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Global Agricultural Information Network

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Increase in the import duty of wheat

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Report Highlights:
South Africa's International Trade Administration Commission (ITAC) made an administrative change in the import reference for wheat that effectively increased the import duty. The domestic dollar-based reference price increased from $157 to $215/ton. At current prices, the new effective import duty is about R140/ton or $19/ton.

Executive Summary:

South Africa's International Trade Administration Commission (ITAC) made an administrative change in the import reference for wheat that effectively increased the import duty. The domestic dollar-based reference price increased from $157 to $215/ton. At current prices, the new effective import duty is about R140/ton or $19/ton. The agricultural sector has been lobbying for an increase in the wheat import duty for some time, believing that "cheap" imported wheat makes domestically produced grain uncompetitive. South Africa's wheat production has been declining for nearly twenty years. Wheat farmers asked for a duty of R470/ton or $63/ton and views the current change as "too little, too late" as it is unlikely to provide a positive production stimulus to South Africa's wheat farmers. The main reason why ITAC could not support the wheat farmers full request was the impact a higher import import duty would have had on the bread price. Bread is an important food source for many of South Africa's low-income citizens. A duty of R140/ton will increase the bread price by approximately 9c/loaf or 1 percent. It seems like the only beneficiary of the increased wheat import duty will be the South African Government as it will collect more than R200 million in duties.

General Information:

DECLINING WHEAT PRODUCTION IN SOUTH AFRICA

South African wheat farmers have indicated that they will plant only 548,000 hectares of wheat in 2010. This is 94,500 hectares or 14.7 percent less than the 647,500 hectares of the previous season. Figure 1 illustrates the continuous downward trend in hectares planted with wheat since the early nineties in South Africa.

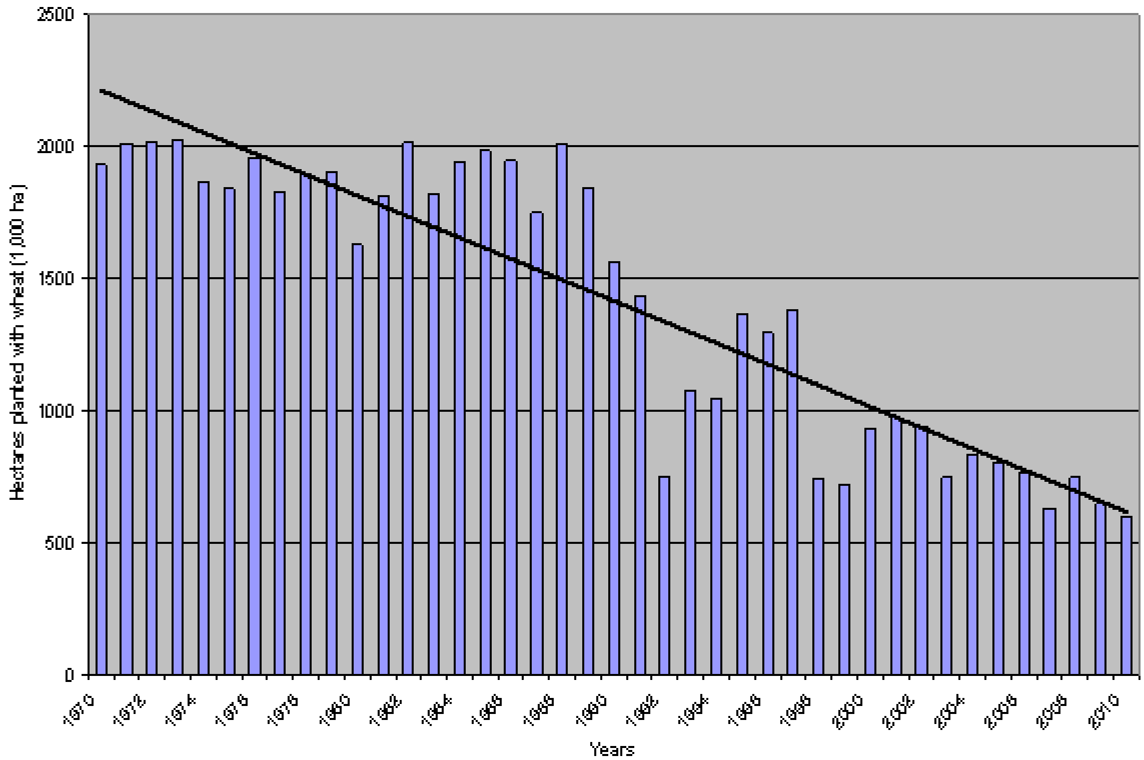

Figure 1: The decline in hectares planted with wheat in South Africa (1970 – 2010)

On national average and weather conditions, 548,000 hectares planted with wheat will realize a crop of about 1.6 million tons for the 2010/11 marketing year. This means South Africa will have to import almost half of the country’s wheat demand. Figure 2 indicates South Africa’s increased dependence on wheat imports to meet local demand.

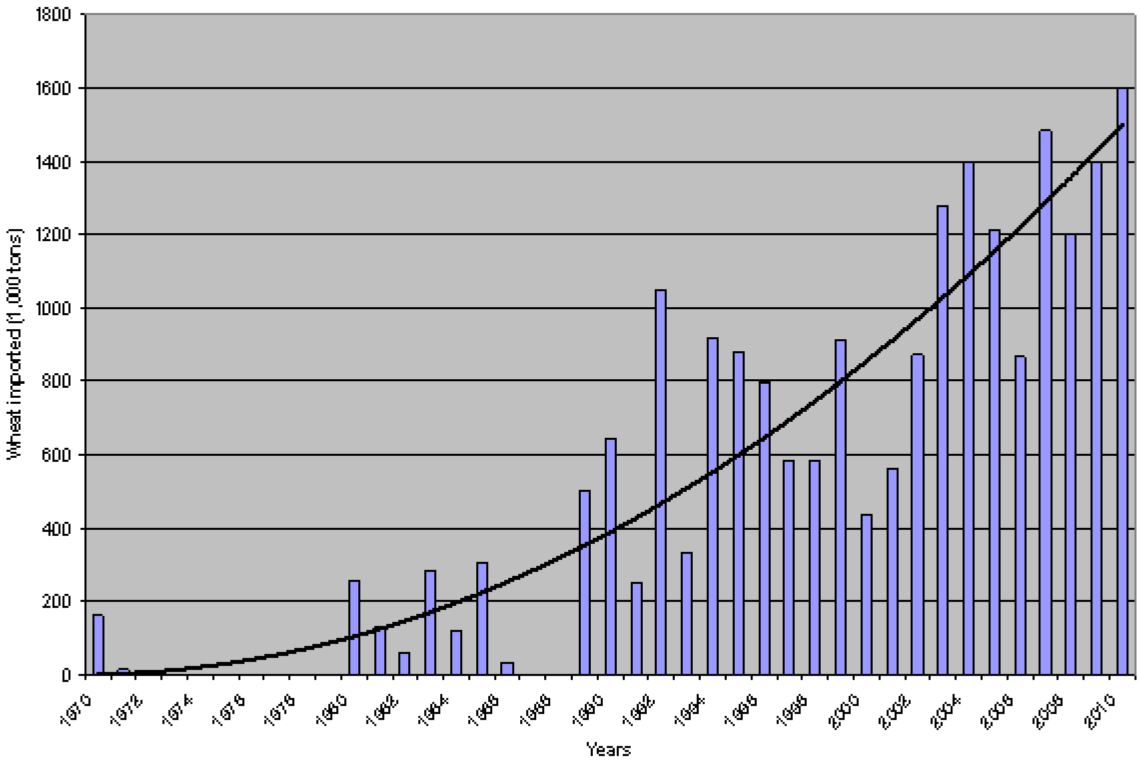

Figure 2: South Africa's increased dependence on wheat imports to meet the local demand (1970-2010)

Given the decreasing trend in wheat production and the increasing dependence on wheat imports, South African wheat famers have been continuously lobbying Government for more tariff protection against cheaper imported wheat. Farmers argue that they cannot continue to produce wheat in South Africa profitably anymore and are even asking for subsidies. Wheat farmers also argue that an increase in the price of bread caused by higher tariffs would be well worth the effect a revival of wheat production in South Africa would have on rural economic development and improvement in food security. However, the farmers' arguments are considered weak when compared to the low income status of the majority of South Africans for whom bread is an important food source.

In its newest application of October 2009, wheat farmers applied for an increase in the domestic Dollar-based reference price of wheat, classifiable under import tariff subheading 1001.90, from US$157/ton to US$260/ton. It requested that the domestic Dollar-based reference price of US$157/ton be adjusted by using the latest five year average domestic Dollar-based reference price of US$236/ton instead of the previous ten-year world reference price which yielded no duty. Furthermore, that this price be further adjusted by including a distortion factor (caused by subsidies) estimated at 10.27%, which leads to a domestic Dollar-based reference price of US$260/ton yielding a duty of R470/ton or $63/ton, equivalent to 33% *ad valorem*.

WHAT DID ITAC SAY?

In its media statement, the International Trade Administration Commission of South Africa (ITAC) admitted finding a sharp increase in wheat imports since the 2007/08 season. It was aware of the difference in cost and price between locally produced wheat and wheat produced in major wheat-producing countries.

ITAC considered rising input costs and the differences between competitive positions of various wheat-producing regions. It understood that low profitability and returns affected wheat farming's long-term sustainability in South Africa. They took the low profitability of farmers into account, but they had to consider the impact of a rise in bread prices on the poor, in particular.

On the global front, ITAC noted the distortions on the global supply of wheat caused by agricultural subsidies and the depressing effect on wheat prices which adversely affects the competitive position of domestic wheat producers.

In the light of the structural changes that occurred in the supply and demand of wheat, the Commission considered that a five-year average world reference price would be more appropriate than the previous ten-year reference price.

However, the Commission could not support the applicant's full request which, as mentioned, would have resulted in an immediate increase in the duty to approximately R470/ton equivalent to 33% *ad valorem* with a concomitant appreciable increase in the price of bread.

Based on all the information at its disposal, the Commission decided that the domestic Dollar-based reference price for wheat be increased from US$157 per ton to US$215 per ton based on the 5-year average US No.2 HRW (ord) Gulf price of wheat of US$236/ton, plus an adjustment for the distortion factor evident in the international wheat market of US$24/ton, less the average ocean transport cost of wheat of US$45/ton to arrive at an average landed price of wheat. The latter adjustment is made to adjust for the natural or geographic protection that wheat producers enjoy in order not to overprotect or over compensate the industry causing adverse cost-raising effects downstream.

The recommended domestic Dollar-based reference price of US$215/ton will be yielding an immediate duty of R140/ton or $19/ton equivalent to approximately 10% *ad valorem* (see also Table 1). The duty on wheaten flour has been increased to 21.10c/kg (also equivalent to approximately 10%).

Table 1: The new wheat tariff formula

		Calculated tariff
Base price: World reference price (USNo2 HRW fob Gulf) - 3 weeks moving average as on:	A	(a) (9) 30 Apr 2010 $ 196.00/ton
RSA initial reference price	B	$215.00/ton
Dollar duty on wheat	C = (B-A)	(b) $19.00/ton
Rand duty on wheat		R140.81/ton
R/$ exchange rate		R7.4109

(a) *This will only change when the Base price is changed.*

To calculate subsequent adjustments to the level of protection, the difference between the world reference price on which the previous adjustment was based, and the 3 week moving average of the same price will be calculated on a weekly basis. When this deviation amounts to more than US$10 for 3 consecutive weeks, a new tariff can be calculated and a new world reference price is set. Any interested party is at liberty to put a request for a new tariff to the Board.

(b) *If a negative figure* - *Duty free /*

Adjustments to the level of protection will be based on quantum movements in the world wheat reference price as follows: The difference between the 3-week moving average of the US No. 2 HRW (ord) Gulf settlement price (world reference price) and the domestic Dollar-based reference price of US$215/ton for wheat will be calculated on a weekly basis. If the 3-week moving average of the US No. 2 HRW (ord) Gulf settlement price shows a variance of more than $10/ton from the existing level for 3 consecutive weeks, an adjustment to the tariff is triggered and a new duty will be calculated. The resulting dollar specific duty will be converted to Rand according to the Rand/Dollar exchange rate prevailing on the day that the adjustment is triggered.

The recommendations have been approved by the Minister of Trade and Industry and have been implemented by the South African Revenue Service on 30 April 2010.

FARMER'S COMMENTS ON THE NEW WHEAT TARIFF

"It really was a shocker," said Andries Theron, Grain SA's deputy chairman who farms near Moorreesburg in the Swartland. "We expected a fairer import tariff to be the saving grace, especially for the Western Cape wheat industry that's facing ruin after poor harvests, low prices and high input prices made it unprofitable to continue producing wheat. He added "Government's decision on wheat's import tariff would have a profound impact on the country's 4 000 wheat-farmers and its 28 000-strong workforce and it seems the state alone will profit from wheat's new import tariff as it stands to collect about R200 million in import duties, even more as imports increased due to lower plantings locally."