REPORT NO. 413

INCREASE IN THE RATE OF CUSTOMS DUTY ON MUSSELS

The International Trade Administration Commission of South Africa herewith presents its Report No.413: **Increase in the rate of customs duty on mussels.**

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Siyabulela Tsengiwe
CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 413

INCREASE IN THE RATE OF CUSTOMS DUTY ON MUSSELS

Synopsis

Blue Ocean Mussels (Pty) Ltd applied for an increase in the customs duty on mussels classifiable under tariff subheadings 0307.39.10 and 0307.39.90 from 5.5c/kg and free of duty respectively, to 25 per cent *ad valorem*.

On balance, the Commission, after careful consideration of the application and the comments received, found adequate justification for an increase in the general rate of duty on mussels, classifiable under tariff subheadings 0307.39.10 and 0307.39.90, from 5.5c/kg and free of duty respectively, to 25 per cent *ad valorem*.

In arriving at its recommendation, the Commission took into account that the aquaculture industry has been identified as a priority sector in the Government's Industrial Policy Action Plan 2 for its capacity to contribute to employment-generating economic growth.

The Commission concluded that an increase in the rate of duty on mussels would enhance the price-competitive position of a domestic industry in its early stages of development, in the face of low-priced competition from abroad. The support should lead to an improved utilisation of existing production capacity and to further investment in the industry to achieve economies of scale.

The Commission decided that the duty be reviewed after a period of three years, to determine its impact on the industry's further development, investment performance, and on the full mussel production value chain.

In the light of the foregoing, the Commission recommended that the general rate of customs duty on mussels, classifiable under tariff subheadings 0307.39.10 and 0307.39.90 be increased from 5.5c/kg and free of duty respectively, to 25 per cent *ad valorem*.

THE APPLICATION AND TARIFF POSITION

1. Blue Ocean Mussels (Pty) Ltd applied for an increase in the customs duty on mussels classifiable under tariff subheadings 0307.39.10 and 0307.39.90 from 5.5c/kg and free of duty respectively, to 25 per cent *ad valorem*.

2. The applicant's business is mussel processing, and over 90% of its output is in the form of frozen half-shell mussels, as fresh mussels have a limited shelf life.

3. As reasons for the application the applicant stated the following:

- Aquaculture is a young industry in South Africa. The importance of this industry has been recognised as South Africa's natural resources of fish stocks are in decline. Notably, the mussel aquaculture industry has been directly identified as a priority sector under cluster 1 of the Government's Industrial Policy Action Plan (IPAP 2).

- What is required in order to firmly establish the industry is a period of growth enabled through protection for a limited period of time. Although the industry is 20 years old, this period has been spent in confronting the various challenges present in establishing the sector. These include violent Cape storms, variances in growth rates of the mussels, erratic mussel spawning and red tide toxins. The industry has gone through a steep learning curve, but in terms of market share still finds itself at the infancy stage of development.

- The biggest threat to the local mussel industry that is impacting on its further development is the low-priced imports that drive down prices, making investments unviable.

- The SACU mussel industry is an integrated industry and the protection to processors has a direct effect on the prices mussel farmers can achieve for their product, which will in turn encourage them to invest in the industry and increase production. Investment is critical to increase production to a level where the industry can benefit from economies of scale.

- For the industry to develop, it has to establish a bigger mussel farming capacity. It is the applicant's view that, with import protection, SACU can establish more mussel farmers and expand mussel processing to be self-sufficient in providing SACU consumers with an "A-grade product".

- It is estimated that the industry would require tariff support of 25% *ad valorem* for at least 8 years for the farms to reach sufficient output and for local mussels to reach an optimum market share to ensure long-term survival. After this period, it is deemed that the emerging mussels industry would have established itself and the industry would be in a position to relinquish the protection through a reduction at a rate of 5% per annum until free of duty, five years after downscaling has started.

4. According to the applicant, the main sources of frozen half-shell mussels against which tariff protection is sought are from producers in Chile, New Zealand and China.

5. The tariff structure for mussels reads as follows:

SECTION 1		LIVE ANIMALS; ANIMAL PRODUCTS					
CHAPTER 3		FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTEBRATES					
Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
03.07		MOLLUSCS, WHETHER IN SHELL OR NOT, LIVE, FRESH, CHILLED, FROZEN, DRIED, SALTED OR IN BRINE;					
	0307.3	Mussels (Mytilus spp., Perna spp.)					
	0307.31	Live, fresh or chilled	kg	Free	Free	Free	Free
	0307.39	Other:					
	0307.39.10	Smoked	kg	5,5c/kg	5,5c/kg	Free	Free
	0307.39.90	Other	kg	Free	Free	Free	Free

THE INDUSTRY AND MARKET

6. Domestically, frozen half-shell mussels are produced from the processing of live mussels, produced by small-scale mussel farms. Mussels are then pre-cooked by placing them in a steamer. After pre-cooking, the two shells of the mussel open and the mussel is then cleaned by hand. The cleaning process involves the removal of the byssus (that is a mass of strong threads secreted by the mussel that attaches the mussel body to the hard shell surface).

7. One half of the shell is then discarded leaving the remaining half-shell with the meat inside. The product is rinsed and placed on a freezer belt where it is frozen below minus 18°C. The frozen product is covered with a protected water layer, which is also frozen and then packed in 1 kg plastic bags. Bags are in turn packed in master cartons of 5kg or 10 kg.

8. The product is distributed to national wholesalers who then on-distribute the product nationally. The biggest user of the product is the catering and hospitality sector followed by franchised seafood outlets and retail stores.

9. Some mussels are sold live to the market directly by mussel farmers. No import competition exists for live mussels since the short shelf life of mussels does not make importation or exportation feasible. For this reason, 90% of the farming output has to be processed into frozen mussels.

10. Mussels can be grown in all the domestic coastal provinces. However, the waters of the west coast in the Western Cape provide the most productive environment, including higher growth rates. Saldanha Bay is the heart of mussel production in South Africa.

11. The number of jobs created in mussel production is associated with the technology used, hand versus mechanical. The South African industry uses the former.

12. South Africa currently produces an estimated 600 to 700 tons valued at between R6 million and R7 million per annum. Mussels contribute roughly 35% to total domestic aquaculture production. However, aquaculture production makes a small contribution to total domestic seafood production.

13. The applicant is currently the only dedicated mussel processing factory in the SACU. In terms of world production, the SACU industry only produces 0.02% of global mussel production. Blue Ocean Mussel's facility is only one-tenth of the size of a modern international mussel processing factory.

14. The SACU market for frozen half-shell mussels is estimated to be around 1 200 tons per annum. The applicant has a designed capacity to take in 800 tons of fresh mussels per annum, and process it into 400 tons of frozen half-shelled mussels. The applicant is currently producing below capacity due to a limited supply of mussels to process.

15. For the industry to develop, it has to establish a bigger mussel farming capacity. This requires building mussel rafts on which mussels will be cultivated in the open ocean. However, the applicant has recently made an additional capital investment (including rafts) that will increase their ability to deliver mussels to 1 000 tons per annum.

16. Between 2010 and 2011 imports of frozen half-shell mussels increased by 46%, from 149 tons in 2010 to 218 tons in 2011.The imports originated from New Zealand, China and Chile.

17. Exports of mussels increased by approximately 89%, from 28 tons in 2010 to 53 tons in 2011.

COMPETITIVE POSITION

18. Information at the Commission's disposal indicates that the domestic mussel processing industry experiences significant price disadvantages vis-à-vis foreign processors.

COMMENTS ON THE APPLICATION

19. The Saldanha Mussel and Oyster Farmers Forum, the Food and Allied Workers Union (FAWU) and the National Agricultural Marketing Council (NAMC), supported the application. Support for the application was based primarily on the potential of the sector to increase investment and create employment opportunities in the Saldanha region, both in mussel farming and in the secondary value addition industry.

20. The South African Association of Seafood Importers and Exporters (SAASIE), Ocean Basket Wholesalers and the Federated Hospitality Association of Southern Africa (FEDHASA), objected to the application, mainly on the grounds that the domestic industry is not in a position to meet the domestic market requirements.

FINDINGS

21. On balance, the Commission, after careful consideration of the application and the comments received, found adequate justification for an increase in the general rate of duty on mussels, classifiable under tariff subheadings 0307.39.10 and 0307.39.90, from 5.5c/kg and free of duty respectively, to 25 per cent *ad valorem*.

22. In arriving at its recommendation, the Commission took into account that the aquaculture industry has been identified as a priority sector in the Government's Industrial Policy Action Plan 2 for its capacity to contribute to employment-generating economic growth.

23 The Commission concluded that an increase in the rate of duty on mussels would enhance the price-competitive position of a domestic industry in its early stages of development, in the face of low-priced competition from abroad. The support should lead to an improved utilisation of existing production capacity and to further investment in the industry to achieve economies of scale.

24. The Commission decided that the duty be reviewed after a period of three years, to determine its impact on the industry's further development, investment performance, and on the full mussel production value chain.

RECOMMENDATION

25. In the light of the foregoing, the Commission recommends that the general rate of customs duty on mussels, classifiable under tariff subheadings 0307.39.10 and 0307.39.90, be increased from 5.5c/kg and free of duty respectively, to 25 per cent *ad valorem*.

[06/2012]