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Report Name: South Africa Rises Wheat Import Duties while Wheat Area Drops

Country: South Africa - Republic of

Post: Pretoria

Report Category: Grain and Feed

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Report Highlights:

In July 2024, falling global wheat prices triggered a wheat import duty of Rand 176.30 (USD 9.70) per metric ton for South Africa ending more than three years of duty-free imports. The higher import duty was introduced amid a 7 percent drop in wheat planted area for marketing year 2024/25. This represents the smallest wheat area the past seven years in South Africa. Despite the increased duty, Post estimates South Africa's wheat imports in marketing year 2024/25 should be maintained at about 2 million metric tons

Wheat Import Duty

On July 19, 2024, South Africa published a new wheat import duty of R176.30 per metric ton (MT) ($9.70/MT[1]) due to falling global wheat prices (see Table 1). South African wheat imports have entered duty-free since July 2, 2021. The South African wheat duty is calculated by means of a variable formula to ensure stable wheat prices and is intended as buffer against extreme market fluctuations. Consequently, local wheat prices are maintained when the international prices are declining to support local producers and *vice versa* to support local consumers when international wheat prices are rising. Adjustments are triggered when the average price of wheat deviates by more than $10/MT in either direction from the price used for the last duty calculation and persists for three consecutive weeks. The formula uses United States Hard Red Wheat No 2 as a reference price plus adjustments for distortion factors (subsidies) in the global wheat market and subtraction of the average freight costs to South African ports.

Table 1

South Africa's Import Duties for Wheat as of 07/19/2024

General (including the United States)	**European Union (EU)**	**European Free Trade Association (EFTA)**	**Southern Africa Development Community (SADC)**	**Mercosur**	**WTO Minimum Market Access**	
					Annual quota	**Extent of rebate**
R176.30/MT	R176.30/MT	R176.30/MT	Free	R176.30/MT	108,279	Full duty less 14.4%

Source: South African Revenue Services (SARS)

Although the new duty was published on July 19, 2024, it was already triggered in the beginning of April 2024. As the world wheat price continued to decline beyond April, another duty adjustment to R421.95/MT was triggered on July 2, 2024. It remains unclear when this new duty will be published as the reaction days to implement a new duty depends on the time it takes to conclude the administration process. This variable implementation time creates uncertainty in the South African wheat industry and influences the effectiveness of the tariff. However, it also creates opportunity for importers to benefit from the lower import tariff.

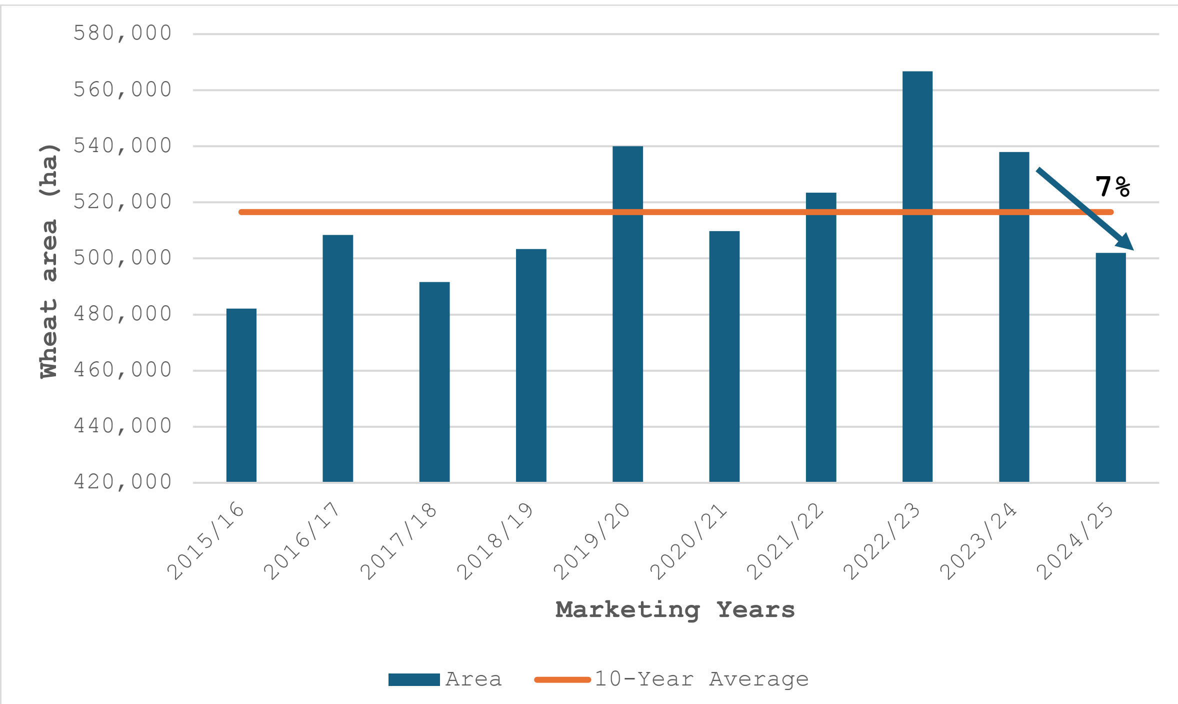
[1] US$1 = Rand 18.20 (31/07/2024)

Wheat Area

On July 26, 2024, the South Africa Crop Estimates Committee (CEC) released the preliminary area estimate for winter cereals. According to the CEC producers planted 502,000 hectares (ha) of wheat for marketing year (MY) 2024/25. This represents a drop of almost 7 percent from MY 2023/24 and the smallest wheat area the past seven years in South Africa (see Figure 1). With a bearish outlook on local and international wheat prices, coupled with the fourth consecutive year of wheat production exceeding 2 million metric tons (MMT), producers turned to other crops including rapeseed, which saw area expansion of 11 percent to a record level of 146,200 ha. In addition, reduced soil moisture due to a *El Niño* induced mid-summer drought in the summer rainfall area deterred winter wheat plantings. An expansion of wheat area under irrigation was also unlikely due to the risk of power outages.

Figure 1

Trends in South Africa's Wheat Area

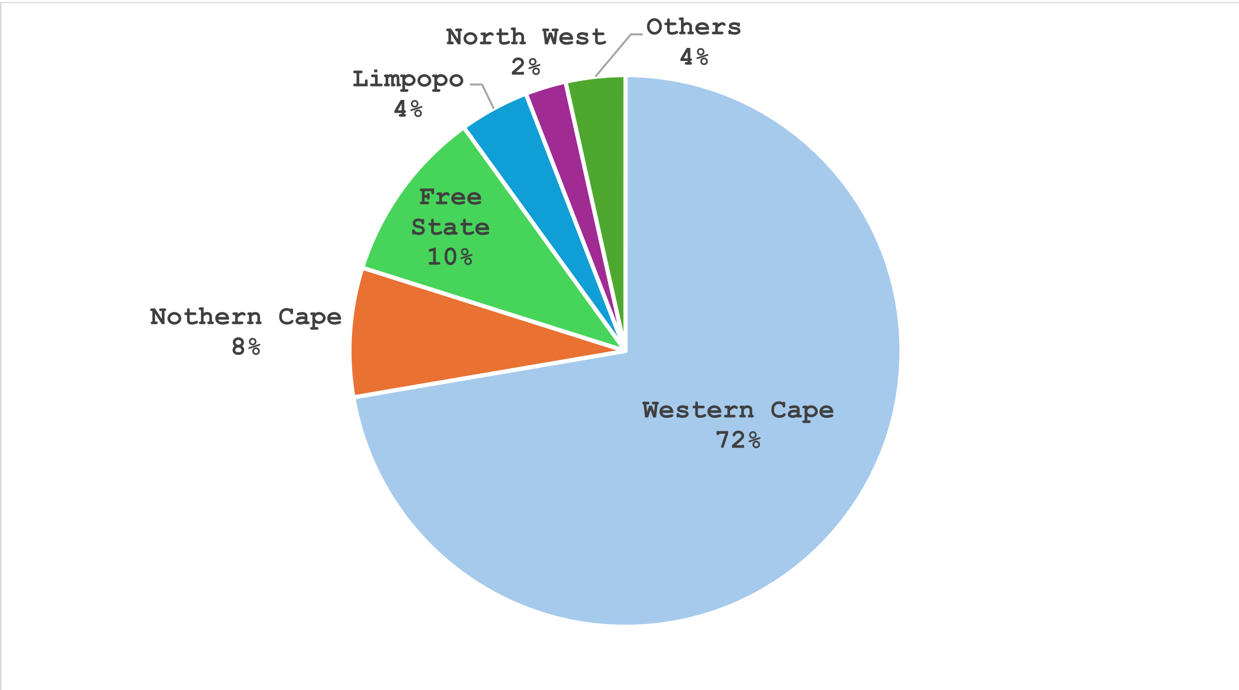


Source: Unites States Department of Agriculture (USDA), Crop Estimates Committee

Wheat is mainly produced (from April to December) in the winter rainfall area of South Africa i.e. the Western Cape province, under rainfed conditions (see Figure 2). Therefore, the climatic situation in the province during the wheat production season understandably plays a significant role in South Africa's total wheat crop. The current production season (MY 2024/25) in the Western Cape province started off with below normal rainfall in May and June. However, the dry period was followed by excessive rainfall in July that caused flooding in some areas which damaged infrastructure but had minimal impact on the newly planted wheat crop.

Figure 2

The Distribution of Wheat Area by Provinces in South Africa



Source: Crop Estimates Committee

Assuming normal weather conditions for the rest of the season and an area of 502,000 ha, Post forecasts that South Africa could realize a wheat crop of 2.0 MMT in MY 2024/25, lower than the wheat crop produced in MY 2023/24 and MY 2022/23. Table 2 reflects the area planted, yield and production figures of wheat in South Africa for MY 2022/23 (actual), MY 2023/24 (actual) and MY 2024/25 (estimate).

Table 2

Area Planted and Production of Wheat in South Africa

MY	Area (1,000 ha)	Yield (MT/ha)	Production (1,000 MT)
2022/23 (actual)	567	3.7	2,110
2023/24 (actual)	538	3.9	2,050
2024/25 (estimate)	502	4.0	1,995

Source: Crop Estimates Committee and Post estimates

Consumption

Wheat is the second most important grain commodity consumed in South Africa after corn and is predominantly used for human consumption. Local wheat consumption is expected to grow only marginally to 3.7 MMT in MY2024/25. Adjustments to the wheat import duty have consequences for the entire wheat value chain. A higher wheat import duty rises the milling industry's production cost, adding to the price of wheat products and ultimately increase the pressure on consumer spending, hindering any major upsurges in the demand for wheat. As a result, South Africa's wheat imports in MY 2024/25 is projected at 2 MMT, maintaining the same estimated level as in MY 2023/24.

Attachments:

No Attachments.