




International Trade Administration Commission of South Africa

Report No. 65

**Application for an increase in the customs duty on
frozen pork carcasses and half carcasses**



The International Trade Administration Commission (ITAC) of South Africa
herewith presents **Report No. 65: APPLICATION FOR AN INCREASE IN
THE CUSTOMS DUTY ON FROZEN PORK CARCASSES AND HALF-
CARCASSES**



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CHIEF COMMISSIONER

PRETORIA

.....12 / 08 / 2004

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF
SOUTH AFRICA
REPORT NO. 65

**APPLICATION FOR AN INCREASE IN THE CUSTOMS DUTY ON FROZEN
PORK CARCASSES AND HALF-CARCASSES**

SYNOPSIS

The Commission received an application for an increase in the customs duty on frozen pork carcasses and half-carcasses, classifiable under tariff heading 0203.21, from 15% ad valorem or 130c/kg to 37% ad valorem or 260c/kg.

As reason for the application, the applicant stated that the SACU pork producers couldn't compete with the imported carcasses and half-carcasses from Brazil. The SACU pork meat market became a target for Brazilian exporters after the Russian pork meat market, which absorbed 80% of the Brazilian pork exports, was in effect closed to Brazilian exporters, according to the applicant. The applicant added that the cost of producing pork in Brazil was lower relative to the cost incurred by the SACU producers, mainly due to the low cost of maize production in Brazil, which constitutes between 60 to 70 per cent of the feed mix ration for pig production.

The application was published in the Government gazette and comments were received from producers, abattoirs, packers and processors. One objection to the application was received.

There were no imports of meat of swine carcasses and half-carcasses into the SACU prior to 2003 and therefore the industry did not experience any meaningful competition. Imports of frozen carcasses and half-carcasses during 2003 constituted 2% of the SACU's market share.

The Commission concluded that the imported frozen carcasses and half-carcasses enjoyed a limited share of the SACU market. Although the landed cost of imports was lower than the SACU price in the beginning of 2003, the price competitiveness of the SACU relative to imported carcasses and half carcasses improved considerably during that year.

In view of the above, the Commission decided that additional protection for the industry producing frozen pork carcasses and half-carcasses was not justified. The Commission recommended that the application for an increase in the import tariff on frozen meat of swine carcasses and half-carcasses be rejected.

1. INTRODUCTION

1.1 The South African Meat Industry Company (SAMIC) applied, on behalf of the meat industry - particularly the South African Pork Producers Organisation (SAPPO) and the South African Meat Processors Association (SAMPA), for an increase in the import tariff on frozen meat of swine carcasses and half-carcasses, classifiable under tariff subheading 0203.21, from 15% ad valorem or 130c/kg to 37% ad valorem or 260c/kg.

1.2 SAMIC, hereon referred to as the applicant, initially applied for an increase in the import tariff on pork meat, classifiable under tariff heading 02.03, from 15% ad valorem or 130c/kg to 37% ad valorem or 260c/kg, excluding ribs. The application was broad and lacked specificity with respect to affected tariff subheadings. The Commission requested that the applicant submit further information, including price information, in this regard. Subsequently, the applicant confirmed that the application referred to frozen carcasses and half carcasses.

1.3 As reasons and motivation for the application, SAMIC submitted the following information:

- The SACU pork carcass producers cannot compete with the imported products because the prices imported of frozen pork carcasses are below the SACU prices.

- The Russian pork meat market, which absorbed 80% of the Brazilian pork exports in 2002, was effectively closed to Brazilian exporters that had to establish new alternative export markets, including SACU.
- The SACU pork meat market, due to a relatively favourable exchange rate, became one of the target markets Brazil identified and attempted to exploit.
- The cost of producing pork in Brazil is lower relative to the cost incurred by the SACU producers mainly due to the lower costs of maize production in Brazil, which constitute between 60 to 70 per cent of the feed mix ration for pig production.
- The tariffs on meat of bovine animals and sheep or goats are higher than that of pork meat. Pork is therefore targeted as means to import animal protein cheaper into the SACU.

1.4 The application was published in the Government gazette as a general notice for comments on 12 December 2003.

2. THE APPLICATION AND TARIFF POSITION

2.1 The existing tariff position on frozen pork carcasses and half-carcasses was a result of the revision in the customs tariff dispensation with respect to red meat, edible offal and preparations of red meat, with a view to assess the development of the industry and the degree as well as nature of competition experienced from exports.

2.2 During the investigation, the then Board on Tariffs and Trade established that subsidies played a major role with respect to prices of imports from the European Union. The SACU pork industry could not compete against imports at subsidised prices and tariff protection was required to assist the industry to compete with these imports. The Board decided that the applicable ad valorem duty of 15 per cent be supported with a specific duty to also curb incidences of under-invoicing. The recommendations in this regard are contained in Report No. 4083 dated 28 February 2001.

2.3 The provision under item 0203.21 reads as follows:

Table 1: Tariff Position

Tariff Heading	Tariff Sub Heading	Article Description	Rates of Duty		
			General	EU	SADC
02.03		Meat of Swine, Fresh, Chilled or Frozen:			
	0203.2	-- Frozen:			
	0203.21	= Carcasses and half carcasses.....	15% or 130c/kg	15% or 130c/kg	free

2.4 The proposed tariff increase submitted by the applicant is as follows:

Table 2: Proposed Tariff Position

Tariff Heading	Tariff Sub Heading	Article Description	Rates of Duty		
			General SADC	EU	
02.03		Meat of Swine, Fresh, Chilled or Frozen:			
	0203.2	-- Frozen:			
	0203.21	= Carcasses and half carcasses.....	37% or 260c/kg	37% or 260c/kg	free

2.5 The full provision under item 02.03 reads as follows:

Table 3: Tariff Position

Tariff Heading	Tariff Sub Heading	Article Description	Rates of Duty		
			General	EU	SADC
02.03		Meat of Swine, Fresh, Chilled or Frozen:			
	0203.1	-- Fresh or chilled:			
	0203.11	= Carcasses and half carcasses	15% or 130c/kg	15% or 130c/kg	free
	0203.12	= Hams, shoulders and cuts thereof, with bone in ...	15% or 130c/kg	15% or 130c/kg	free
	0203.19	= Other			
	.10	- Rib	free	free	free
	.90	- Other	15% or 130c/kg	15% or 130c/kg	free
	0203.2	-- Frozen:			
	0203.21	= Carcasses and half carcasses	15% or 130c/kg	15% or 130c/kg	free
	0203.22	= Hams, shoulders and cuts thereof, with bone in ...			
	0203.29	= Other			
	.10	- Rib	free	free	free
	.90	- Other	15% or 130c/kg	15% or 130c/kg	free

Source: Harmonised Customs & Excise Tariff Book

3. WTO OBLIGATIONS

3.1 The SACU's WTO bound rate commitment for pork and other meat is 37 per cent ad valorem. In terms of its commitments to the WTO, South Africa is obliged to establish a minimum market access opportunity for red meat in specified quantities at rates that amount to a maximum of 20 per cent of the respective bound rates. The other SACU member

countries do not have minimum market access commitments with respect to the import of red meat.

4. BILATERAL TRADE AGREEMENTS

4.1 The South Africa/Zimbabwe Bilateral Agreement allows for duty free exports of pork meat from Zimbabwe to South Africa subject to a limited annual quota volume of 1 500 tons. Duty-free exports from South Africa to Zimbabwe are unlimited but subject to the allocation of an import permit by the Zimbabwean Government.

5. THE INDUSTRY AND MARKET

5.1 The pork industry in the SACU, according to SAMIC, grew to a dynamic industry over the past three centuries, since 1652 when the Dutch landed the first 24 pigs in the Cape. South Africa has a well-established intensive pork production sector. Pork is mostly produced under intensive and semi-intensive conditions that include housing pigs on concrete or slats. Pigs reared in the SACU have to be protected against temperature extremes, in particular heat; hence the use of environmentally controlled infrastructure by farmers.

5.2 Maize constitutes about 60 to 70 per cent of the feed mix ration for pigs in the production of pork. Protein (fish meal/soya meal) is costly and part of the requirements have to be imported. Phase feeding (feeding

different classes of pigs different rations, mainly in protein percentage) is a common practise.

- 5.3 The pork industry boasts a national breeding herd of between 100 000 to 120 000 sows and 7 000 boars, owned by 350 commercial farmers. The genetic material used for breeding purposes was sourced from Europe and the USA. The existing 46 registered pig abattoirs apply sophisticated technology ensuring a streamlined slaughtering process.
- 5.4 Pork production in the SACU mainly targets the fresh produce and processing markets, commonly known as the porker and baconer markets. Fresh pork is derived from pigs with a carcass mass of up to 65kg while pork used in processed products is obtained from carcass mass of 65-90kg. A carcass weight of more than 90kg is used in the manufacturing of sausages.
- 5.5 The SACU's average annual pork meat production capacity is 130 000 tons. The ex-factory sales value is estimated at an average of R12,50/kg, which amounts to R1 625 000 000 per annum. The price is inclusive of slaughtering and processing costs. The existing production process and biological efficiency are of the same standards as those used by the biggest pork producing countries. The industry adheres to strict sanitary and phyto-sanitary measures in order to maintain the health status.

- 5.6 The actual production statistics over the past five years in both quantities and ex-factory sales value are as follows:

Table 4: Carcasses Production and Ex-factory Sales Value

Year	Price R/kg	Production (tonnes)
2003	8,20	108 000
2002	7,70	120 000
2001	6,70	125 000
2000	6,60	130 000
1999	5,30	130 000

SOURCE: SAMIC

- 5.7 The pork meat industry employed 10 000 workers in total, of which 6 000 employees are in abattoirs and processing industries. About 60% (6 000) of the staff component is skilled and semi-skilled. SAMIC indicated that the increased imports from Brazil resulted in a 10% decrease in the number of sows locally, which implied 480 job losses on farms. The negative effect would filter through to the slaughtering and processing industry, resulting in further job losses.
- 5.8 The estimated size of the total carcass market in the SACU per annum, in quantity and value figures is 130 000 tonnes at R12.50/kg (R1 625 000 000). The annual rate of increase in the market size is estimated at 3 to 5 per cent for the next five years. The SACU pork industry supplies 97% of the market.

5.9 The total on farm investment was given as R1 000 million. The amount invested in abattoirs and processing plants is R500 million.

6. IMPORT STATISTICS

6.1 The major exporters of pork meat into the SACU are France, Belgium, United Kingdom and Brazil. Table 6 illustrates the annual tonnage of all pork meat during 2000 to 2003.

Table 6: Annual Import Statistics – Pork Meat

	2000 tons	2001 tons	2002 tons	2003* tons	2003 tons	2004**
Brazil	592	1 305	25	4 049	5 795	3 941
France	4 163	4 028	4 764	2 335	4 138	1 508
Belgium	1 571	1 191	1 520	899	1 251	578
UK	1 005	288	548	224	499	199
Other	3 088	1 897	1 338	828	1 473	416
Total	10 419	8 709	8 195	8 335	13 156	6 642
% of Brazil imports	5,7	13,4	0,3	48,3	44,0	59,0

Source: SAMIC *(Jan to Jul, 2003) **(Jan to Mar, 2004)

6.2 The bulk of imports during the period 2000 and 2002 originated from France. A decline in the imports from Brazil during 2002 was due to threats of Foot and Mouth Disease.

6.3 Approximately 99 per cent of imported pork is frozen, of which the ribs constitute 90 per cent of the total imports. The imports of pork meat, prior to the Brazilian entry, were stable at 700 tonnes per month and consisted mainly of ribs imported from Europe (France, UK and Belgium).

6.4 The annual import statistics on carcasses and half-carcasses are reflected in as follows:

Table 7: Annual Carcasses and Half-Carcasses Imports

Year	Imports Kg	Value R
1999	37 852	70 842
2000	1 057	6 759
2001	0	0
2002	0	0
2003(Jan-Jun)	1 337 400	7 671 622
2003	1 854 944	11 486 553
2004 (Jan-Apr)	508 155	3 614 342

Source: SARS

6.5 The industry did not experience any meaningful competition prior to 2003. There were no imports of meat of swine carcasses and half carcasses into the SACU during 2001 and 2002. The imports of carcasses and half-carcasses during 2003 (1 855 tons) constituted 2 per cent of the SACU's market share. The imports of 2004 are likely to constitute 2 per cent of the SACU's annual production of 130 000 tons, if the status quo in the first four months remains unchanged.

7. COMPETITIVE POSITION

7.1 Information at the Commission's disposal indicated that approximately ninety nine per cent of imported pork is frozen. Ribs constituted about ninety per cent of imported pork meat. More than 70 per cent of imported frozen pork originated from the EU at decreasing, subsidised prices. The

existing duty on pork was introduced to assist the SACU pork industry to compete against subsidised imports from the EU.

7.2 The industry did not experience any meaningful competition prior to the importation of Brazilian carcasses and half-carcasses at prices lower than the SACU prices, causing the SACU prices to decline. The most extreme price movement in the SACU was from R12.12/kg in January 2003, before imports of Brazilian carcasses arrived, to R9.50/kg in June 2003, when most of the imports were already on sale in the SACU market. This represented a 22 per cent decline in the SACU price of carcasses and half-carcasses.

7.3 Maize constitutes up to 70 per cent of the feed mix ration for pig production and the reduction in its cost is of great significance in the feed costs and ultimate total cost build up. The price of maize reduced by 34 per cent from R1 315/ton in January 2003 to R870/ton in June 2003. Specifically, the cost of yellow maize reduced from R1 475/ton in October 2002 to R1 115/ton in February 2003. It further declined to R942/ton in March 2003 and remained fairly stable up to December 2003.

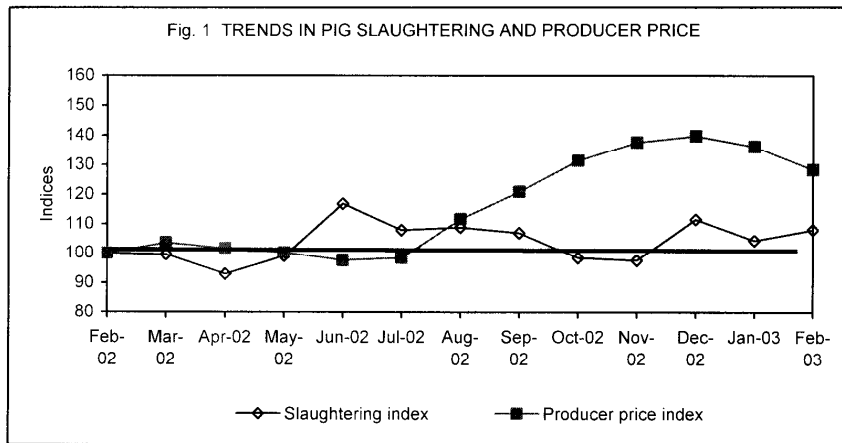
7.4 As in the SACU, feed costs represent almost 70% of total pork production cost in Brazil and, as maize constitutes the major portion of the feed ration, the cost of maize has a major influence in pork

production cost. The Brazilian meat of swine sector also requires significant quantities of maize annually as feed.

7.5 The information at the Commission's disposal indicated that Brazil has an established maize industry that supplies the pork chain and that the competitiveness of the industry was not attributed to the feed costs. The maize prices paid by pork producers in Brazil are usually higher than international prices due to internal demand.

7.6 The Commission established that the demand for maize in Brazil is such that Brazilian maize prices are higher than the international market price for maize exports. Brazilian maize producers would therefore export maize when the international prices are more attractive, that is, when Brazilian maize prices are lower than the international maize price.

7.7 The net producer selling prices in the SACU showed an increasing trend in the second half of 2002 and gradually declined in 2003. There was a positive relation between the producer selling price and the maize price during July to December 2002. High costs of maize during that period resulted in an increase in the costs of pork. The increasing producer prices could also be as a result of normal market forces of supply and demand demonstrated by the inverse relation between the slaughtering and producer price indices in Figure 1.



7.8 The average producer prices during Jan to Jul 2003 showed a gradual decreasing trend from R11.47/kg to R8.79/kg (23% price decrease), but increased gradually in the second half to R11.04/kg (26% price increase) during December 2003, despite the imports of carcasses and half carcasses.

7.9 The strengthening of the Rand did not significantly reduce the cost of frozen pork carcasses and half-carcasses imports from Brazil. The Brazilian Real also firmed against the US Dollar during 2003. The cost of imported carcasses and half-carcasses continued to increase in the last quarter of 2003 despite the strengthening of the Rand against the US Dollar. In November 2003, the landed cost of imported meat of swine carcasses and half-carcasses was R11.21/kg compared to the SACU price of R10.15/kg, despite the relatively strong Rand at R6.95 to the US Dollar.

7.10 The Rand weakened against the Brazilian Real from R2.20 in March 2003 to R2.80 in June 2003 and this was at the period when most of the Brazilian meat of swine carcasses and half-carcasses were imported, thus making imports from Brazil more expensive. The Rand however appreciated slightly against the Real from R2.80 in June to R2.10 in December 2003 and was R2.70 in February 2004.

7.11 The meat of swine carcasses and half-carcasses internationally constitutes 38% of the market share of the four meat commodities (chicken, beef, pork & lamb/mutton). The annual production per annum of meat of swine in the SACU constitutes 7% of the market share of the four commodities in the SACU.

8. COMMENTS

8.1 Numerous comments were received from various industry role players in respect of the published application for an increase in the import tariff on frozen pork carcasses and half-carcasses. The reasons advanced in support of the application included, amongst others, the following:

- ❖ The SACU producers were unable to compete with imports from Brazil at prices below the cost of production in the SACU.
- ❖ Foreign competitors received government support and assistance in terms of subsidies. The production of meat of swine is a capital-intensive business and the SACU producers tend to lag behind the western countries in terms of modernisation, mainly because they do

not receive support in terms of subsidies. Huge amount of capital will have to be invested in the industry if this anomaly is to be addressed, which is unlikely to happen according to the respondents, if the SACU industry is subjected to compete with foreign producers.

- ❖ The volatility of the South African currency makes planning difficult.
- ❖ The continued imports from Brazil will eventually keep most SACU producers out of business, with resultant job losses.

8.2 The reasons advanced for objecting to the application included, among others, the following:

- ❖ The temporary closure of the Russian Federation's market in respect of Brazilian exports did not result in the SACU market being flooded with Brazilian exports. There were far more lucrative export markets for Brazil than the SACU market.
- ❖ The imports of meat of swine carcasses and half-carcasses during the first ten months of 2003 constituted one percent of the total SACU production.
- ❖ The strengthening of the Rand against the US Dollar did not reduce the cost of frozen meat of swine carcasses and half-carcasses from Brazil.

9. CONSIDERATIONS

- 9.1 The existing duty on pork was introduced to assist the SACU pork industry to compete against subsidised imports from the EU. The SACU industry did not however experience any meaningful competition from imports of frozen carcasses and half-carcasses prior to the imports from Brazil, which began in 2003.
- 9.2 The SACU industry started experiencing competition from imported frozen carcasses and half-carcasses in 2003, which constituted two percent of the SACU's market share for carcasses and half carcasses during that year. The temporary closure of the Russian market resulted in the importation of 1 039 tons of carcasses and half-carcasses from Brazil during the period February to May 2003. The quantity of imports showed a declining trend after the reopening of the Russian market.
- 9.3 The total imports during the first four months of 2004 amounted to about 508 tons. Should the level of imports remain the same for the last two-thirds of 2004, the total quantity of imports of meat of swine carcasses and half carcasses for 2004 is likely to constitute an insignificant portion of the SACU's market share.
- 9.4 The landed cost of imported frozen carcasses and half-carcasses in the beginning of 2003 was lower than the SACU price of carcasses and half

carcasses. The price competitiveness of the SACU carcasses and half carcasses however improved in 2003 as a result of:

- the reduction of the producer price that was, to a large extent, as a result of a reduction in the price of maize during 2002/03. There was a significant reduction in the price of maize from R1 315/ton in January 2003 to R870/ton in June 2003. Consequently, the average producer prices in the SACU during the same period decreased by 23%, but increased by 26% in the second half of the year. The increase in the net producer selling prices in the SACU during July to December 2002 was as a result high costs of maize and normal market forces of supply and demand, and
- an increase in the landed cost of imported carcasses and half-carcasses, which occurred as a result of the reopening of the Russian market for Brazilian pork.

9.5 The Commission concluded that the imported frozen carcasses and half-carcasses enjoyed a limited share of the SACU market. The Commission also established that although the landed cost of imports was lower than the SACU price in the beginning of 2003, the price competitiveness of the SACU relative to imported carcasses and half-carcasses improved significantly during the year.

9.6 The Commission therefore decided that additional protection for the industry producing frozen pork carcasses and half-carcasses was not justified and that the price competitiveness of the SACU products relative to imported carcasses and half-carcasses improved significantly during 2003.

9.7 In view of the abovementioned considerations, the Commission recommends that the application for an increase in the import tariff on frozen meat of swine carcasses and half-carcasses be rejected.

10. RECOMMENDATION

10.1 That the application for an increase in the import tariff on frozen meat of swine carcasses and half-carcasses, classifiable under tariff subheading 0203.21, from 15% ad valorem or 130c/kg to 37% ad valorem or 260c/kg be rejected.