


REPORT NO. 176

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

The International Trade Administration Commission herewith presents its
**Report No. 176: APPLICATION FOR A REDUCTION IN THE RATE OF
CUSTOMS DUTY ON PREPARATIONS OF A KIND PUT UP AS MOLLUSC
FOOD**


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Ms. N.P Maimela
CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 176

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

Synopsis

The Commission considered an application for a reduction in the rate of customs duty on preparations of a kind put up as mollusc food. Marine Growers Pty Ltd (the applicant), uses the preparations as abalone feed in the production of abalone for the export market.

A decision to publish was taken based on the allegations by the applicant that the feed produced in the SACU is not suitable for abalone production in the warm waters of the Eastern Cape.

The Commission found that there is an existing SACU manufacturer, who has in the past years been investing in a considerable amount of research and development to ensure that their product is suitable for abalone farming in the warm waters of the Eastern Cape. The SACU manufactured feed is further successfully used in the SACU and by international abalone farmers.

The Commission decided to reject the application as a suitable similar product is manufactured in the SACU.

Introduction

Marine Growers (Pty) Ltd, applied for a reduction in the rate of customs duty, from 20 per cent ad valorem to free of duty, on preparations of a kind put up as mollusc food classifiable under tariff subheading 2309.90.90. The imported preparations of a kind put up as mollusc food is used in the production of abalone for the export market.

As reasons for the application, the applicant advanced that the feed produced in the SACU is not suitable for abalone production in the warm waters of the Eastern Cape. The applicant further requested to be allowed to utilise Rebate Item 470.03 or Drawback Item 521.00¹, because the conditions under which an abalone-farming permit is issued in, South Africa are such that the abalone produced should be for export purposes.

The Commission decided to reject the applicant's request to utilise Rebate item 470.03 or Drawback item 521.00.

¹ Rebate item 470.03 and Drawback item 521.00 are industry incentives, afforded to South African manufacturers, processors, finishers, equippers and packers, who export their end product, to be rebated or refunded the customs duty applicable to their imported input products.

The decision to reject the request was made after it was established that the applicant's request does not meet the requirements of these provisions in the Customs and Excise Act.

The Commission further decided that the application be published in the Government Gazette for general comments, as an application for a reduction in the rate of customs duty on preparations put up as mollusc food. The application was subsequently published in the Government Gazette of 6 February 2006.

Findings

Marifeed (Pty) Ltd, a SACU manufacturer of preparations put up as mollusc food (also known as ABFEED), responded by objecting to the publication. The company stated that they have been involved, especially in the last 4 years, in continuous Research and Development (R&D) in conjunction with Rhodes University's Department of Ichthyology and Fisheries Science, to considerably improve the quality of ABFEED.

In addition to the company's standard feed known as ABFEED S34, Marifeed has developed two new products, namely ABFEED K26 and K22. The original ABFEED S34 was a fishmeal / starch based high (34%) protein diet, which was developed for young abalone. ABFEED K26 and K22 have been developed as lower protein diets (containing 26% and 22% protein respectively), for larger abalone. ABFEED K26 is successfully commercially used by abalone farmers on the East Coast.

The Department of Ichthyology and Fisheries Science at Rhodes University confirmed that the Taiwanese feed imported and used by Marine Growers is similar to the more recently developed ABFEED K26 product. It was also confirmed that ABFEED K26 is used successfully in the warmer East coast temperature conditions.

ABFEED K22 was specifically designed for Marine Growers' conditions of high temperatures and stress levels.

Demand for ABFEED by Marifeed

According to Marifeed, due to heavy poaching and depleting abalone stock from the sea, many investors have opted to invest in abalone farms. At present the SA industry consists of 13 abalone farms. Marifeed has been supplying the industry since 1994. The abalone industry has since grown to a production of 800 tonnes of abalone per year, exclusively for export.

The demand for abalone in Asia combined with the strong economic growth of that region indicates a further increase in the growth of abalone farming in South Africa.

The prices at which the ABFEED products are sold are very competitive in South Africa as well as in the international market. This is evident from the considerable increase in the local demand for ABFEED, with sales doubling over the last year.

The quality and value of ABFEED is also evidenced by the acceptance of the product in New Zealand where a feed manufacturer from Australia has previously been used. Sales to New Zealand started at the end of 2005 as part of the Company's export drive initiated last year to further expand the company's production capacity.

Investment

Marifeed (Pty) (Ltd) has been successful in obtaining a Small Medium Enterprise Development (SMEDP) incentive grant from **the dti** in 2005. This is as a result of the company's past success in feed development as well as confidence in the company's growth potential.

The company's present production capacity is 65 tons per month and production is expected to rise if demand requires, to approximately 100 tons by the end of 2007. Exports will attribute largely to this figure.

Employment

Marifeed believes that a reduction in the rate of duty on their product would place the employment of people in the industry at risk.

Costing

It is essential for Marifeed to maintain its local market and to continue to increase its sales. As a result of increased capacity, sales and efficiencies Marifeed would be able to hold the ABFEED® selling price constant despite the inflationary cost increases of factors such as labour and electricity. This will also be of benefit to downstream industries.

All the ingredients in the products by Marifeed are locally sourced and abalone farms as far as East London are using their feed successfully. Marifeed is a major supplier of abalone feed in SA and there are 3 other companies Taurus Chemicals, KELP products and Aquanutro, which are still developing abalone feed.

Recommendation

In light of the foregoing, the Commission decided to reject the application for a reduction in the rate of duty on preparations of a kind put up as mollusc food, as a suitable similar product is manufactured in the SACU.