

REPORT NO. 719

Ministerial Directive to investigate a request for a reduction in the rate of customs duty on canned minced anchovies, classifiable under tariff subheading 1604.20.30, from 25 per cent *ad valorem* to a specific duty of 6c/kg

The International Trade Administration Commission of South Africa herewith presents **Report No. 719: Ministerial Directive to investigate a request for a reduction in the rate of customs duty on canned minced anchovies, classifiable under tariff subheading 1604.20.30, from 25 per cent *ad valorem* to a specific duty of 6c/kg**



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27/09/ 2023

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 719

Ministerial Directive to investigate a request for a reduction in the rate of customs duty on canned minced anchovies, classifiable under tariff subheading 1604.20.30, from 25 per cent *ad valorem* to a specific duty of 6c/kg

Synopsis

The Commission considered a directive from the Minister of Trade, Industry and Competition (the “Minister”) to investigate a request from Unique Selling Points (Namibia) CC for a reduction in the rate of customs duty on canned minced anchovies, classifiable under tariff subheading 1604.20.30, from 25 per cent *ad valorem* to a specific duty of 6c/kg through the creation of an additional 8-digit tariff subheading.

During its deliberations and in arriving at its recommendation, the Commission considered the information at its disposal, including comments received during the investigation period.

The Commission found that:

- Canned minced anchovies are ready-to-eat minced fish in airtight metal containers for human consumption. The product concerned is not a high value-added product like flat salted anchovy fillets and has a different production process that does not include salting or maturation. The species of anchovy forming the basis of the application is abundant and unique to Peru and provides an affordable source of a high protein, high omega content fish resource.
- There are no domestic producers of canned minced anchovies within the Southern African Customs Union (“SACU”) region given that anchovies from Southern Africa are mainly used for fishmeal production due to, amongst others, their small size and soft texture.

- Developing canned anchovy products for human consumption in the local fish processing industry poses challenges in terms of realising an acceptable return on investment given the extent of capital expenditure required to enable local production coupled with low profit margins. In addition, the declining average size of South African anchovies since 1980, the manual labour required to prepare each fish individually, and quality problems caused by high lipid content, oxidation and rancidity were also cited as reasons for the absence of anchovy production for human consumption in South Africa.
- Reducing the rate of customs duty on canned minced anchovies from 25 per cent *ad valorem* to 6c/kg would provide SACU consumers with a more affordable alternative, high protein content product when compared to other high value canned fish products like canned tuna or pilchards. The reduction will potentially offer regional consumers an additional choice for an affordable food product.
- Canned minced anchovies were only imported by the Applicant during 2019 and 2020.
- The Applicant is located in Namibia and not South Africa, therefore reciprocal commitments are not applicable as they only extend to entities within South Africa.
- Other canned fish products either have no duty or attract a 6c/kg duty, depending on the country or region of origin, hence a reduction would contribute to the alignment of the tariff structure for canned fish products.
- It is unlikely that reducing the customs duty on canned minced anchovies will affect the supply and pricing of other canned fish products such as tuna and pilchards as its target market is the lower LSM group.

In light of the foregoing, the Commission recommended a reduction in the rate of customs duty on canned minced anchovies, classifiable under tariff subheading 1604.20.30, from 25 per cent *ad valorem* to a specific duty of 6c/kg through the creation of an additional 8-digit tariff subheading.

1. APPLICATION AND TARIFF POSITION

- 1.1. The Commission received a directive from the Minister to investigate a request from Unique Selling Points (Namibia) CC (hereon referred to as the “Applicant”) for a reduction in the rate of customs duty on canned minced anchovies, classifiable under tariff subheading 1604.20.30, from 25 per cent *ad valorem* to a specific duty of 6c/kg.
- 1.2. Canned minced anchovies are ready-to-eat minced fish in airtight metal containers for human consumption. The Applicant is a trading company that does not own production units or warehouses. Their business involves sourcing canned, frozen and other fish products and developing and marketing these products in the SACU and other countries. According to the Applicant, it is presently not in operation but will commence its operations when finality is reached in terms of the outcome of this application and provided there is sufficient demand for the product concerned.
- 1.3. As reasons for the application, the Applicant submitted, *inter alia*, that:
 - The intention is to provide people, with limited financial resources, access to a low-cost source of protein.
 - The product is a low-cost fish product, which is rich in protein and other nutrients. The product was initially produced in Peru to provide local people with limited financial resources with a high-quality low-priced source of protein. This is the Applicant’s exact intention for the product in the SACU.
 - The target customer for this product is the lower-income citizens of Southern Africa who have limited disposable income available in order to sustain themselves.
 - Other similar canned fish products do not attract the punitive 25 per cent duty currently applicable to this product. This product will not compete with locally produced products at all. It should be compared to the tuna product variants, which are all attracting duties at 6c/kg and are also not produced in SACU and are imported in their totality. The same applies to the canned minced anchovies,

but the canned minced anchovies could be available to the local consumers at a much-reduced price compared to the other options. If the same duty is applied to minced anchovies, it should present the SACU consumers with a more affordable option in this category.

- Reducing the 25 per cent duty to the same level as for other canned fish products, will have no negative impact on any labour structure; as a matter of fact, it may well create a new line of product with distribution to all outlets which could indeed create additional employment.

1.4. The application was published in the Government Gazette on 24 March 2023, for interested parties to comment.

1.5. The current tariff structure of the subject product is given in Table 1 below.

Table 1: Current tariff structure applicable to canned minced anchovies

Heading / Subheading	CD	Article Description	Stat. Unit	Rate of Duty					
				General	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA
1604.20		Other prepared or preserved fish:							
1604.20.30	5	Other anchovies	Kg	25%	free	free	free	25%	25%

Source: SARS

1.6. Table 1 above, shows that canned minced anchovies are currently classifiable under tariff subheading 1604.20.30 and attract a 25 per cent *ad valorem* customs duty on imports from General, Mercosur and the African Continental Free Trade Area (“AfCFTA”) regions. The subject product is duty free when imported from the European Union/United Kingdom (“EU/UK”), the European Free Trade Association (“EFTA”) and the Southern African Development Community (“SADC”).

1.7. Table 2 below shows the tariff structure as requested by the Applicant.

Table 2: Requested tariff structure for canned minced anchovies

Heading / Subheading	C	Article Description	Stat. Unit	Rate of Duty					
				General	EU/U	EFTA	SADC	MERCOSUR	AfCFTA
1604.20.3		Other, anchovies (<i>Engraulis spp.</i>)							
1604.20.31		Minced, in airtight metal containers for human consumption	Kg	6c/kg	free	free	free	6c/kg	6c/kg

Source: SARS

- 1.8. Table 2 above shows that the Applicant requested that the customs duty on canned minced anchovies be reduced from 25 per cent *ad valorem* to a specific duty of 6c/kg.
- 1.9. The South African Revenue Service (“SARS”) confirmed that the requested tariff structure would result in the creation of a different numbered 8-digit tariff line, namely 1604.20.31 for the subject product.
- 1.10. According to the Applicant the species of anchovy they intend to import is one of the biggest marine resources in the world and can provide an affordable, high-protein fish resource to the world. The species used is almost entirely endemic to Peru and their physical and organoleptic qualities allow for the production of this specific product. Other similar resources, like the anchovy species found in Southern Africa, are used mainly for fishmeal production as a result of its physical characteristics, which lends itself to fishmeal production. The Applicant elaborated that the small size and soft texture of the anchovies found in Southern Africa makes it more difficult to be processed into canned minced anchovies for human consumption.
- 1.11. The Applicant further submitted that the product is not a high value-added product, such as the flat salted anchovy fillets commonly found in restaurants and retailers. The product is not salted, and its production process differs completely from the flat salted anchovy fillets. The product is not a semi-preserved fish and is not subjected to any maturation process, which is the case with the standard flat salted anchovy fillets.

2. DISCUSSION

- 2.1. According to desktop research, canned minced anchovies are a versatile seafood product popular worldwide, produced primarily in Mediterranean countries such as Spain, Portugal, Italy, and Tunisia, as well as in Southeast Asian countries like Thailand, Indonesia, and the Philippines. Peru and Morocco also produce them for local consumption and export. European countries, particularly Italy, France, and Spain, are the biggest consumers of canned minced anchovies.
- 2.2. According to a 2020 report by the Department of Forestry, Fisheries and the Environment (“DFFE”) on South Africa's marine fishery resources, anchovy stocks are at optimal levels, allowing for sustainable fishing without endangering the population. The catch is entirely processed into fishmeal for local use and export due to the declining size of anchovies since 1980 and quality problems caused by high lipid content, oxidation, and rancidity. There is no anchovy production for human consumption in South Africa due to these reasons.
- 2.3. In the SACU region, Namibia, similar to South Africa, processes anchovies into fishmeal. The other SACU countries lack anchovy production due to their landlocked status.
- 2.4. According to information at the Commission’s disposal, the Applicant imported canned minced anchovies from Peru in 2019 and 2020. The Applicant did not import canned minced anchovies in 2021.
- 2.5. The Applicant currently has two members, but no other employees, according to information at the Commission’s disposal. The Applicant submitted that due to this product being a new product, which has up until this point been available in the SACU in very limited quantities (and only through imports), its job-creation impact cannot be accurately assessed. The Applicant further submitted that should demand for the product increase sufficiently it is also their intention to create a wholesale facility in South Africa from where it intend to supply the informal trade directly which will require local employees.

- 2.6. One objection to the application was received from the South African Pelagic Fishing Industry Association (“SAPFIA”). Opposition was based on the grounds that imported canned minced anchovies could have a negative impact on the local economy.
- 2.7. SAFPFIA submitted, in response to a follow-up by ITAC regarding its objection, that no commercial production of anchovy products for direct human consumption has been initiated to date. Currently, the production of various products from anchovy is still in the research and development phase, meaning no commercial quantities of anchovy products have been produced. The last commercial anchovy product, Happy Pet, was discontinued over 15 years ago.
- 2.8. In response to SAPFIA's comments, the Applicant stated that the parties represented by SAPFIA have not been able to produce and market a similar product to the proposed canned minced anchovy products. The Applicant submitted that a successful introduction of imported canned minced anchovy into the South African market could potentially benefit the local industry and SAPFIA members by reducing challenges and eliminating import duties. Furthermore, the Applicant was of view that this application will not be to the detriment of the SAPFIA members, but complimentary to the efforts they may initiate to produce and market similar products.

3. SUMMARY OF FINDINGS

3.1. In light of the foregoing, the Commission found that:

- Canned minced anchovies are ready-to-eat minced fish in airtight metal containers for human consumption. The product concerned is not a high value-added product like flat salted anchovy fillets and have a different production process that does not include salting or maturation. The species of anchovy forming the basis of the application is abundant and unique to Peru and provides an affordable source of a high protein, high omega content fish resource.
- There are no domestic producers of canned minced anchovies within the SACU region given that anchovies from Southern Africa are mainly used for fishmeal production due to, amongst others, their small size and soft texture.
- Developing canned anchovy products for human consumption in the local fish processing industry poses challenges in terms of realising an acceptable return on investment given the extent of capital expenditure required to enable local production coupled with low profit margins. In addition, the declining average size of South African anchovies since 1980, the manual labour required to prepare each fish individually, and quality problems caused by high lipid content, oxidation and rancidity were also cited as reasons for the absence of anchovy production for human consumption in South Africa.
- Reducing the rate of customs duty on canned minced anchovies from 25 per cent ad valorem to 6c/kg would provide SACU consumers with a more affordable alternative, high protein content product when compared to other high value canned fish products like canned tuna or pilchards. The reduction will potentially offer regional consumers an additional choice for an affordable food product.
- Canned minced anchovies were only imported by the Applicant during 2019 and 2020.

- The Applicant is located in Namibia and not South Africa, therefore reciprocal commitments are not applicable as they only extend to entities within South Africa.
- Other canned fish products either have no duty or attract a 6c/kg duty, depending on the country or region of origin, hence a reduction would contribute to the alignment of the tariff structure for canned fish products.
- It is unlikely that reducing the customs duty on canned minced anchovies will affect the supply and pricing of other canned fish products, such as tuna and pilchards, as its target market is the lower LSM group.

4. **RECOMMENDATION**

- 4.1. In light of the foregoing, the Commission recommended a reduction in the rate of customs duty on canned minced anchovies, classifiable under tariff subheading 1604.20.30, from 25 per cent *ad valorem* to a specific duty of 6c/kg through the creation of an additional 8-digit tariff subheading as contained in Table 2, page 5, of this Report.