are considering the establishment of a plant to produce biodiesel from soya beans. Current soya bean production in the SACU is not sufficient to support the project.

The application was published in Government Gazette No. 28975 of 7 July 2006. Two Government departments, one parastatal and a producer organisation supported the application, while one industry organisation and a Government department objected to the application.

The Commission found that the project is of national interest in accordance with Government's objective to produce biofuels.

The Commission decided to recommend that a rebate provision be created for a period of three years for soya beans, in such quantities, at such times and under such conditions as the International Trade Administration Commission of South Africa may allow by specific permit, for extraction of soya bean oil, classifiable in tariff heading 15.07, to be used in the production of biodiesel as defined in additional note 1 (a) to Chapter 38, classifiable in tariff subheading 3824.90.03. The rebate provision should be implemented on 1 July 2008 and expire on 30 June 2011.

1. Introduction

- 1.1 Sasol and the Central Energy Fund applied for the creation of a rebate provision for soya beans used in the production of soya bean oil, which is used in the manufacture of biodiesel. Soya beans are classifiable under tariff subheading 1201.00 with a rate of duty of 8% ad valorem in the general column and free of duty in the EU and SADC columns.
- 1.2 On 28 June 2006, the Commission decided that the application be published in the Government Gazette. It was published in Government Gazette No. 28975 of 7 July 2006.

2. The application and the tariff position

- 2.1 The reasons for the application were:
- Sasol is considering the establishment of a plant to produce biodiesel from soya beans. Current soya bean production in SACU is not sufficient to support Sasol's project.
 - The applicant further stated that: *"The establishment of a plant will provide the opportunity for increased production of soya beans by, especially, emerging farmers who will have a guaranteed market. At the same time it will provide an additional domestic source of oil cake which will potentially save more than R500 million in foreign exchange a year."* – Extract from the application.
 - The duty payable has an unnecessary cost-raising effect and would render the project uneconomical.
- 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.

2.4 The tariff structure for Biodiesel is set out in Table 2 below:

Table 2: Tariff structure for Biodiesel (End Product)

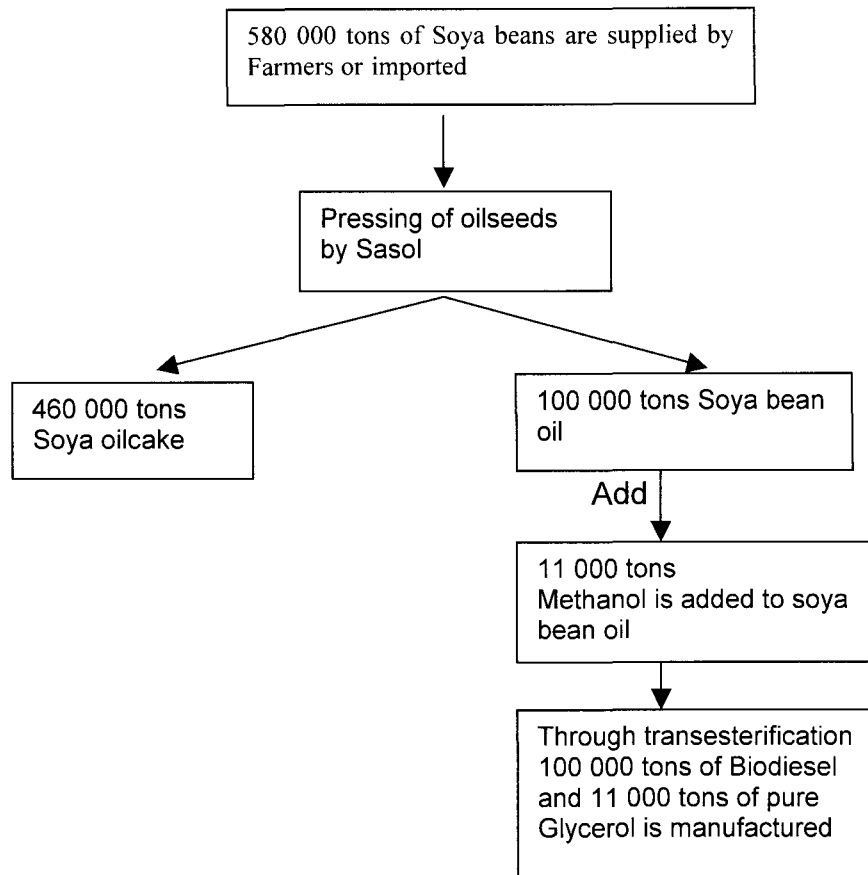
Heading	Sub-Heading	Article Description	Rate of Duty		
			General	EU	SADC
38.24		Prepared binders for foundry moulds or cores; chemical products and Preparations of the chemical or allied industries (including those consisting Of mixtures of natural products), not elsewhere specified or included:			
	3824.90.03	Biodiesel	0.183c/li	0.183c/li	free

(Source: SARS)

3. Biodiesel production process

- 3.1 Sasol is investigating the viability of a project for the manufacture of 100 000 tons of biodiesel. The projected investment is R700 – 800 million. The project will use 580 000 tons of soya beans as primary feedstock and will, in addition to biodiesel, produce 460 000 tons soya oilcake and 11,000 tons of glycerol as by-products. Both soya oilcake and glycerol production will replace existing imports.
- 3.2 The project will entail the establishment of one or two soya oil extraction plants (at Secunda and possibly in Cape Town) and a biodiesel plant (at Secunda). The biodiesel will be blended into mineral diesel.
- 3.3 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. The process is as explained in Diagram 1 below:

Diagram 1: Biodiesel production process



Characteristics of Biodiesel

3.4 The characteristics of biodiesel can be described as follows:

- *“A substitute for or an additive to diesel fuel that is derived from the oils and fats of plants.*
- *An alternative fuel that can be used in diesel engines and provides power similar to conventional diesel fuel.*
- *A biodegradable transportation fuel that contributes little, if any, net carbon dioxide or sulphur to the atmosphere, and is low in particulate emissions.*
- *A renewable, domestically produced liquid fuel that can reduce domestic dependence on foreign oil imports.”*

3.5 The SA White paper on the Promotion of Renewable Energy sets a goal of a 10,000 GWh renewable energy contribution to final energy consumption by 2013. Biodiesel is highlighted as one of the key opportunities to achieve this goal. Increased domestic use of renewable energy sources such as biofuels will lessen SACU’s dependence on imported crude oil, will have a positive effect on the balance of payments, will stimulate soya bean production, will create jobs and will have major environmental benefits relative to mineral fuels.

3.6 The current SACU production of soya beans of just over 200 000 tons pa is insufficient for the viability of the plant. In fact, the current soya beans crop is fully utilised mainly for full-fat feeds and the edible market. Very little of the current domestic crop is used for oilseed pressing through which soya oil and oilcake are produced. The full soya bean feedstock requirements for the project will therefore initially have to be imported. However, the establishment of the project will create a new, guaranteed market for soya beans and thus encourage increased local soya bean production.

4. **Publication comments**

4.1 The Department of Mineral and Energy Affairs (DME) submitted that they are in support of the application provided that the project is supportive of the SACU industry producing soya beans.

4.2 Grain SA, representing the SACU grain industry, supported the creation of the rebate only as a temporary measure and if all other duties in the so-called “vegetable oil complex” remain unchanged.

4.3 The Department of Trade and Industry (DTI) supported the creation of a temporary rebate provision for a period of three years as an additional investor is considering establishing a soya based biodiesel plant at Coega and their requirements would initially be imported while gradually growing a local base of supply.

4.4 The CSIR supports the establishment of a viable biodiesel industry in the SACU, provided that locally grown soya beans are used, as the move towards renewable fuels is a worldwide and necessary trend. They caution that in biodiesel initiatives one always need to be careful how raw material procurement is handled, since replacing food crops with oil bearing crops should not necessarily be encouraged as food security on the African continent should be an overriding factor.

4.5 The National Department of Agriculture objected to the creation of a rebate provision. They indicated that it will not encourage expanded domestic production of soya beans and that the applicants must be encouraged to identify farmers and support them to grow soya beans on a contract basis.

4.6 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 would be unfair to create the rebate without also 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.

5. The SACU soyabean and soya oilcake industries

- 5.1 As mentioned soya beans are produced in the SACU but the quantity currently produced is not sufficient for Sasol's project to establish a biodiesel plant.
- 5.2 Table 3 shows the area planted and the production of soya beans in South Africa for the period 2000/01 to 2004/05:

Table 3: Soya beans: Area planted and total production

Production year	Area planted Ha	Total production Tons
2000/01 ¹	134 000	226 100
2001/02 ¹	124 000	223 000
2002/03 ¹	100 000	136 500
2003/04 ¹	135 000	220 000
2004/05 ²	150,000	272 500

¹⁾ Source: Abstract of Agricultural Statistics, 2005: Department of Agriculture.

²⁾ Source: Crops Estimates Committee, 29 September 2005

- 5.3 According to Grain SA there is enough land available to produce the quantities of soya beans required by Sasol. The estimated production for the 2005/2006 season is 413 000 tons.

6. Findings and recommendation

- 6.1 Soya beans are produced in the SACU but the quantity currently produced is not sufficient for the applicants to establish a biodiesel plant.
- 6.2 The duty payable has an unnecessary cost-raising effect and would render the project uneconomical.
- 6.3 There are foreign investors interested in investing in production plants producing biodiesel from soya beans in the SACU.
- 6.4 The Commission is not in favour of a reduction in the rate of duty on soya beans in Schedule No 1 to the Customs and Excise Act, but considered a temporary rebate under Schedule No 4 to be appropriate. In terms of the rebate provision recommended below, control will be maintained by the Commission through the issuing of rebate permits that would not adversely affect the position of the soya bean producers.
- 6.5 To accommodate the Animal Feed Manufacturers Association (AFMA) the Commission decided to initiate an investigation into the creation of a rebate provision for soya oilcake for the same period as recommended for soya beans.

- 6.6 In the light of the foregoing, the Commission decided to recommend that a rebate provision be created for a period of three years for soya beans, in such quantities, at such times and under such conditions as the International Trade Administration Commission of South Africa may allow by specific permit, for extraction of soya bean oil, classifiable in tariff heading 15.07, to be used in the production of biodiesel as defined in additional note 1 (a) to Chapter 38, classifiable in tariff subheading 3824.90.03. The rebate provision should be implemented on 1 July 2008 and expire on 30 June 2011.