



International Trade Administration Commission of South Africa

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## **Report No. 126**

# **Application for reduction in the customs duty on preparations of a kind put up as mollusc food**

The International Trade Administration Commission (ITAC) of South Africa herewith presents **Report No. 126: APPLICATION FOR REDUCTION IN THE CUSTOMS DUTY ON PREPARATIONS OF A KIND PUT UP AS MOLLUSC FOOD**

  
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**CHIEF COMMISSIONER**

**PRETORIA**  
...02.1.08./2005

**REPUBLIC OF SOUTH AFRICA**

**INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF  
SOUTH AFRICA**

**REPORT NO. 126**

**APPLICATION FOR REDUCTION IN THE CUSTOMS DUTY ON PREPARATIONS  
OF A KIND PUT UP AS MOLLUSC FOOD**

**Synopsis**

Marine Growers (Pty) Ltd applied for reduction of the customs duty on feed preparations of a kind used as mollusc food from 20% ad valorem to free, through an amendment of the scope of tariff heading 2309.90.15. Abalones are classifiable under tariff heading 0307.99 and are solely produced for the export market.

The Commission found that there are producers of feed preparations of a kind used in animal feeding in the SACU. The Commission also found that the scope of the published description: "Preparations put up as mollusc food" had loopholes, in that it encompassed other locally produced feed. The comments received indicated that materials similar than locally produced materials could be imported under the provision of the published description. The description would not have differentiated between SACU produced feed and imports.

The Commission decided to recommend that the application for a reduction in the customs duty on preparations put up as mollusc food from 20% ad valorem to free be rejected, as there are producers of similar products in the SACU.

## 1. THE APPLICATION

- 1.1 Marine Growers (Pty) Ltd applied for reduction of the customs duty on feed preparations of a kind used as mollusc food from 20% ad valorem to free, through an amendment of the scope of tariff heading 2309.90.15. Abalones are classifiable under tariff heading 0307.99 and are solely produced for the export market.
- 1.2 The application was published in the Government Gazette of 20 August 2004 as follows:

***Application for a reduction in the customs duty on:***

*“Preparations put up as mollusc food, classifiable under tariff heading 2309.90.90, from 20% ad valorem to free, by amending the existing scope of tariff subheading 2309.90.15.”*

- 1.3 The input material covered by the application is artificial feed for shellfish and crustaceans. The feed is imported from Taiwan in the form of pellets and is composed of fish-meal (10%), seaweed powder (5%), soybean powder (25%), wheat powder and gluten (55%), vitamin (2%) and minerals (3%). Abalones are fed with this type of feed from weaning stage until they reach an acceptable size for the export market.
- 1.4 As reason for the application, Marine Growers stated that abalone feed produced in the SACU is not suitable for abalone production in warm waters of the Eastern Cape. The applicant stated that capital was invested to establish the company in world markets. The existing duty of 20 per cent, according to the applicant, is an unnecessary burden towards the cost build-up and impacted the company's growth negatively.
- 1.5 According to the applicant, the feed produced in the SACU is recommended for use in water temperatures lower than 18 degrees Celsius, for better digestion of the feed nutrients. Abalones production in the East Coast needs special type of feed supplements containing soluble nutrients that can be digested in warm waters. Abalones produced are for export purposes only as per the conditions under which abalone-farming permits are issued by the Department of Environmental Affairs and Tourism.
- 1.6 One of the aquatic feed manufacturers confirmed that the artificial feed produced in the SACU was not recommended for use on the East Coast because of warm seawater temperature. However, it further stated that efforts were being made by the feed manufacturers to develop feed formulations that can be used in waters with warm temperatures.

## 2. THE TARIFF POSITION

- 2.1 The material, for which a reduction of the customs duty is applied for, is classified under tariff subheading 2309.90.90 and is used in the production of abalones, classifiable under tariff heading 0307.99, for the export market. The provision under item 2309.90.90 encompasses other preparations of a kind used in animal feeding and reads as follows:

Table 1: Tariff Position (Raw Material)

Tariff Heading	Tariff Sub Heading	Article Description	Rates of Duty		
			General	EU	SADC
23.09		<b>Preparations of a Kind Used in Animal Feeding:</b>			
	2309.90	--Other			
	.15	= Preparations put up as crustacean food	free	free	free
	.90	= Other	20%	20%	13%

- 2.2 Abalones have a soft body surrounded by a mantle, an interior head and a large muscular foot. They fall under the Gastropoda class together with other snails, whelks and sea slugs. Members of this class have one shell, as opposed to clams with two. The spiral structure, common in snail shells, is flattened in abalones and may be obscured by fouling and shell boring organisms. Abalones are members of the family Haliotidae and genus haliotis, which means sea ear, referring to the flattened shape of the shell. The tariff position of abalones is reflected in Table 2.

Table 2: Tariff Position (End Product)

Tariff Heading	Tariff Sub Heading	Article Description	Rates of Duty		
			General	EU	SADC
03.07		<b>Molluscs, Whether in Shell or Not, Live, Fresh, Chilled, Frozen, Dried, Salted or in Brine; Flours, Meals and Pellets of Aquatic Invertebrates (Excluding Crustaceans), Fit for Human Consumption:</b>			
	0307.9	--Other, including flours, meals and pellets of aquatic invertebrates (excluding crustaceans), fit for human consumption:			
	.99	= Other	free	free	free

### **3. THE SACU INDUSTRY AND MARKET**

- 3.1 The SACU manufacturers of feed include Sea Plant Products (known as Abfeed or Marifeed), Taurus Chemicals, KELP Producers and Aquanutro. However, most abalone producing farms in the SACU produce their own feed used in the production of abalones.
- 3.2 Marine Growers imported 36 tons of artificial feed from Taiwan each year in the form of pellets during 2002, 2003 and 2004 at the value of R682 283, R603 828 and R605 000 respectively. There are no other importers of artificial feed in the SACU other than the applicant.
- 3.3 The quantities of abalones Marine Growers exported during 2001, 2002, 2003 and 2004 were 30 294kg, 37 951kg, 17 496kg and 23 836kg at sales values of 8.1, 12.4, 5.0 and 6.8 million Rands respectively.
- 3.4 The conditions under which abalone farming permits are issued are such that the abalones produced should be exported. Therefore, abalone production in the SACU is solely for export purposes. The abalone industry in the SACU is at an early stage of establishing itself in the international market. The industry forms part of the world's large abalone fisheries industry in countries that include Japan, Australia, New Zealand, South Korea, Taiwan and China.
- 3.5 Marine Growers has a staff component of 53 employees, of which 45 employees are directly involved in the production of abalones. According to the 2002 financial statements, the total amount invested in the farm amounted to R23 350 170. The applicant stated that capital was invested to establish the company in world markets.

### **4. COMMENTS ON THE APPLICATION**

- 4.1 Objections were received from the local producers of feed preparations, alleging that the scope of the published description had loopholes and would jeopardise the future existence of local producers. Some of the comments included the following:
  - ❖ Scientific developments were undertaken to develop the feed suitable for warm conditions locally. The protein content and general stability of the local feed were developed to suit conditions around Walker Bay, where the bulk of active farms are based.
  - ❖ Stability at higher temperatures and the desirability for lower protein blends was something that arose at a later stage and is being addressed by the local feed manufacturing industry. There are trials currently in progress to test the efficacy of lower protein formulae and these products will be available on the local market in the near future.
  - ❖ The local feed manufacturers requested that the existing tariff applied to abalone feed should remain unchanged in order to:

- allow the local manufacturers to complete the commercialisation of own lower protein feeds;
- ensure that the existing and developing feed industry remain viable through the period of relatively strong currency,
- allow the local industry to recoup its considerable investment in the development of its feeds;
- ensure that the local feed manufacturers remain competitive with one another, as the introduction of unfair foreign competition is likely to kill some of the new players in the field; and
- to further encourage local manufacturers to develop more product variety.

## 5. FINDINGS AND RECOMMENDATIONS

- 5.1 The Commission found that there are producers of feed preparations of a kind used in animal feeding in the SACU. The Commission also found that the scope of the published description: "Preparations put up as mollusc food" had loopholes, in that it encompassed other locally produced feed. The comments received indicated that materials similar than locally produced materials could be imported under the provision of the published description. The description would not have differentiated between SACU produced feed and imports.
- 5.2 In view of the foregoing, the Commission found that a reduction of the customs duty on feed preparations of a kind used as mollusc food from 20% ad valorem to free would not be justifiable, as there are producers of similar materials in the SACU.
- 5.3 The Commission decided to recommend that the application for a reduction in the customs duty on preparations put up as mollusc food from 20% ad valorem to free be rejected, as there are producers of similar products in the SACU.