



International Trade Administration Commission of South Africa

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## **Report No. 89**

# **Investigation of the customs tariff dispensation with respect to dairy products**

The International Trade Administration Commission herewith presents its  
Report No. 89: INVESTIGATION OF THE CUSTOMS TARIFF DISPENSATION  
WITH RESPECT TO DAIRY PRODUCTS

  
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PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION

REPORT NO. 89

INVESTIGATION OF THE CUSTOMS TARIFF DISPENSATION WITH  
RESPECT TO DAIRY PRODUCTS

Synopsis

The National Department of Agriculture applied for a revision of the customs tariff dispensation with respect to dairy products. The existing customs tariff dispensation with respect to dairy products resulted from recommendations made by the previous Board on Tariffs and Trade in its Report 3691. The notice of the revision was published in the *Government Gazette* of 31 January 2003.

The Commission found that the South African Customs Union (SACU) dairy industry supplies the bulk of the total demand for both primary and secondary dairy products. Substantial investments have been made in the industry due to its capital-intensity. The Commission further considered that although the South African dairy industry is rated as a cost-competitive producer of dairy in a global context, it would experience difficulties in competing with subsidized imported dairy products.

The Commission therefore concluded that a reduction in the rate of duty would not be in the interest of the industry and decided to recommend that the existing levels of duty and all rebate provisions be maintained.

**Discussion**

The current customs tariff dispensation with respect to dairy products was implemented on 2 January 1998 as a result of the previous Board on Tariffs and Trade's recommendations in its Report No. 3691: *Revision of the rates of duty on certain dairy products*. The Board stated that the rates of duty recommended by it should not be seen as a long-term dispensation but that the recommended tariff protection should be reviewed in the light of the outcome of the initiative to formulate a development strategy for the industry. It was also stated that in order to allow the industry time to develop this strategy, the review should commence within one year after the implementation of the recommended duties. The BTT recommended that a revision of the recommended rates of duty on dairy products be investigated, with a view to reducing the duties. The notice of the investigation was published in the *Government Gazette* of 31 January 2003.

The dairy industry in South Africa was deregulated with the disbandment of the Milk Board on 31 December 1997 in accordance with the new Agricultural

## Marketing Act.

Within the rest of the SACU, only the Namibian dairy industry operates on a deregulated basis. In Botswana the government proposes and negotiates farm-gate prices on behalf of farmers. The Lesotho National Dairy Board controls the domestic distribution of all dairy products through a permit system. The Lesotho National Dairy Board has not controlled prices since 1997. In Swaziland the import and export of dairy products are subject to the issue of permits and government price setting is applied to raw milk, fresh milk and sour or cultured milk.

The SACU dairy industry is protected by way of customs tariffs. Several provisions for rebate of the duty on imported dairy products exist, including a provision for rebate of the duty on specific quotas of dairy products imported by the BLNS countries exclusively for home consumption.

### **The primary dairy industry: SACU**

In South Africa, the primary dairy industry refers to the production of raw milk, which is undertaken by large scale and small-scale dairy farmers. To the order of 50% of the total annual milk production is utilised as drinking milk and fresh milk products like yoghurt, curdled milk and buttermilk. The balance is processed into a range of final dairy products like cheese, milk powders, condensed milk and butter. Geographically, the trend towards production from pastures in the coastal areas has continued. Currently 64 per cent of all milk is produced in the three coastal provinces with production share increasing in the Eastern Cape, KwaZulu-Natal and Western Cape.

Botswana is a semi-arid country with extreme climatic conditions but has a successful dairy industry. The primary dairy industry in Botswana supplies 26% of the total domestic demand.

The primary dairy sector in Lesotho is at an infant stage and lacks processing and storage facilities in the rural areas. The industry is characterised by numerous small-scale producers (two to three cows per unit with an average milk production of 12 litres per cow per day), scattered throughout the country.

The Namibian dairy industry is divided in two sectors, namely the commercial and communal dairy sectors. The commercial dairy sector consists of around 30 large farms. The communal dairy sector produces entirely for own consumption, resulting in its production being unmeasured, but it could be substantial. The Namibian dairy industry supplies 50% of the total domestic demand for dairy products.

In Swaziland the primary dairy industry consists of a traditional and commercial sector with the traditional sector referring to milk production from the beef herd.

## **The secondary dairy industry: SACU**

In South Africa the secondary dairy industry processes raw milk into liquid milk products like fresh and sterilised milk, maas, yoghurt, cream and cottage cheese and concentrated products like milk powder, cheese and butter.

Raw milk is bought and processed by about 386 milk processors and manufacturers. Large dairy companies, representing approximately 10% of the total number of processors, process to the order of 90% of total milk delivered to dairies. The processing and manufacturing sector employs more than 16 000 workers.

In Botswana, the secondary dairy industry consists of two major processors of fresh milk into sour milk, yoghurt and juices.

The Lesotho based company, Lesotho Dairy Products also known as Maluti Dairy, has a processing capacity of 3,6 million litres per annum.

The Namibian processing industry is dominated by Namibia Dairies, accounting for 100% of the intake. Several small dairies also exist but no processing of dairy products takes place in communal areas. Pasteurised milk represents 50% of all the milk processed. The country is not self-sufficient in the supply of dairy products and imports represent approximately 50% of total consumption. UHT milk and other long-life milk form the bulk of imports followed by butter and cheese.

Raw milk production in Swaziland is not sufficient to supply the total domestic demand and the balance of the demand is met through reconstituted milk from imported substitute input materials.

## **Market information**

Information indicates that, with the exception of a few abnormal years, South African milk producers are able to satisfy the total domestic demand for milk.

The South African consumer market is well-developed and a comprehensive range of milk and dairy products in a variety of pack sizes is freely available. Certain speciality products are not manufactured locally like demineralised and higroscopic whey powder and exotic cheeses. The market growth in the consumption of dairy products is currently estimated to be to the order of 2% to 3% per annum.

The liquid milk sector (fresh milk and cream, UHT milk and cream, maas, yogurt, cottage cheese, dairy desserts and ice cream) utilises about 60% of total milk delivered to dairies. The balance is utilised for the manufacture of concentrated products (skimmed and full cream milk powder, condensed milk, cheese and butter)

Limited information is available with respect to the dairy industry in SADC. The available information however indicates that significant potential exists for dairying in SADC.

According to the International Dairy Foundation's statistics, total world production of milk was 594 million tons, of which 501 million tons were cow milk and the balance of more than 93 million represented other dairy animals mainly buffalo cows. Dairy products traded on the world market were whole milk powder, skim milk powder, butter and butter oil and cheese.

The EU, New Zealand, the USA and Australia are the major producers in the world. The EU is the largest exporter and to a large extent determines international dairy prices. The EU supports its dairy industry through an internal price and income support system by the application of quotas, target prices and direct income support, a subsidised intervention price system and export refunds.

The USA dairy policy is characterised by a degree of support and protection, which includes a dairy price support program based on an intervention system involving minimum prices, price regulation in the liquid milk market, market access to imported dairy products regulated by quotas and the Dairy Export Incentive Plan (DEIP).

The New Zealand dairy industry, and to a lesser extent the Australian industry, operates with minimal government support.

### Tariff structure of dairy products

The existing tariff structure of dairy products is set out below:

HEADING/ SUBHEADING	DESCRIPTION	RATE OF DUTY	
04.01	<b>MILK AND CREAM, NOT CONCENTRATED NOR CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER:</b>		
0401.10	Of a fat content, by mass, not exceeding 1 per cent:		
0401.10.10	Ultra high temperature (UHT) or "long life" milk in containers holding 1 li or less	General EU SADC	free free free
0401.10.90	Other	General EU SADC	free free free
0401.20	Of a fat content, by mass, exceeding 1 per cent but not exceeding 6 per cent:		
0401.20.10	Ultra high temperature (UHT) or "long life" milk in containers holding 1 li or less	General EU SADC	free free free
0401.20.90	Other	General EU SADC	free free free
0401.30	Of a fat content, by mass, exceeding 6 per cent:		
0401.30.10	Ultra high temperature (UHT) or "long life" milk in containers holding 1 li or less	General EU SADC	free free free

0401.30.90	other	General EU SADC	free free free
<b>04.02</b>	<b>MILK AND CREAM, CONCENTRATED OR CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER:</b>		
0402.10	In powder, granules or other solid forms, of a fat content by mass, not exceeding 1,5 per cent	General EU SADC	450c/kg 450c/kg free
0402.2	In powder, granules or other solid forms, of a fat content, by mass, exceeding 1,5 per cent:		
0402.21	Not containing added sugar or other sweetening matter	General EU SADC	450c/kg 450c/kg free
0402.29	Other	General EU SADC	450c/kg 450c/kg free
0402.9	Other:		
0402.91	Not containing added sugar or other sweetening matters	General EU SADC	450c/kg 450c/kg free
0402.99	Other	General EU SADC	450c/kg 450c/kg free
<b>04.03</b>	<b>BUTTERMILK, CURDLED MILK AND CREAM, YOGURT, KEPHIR AND OTHER FERMENTED OR ACIDIFIED MILK AND CREAM, WHETHER OR NOT CONCENTRATED OR CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER OR FLAVOURED OR CONTAINING ADDED FRUIT, NUTS OR COCOA:</b>		
0403.10	Yogurt	General EU SADC	free free free
0403.90	Other	General EU SADC	450c/kg 450c/kg free
<b>04.04</b>	<b>WHEY, WHETHER OR NOT CONCENTRATED OR CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER; PRODUCTS CONSISTING OF NATURAL MILK CONSTITUENTS, WHETHER OR NOT CONTAINING ADDED SUGAR OR OTHER SWEETENING MATTER, NOT ELSEWHERE SPECIFIED OR INCLUDED:</b>		
0404.10	Whey and modified whey, whether or not concentrated or containing added sugar or other sweetening matter	General EU SADC	450c/kg 450c/kg free
0404.90	Other	General EU SADC	450c/kg 450c/kg free
<b>04.05</b>	<b>BUTTER AND OTHER FATS AND OILS DERIVED FROM MILK</b>		
0405.10	Butter	General EU SADC	500c/kg 500c/kg free
0405.20	Dairy spreads	General EU SADC	500c/kg 500c/kg free
0405.90	Other	General EU SADC	500c/kg 500c/kg free
<b>04.06</b>	<b>CHEESE AND CURD:</b>		
0406.10	Fresh (unripened or uncurd) cheese, including whey cheese, and curd	General EU SADC	500c/kg 500c/kg free
0406.20	Grated or powdered cheese, of all kinds	General EU SADC	500c/kg 500c/kg free

0406.30	Processed cheese, not grated or powdered	General EU SADC	500c/kg 500c/kg free
0406.40	Blue-veined cheese	General EU SADC	500c/kg 500c/kg free
0406.90	Other cheese	General EU SADC	500c/kg 500c/kg free

### **Competitive position: SA & BLNS**

With respect to the production of raw milk, information indicates that milk producers in Botswana, Namibia and Swaziland receive a higher price for their product than their South African counterparts. This can partly be ascribed to government involvement in price setting in Botswana and Swaziland. Namibia's milk production cost is marginally higher than South Africa's mainly because of the necessity to import feed and licks from Zimbabwe and South Africa. The available information indicates that within SACU, South Africa is the most cost efficient milk producer. Internationally, New Zealand produces at a lower cost.

On average, subsidised EU prices for dairy products are the lowest followed in most cases by New Zealand prices. Despite the fact that the EU's comparative production cost is significantly higher than in New Zealand, the EU is able to export dairy products at a lower price.

### **Comments received on publication of the application**

Namibia proposed the institution of a "development levy" on milk and dairy products on imports to Namibia from South Africa to be triggered by low prices and the oversupply situation in the SACU. The development levy will operate as a floor price mechanism to protect Namibian producers against price and supply shocks.

Three international dairy boards and five SACU companies requested a reduction in the rates of duties on whey powder, cream liqueur and dairy products in general.

Three SA organizations, representing the SA dairy industry, strongly opposed any reduction in the rates of duties on any dairy products, stating the following: "With the exception of a few countries, governments internationally support their dairy industries with a variety of support measures, varying from direct export refunds, and producer subsidies to other indirect support measures. In the case of South Africa, only a tariff structure and minimum health regulations are applied. The local dairy industry has to compete (locally and abroad) with dairy products enjoying substantial governmental support. The effect of exposing the SA dairy industry to subsidised imports without adequate levels of tariff protection could prove disastrous. The industry could be reduced to only fresh milk distribution with nearly all concentrated products being imported."

### **Consideration**

Competition from imported products which impact negatively on the secondary dairy industry also impact on the primary dairy industry. The Commission found that assistance by way of tariff protection is required for the long-term stability of the primary dairy industry.



Imports of all products classifiable under tariff heading 04.01, amounted to 0.2 per cent of the SACU dairy market. In the beginning of 2004 separate provisions were created for UHT milk. According to the available import statistics these imports in 2004 only constituted 0.07 per cent of the SACU dairy market.

Although imports of dairy products at normal prices are fairly low, the import statistics do indicate an increase in the import of whey powder and cheese at low prices from 2003. The SACU industry lodged an application for action against the alleged dumping of cheese originating in or imported from Ireland. This application is under consideration by the Commission.

The Commission found justification for retaining the existing tariff structure with respect to dairy products, classifiable under tariff headings 04.02 to 04.06 and all rebate provisions. Further, the zero-rated duty on UHT milk should be maintained, as no competition is currently experienced from similar imported end products.

### **Recommendation**

In view of the above, the Commission recommended that the existing levels of duty and all rebate provisions on dairy products be maintained.

[T5/2/4/2/1 (020090)]