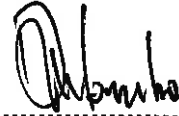


REPORT NO. 574

REDUCTION IN THE CUSTOMS DUTY ON CANOLA SEED

The International Trade Administration Commission of South Africa herewith presents its Report No. 574: Reduction in the customs duty on canola seed.



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Dumisani Mbambo
ACTING CHIEF COMMISSIONER

PRETORIA

11/01/2018

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 574

REDUCTION IN THE CUSTOMS DUTY ON CANOLA SEED

Synopsis

Agricol (Pty) Ltd, hereon referred to as the applicant, applied for a reduction in the rate of customs duty on canola seed classifiable in tariff subheading 1205.10 from 10% *ad valorem* to free of duty, by creating an additional 8-digit tariff subheading.

The Commission found that:

- There are no local producers of hybrid canola seed and the introduction of high yielding hybrid varieties has made the retention of seed by farmers less viable. The current customs duty thus increases the input costs of farmers.

On balance, the recommended duty structure and reduction to free of duty would enable cultivators of canola seed to source their primary inputs at a lower price to increase planting of canola for supply to local processors.

In light of the foregoing, the Commission recommended that the rate of duty on canola seed classifiable under tariff subheading 1205.10, be reduced from 10% *ad valorem* to free of duty, through the creation of an additional 8-digit tariff subheading as follows: "Seeds of a kind used for sowing" and amending the scope of the tariff subheading by inserting a Note to Chapter 12 as follows: "For purposes of subheading 1205.10, 'seed of a kind used for sowing', covers only rape or colza seeds regarded by the competent national authorities as being for sowing."

THE APPLICATION AND TARIFF POSITION

1. Agricol (Pty) Ltd, hereon referred to as the applicant, applied for a reduction in the rate of customs duty on canola seed classifiable in tariff subheading 1205.10 from 10% *ad valorem* to free of duty, by creating an additional 8-digit tariff subheading.
2. As reasons for the application, the applicant, among others, stated that:
 - With the introduction of high yielding hybrid varieties, the retention of seed by farmers has become less viable. This has prompted the importation of majority of the canola seed used by farmers for sowing purposes to grow canola supplied to oil processing facilities. The current customs duty thus increases the input costs of farmers.
 - As canola competes directly with other crops such as wheat for arable land, the farmers will prefer to source a lower priced input crop with a higher return and thus other crop seeds are preferred. This of course does have an impact on the canola seeds crushing plants that must import the seed.
 - The reduction in the rate of customs duty will allow for the importation of the seeds for sowing at a competitive price ensuring that the industry can grow and also supply the subject product at competitive prices which will also benefit and expand the canola oil industry.
3. The application was published in the Government Gazette on 22 September 2017, for interested parties to comment, as follows:

Reduction in the rate of customs duty on:

"Canola/Rape seed classifiable under tariff subheading 1205.10 from 10 per cent ad valorem to free of duty, used for sowing purposes."

4. The existing tariff structure for the subject product reads as follows:

Table 1: Tariff structure of canola seed

| Tariff heading | Tariff subheading | Description | Stats unit | Rate of duty | | | | |
|----------------|-------------------|---------------------------------------------|------------|--------------|------|------|------|----------|
| | | | | General | EU | EFTA | SADC | MERCOSUR |
| 12.05 | | Rape or colza seeds, whether or not broken: | | | | | | |
| | 1205.10 | - Low erucic acid rape or colza seeds | kg | 10% | Free | 10% | Free | 7,5% |
| | 1205.90 | - Other | kg | 10% | Free | 10% | Free | 7,5% |

5. The WTO bound rate in respect of the subheading in question is 40% *ad valorem*.
6. The tariff structure as requested by the applicant is as follows:

Table 2: Requested tariff structure

| Tariff heading | Tariff subheading | Description | Stats unit | Rate of duty | | | | |
|----------------|-------------------|---------------------------------------------|------------|--------------|------|------|------|----------|
| | | | | General | EU | EFTA | SADC | MERCOSUR |
| 12.05 | | Rape or colza seeds, whether or not broken: | | | | | | |
| | 1205.10 | - Low erucic acid rape or colza seeds | | | | | | |
| | 1205.10.20 | -- Seeds of a kind used for sowing | kg | Free | Free | Free | Free | Free |
| | 1205.10.90 | -- Other | kg | 10% | Free | 10% | Free | 7,5% |

7. The applicant's request for the new tariff dispensation, in particular with regards to tariff subheading 1205.10, is to specifically reduce the duty on canola seed used for sowing purposes while canola seed used for crushing purposes will still be subject to a 10% *ad valorem* duty as "Other".
8. In order to narrow the scope of the tariff reduction, the possibility of creating two additional tariff subheadings, i.e. one for sowing purposes and one for crushing purposes, was further explored. The creation of two additional 8-digit tariff subheadings was deemed unfavourable. However, the addition of an explanatory note to Chapter 12 was considered as an appropriate measure to narrow the scope of the tariff reduction.

The explanatory note will read as follows:

“For purposes of subheading 1205.10, ‘seeds of a kind used for sowing’ covers only rape or colza seeds regarded by the competent national authorities as being for sowing”.

INDUSTRY AND MARKET

9. According to information at the Commission’s disposal there are no producers of hybrid canola seed in the SACU.
10. Southern Oil (Pty) Ltd (“SOILL) is the sole processor of various vegetable oilseeds of which Canola seed constitutes ±80%. In addition the manufacturer also processes vegetable oils into various final products.
11. SOILL’s canola seed requirements are mostly sourced from local cultivation and produced from imported-based seed for planting as no seed for planting purposes are produced locally. Nonetheless, SOILL also imports for purposes of crushing into oil and meal.
12. Canola seed is a regulated kind of plant in terms of the Plant Improvement Act of 1976. In summary, the Act prescribes conditions for the selling of plants or propagating material for cultivation purposes and provides for the recognition of certain varieties of plants, for a system of certification of plants and propagating materials and for the control of the import and export of certain plants and propagating material.
13. Canola is primarily used in the manufacturing of the following:
 - Canola oil (crude oil and bottled oil);
 - Canola oil biodiesel;
 - Canola based mayonnaise;
 - Canola oilcake; and
 - Canola meal.

COMPETITIVE POSITION

14. According to information at the Commission's disposal, seed as a production input accounts for 15% of the canola producers' variable costs. Thus, the savings from a duty reduction would contribute meaningfully for producers to produce more efficiently.

COMMENTS RECEIVED

15. No objections to the application were received. The application was supported by Grain SA, SOILL, The Protein Research Foundation and Kaap Agri.

FINDINGS

16. The Commission found that:

- There are no local producers of hybrid canola seed and the introduction of high yielding hybrid varieties has made the retention of seed by farmers less viable. The current customs duty thus increases the input costs of farmers.

17. On balance, the recommended duty structure and reduction to free of duty would enable cultivators of canola seed to source their inputs at a lower price to increase planting of canola for supply to local processors.

RECOMMENDATION

18. In light of the foregoing, the Commission recommended a reduction in the rate of customs duty on canola seed classifiable under tariff subheading 1205.10, from 10% *ad valorem* to free of duty, by creating an additional 8-digit tariff subheading as follows: "Seeds of a kind used for sowing" and amending the scope of the tariff subheading by inserting a note to Chapter 12 as follows: "For purposes of subheading 1205.10, 'seed of a kind used for sowing', covers only rape or colza seeds regarded by the competent national authorities as being for sowing."