

South African Wheat Import Tariff

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Elsenburg, RSA

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Principles behind tariffs/duties

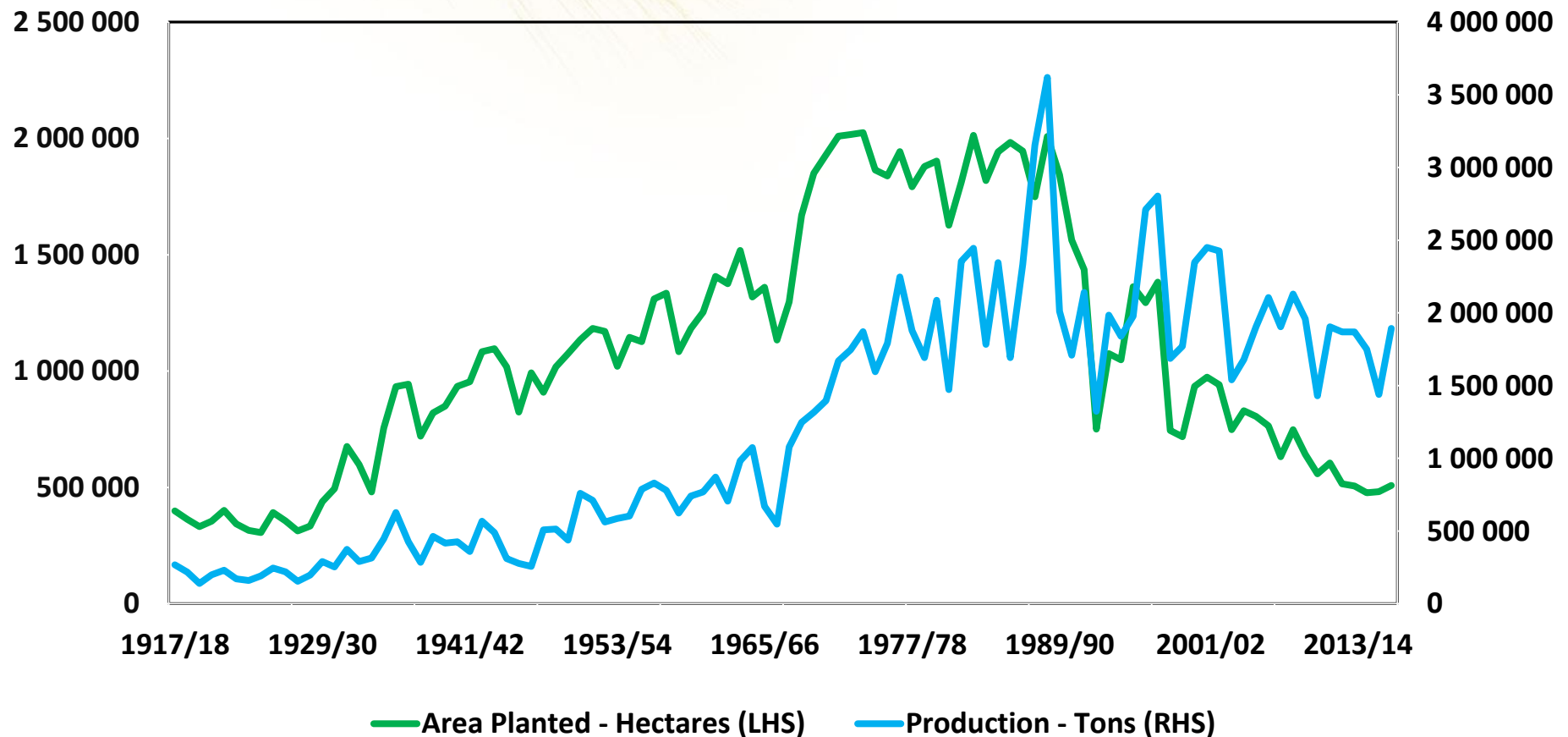
- Protection of industry for various reasons – WTO space
- Distorted global market environment
- Market volatility, coupled with exchange rate volatility
- Complex set of factors that need to be weighed up
- Establish the right balance between necessary protection and drive to competitiveness on the one hand, and the social welfare position on the other hand (cost of food to the poor)

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BACKGROUND TO SA WHEAT SITUATION

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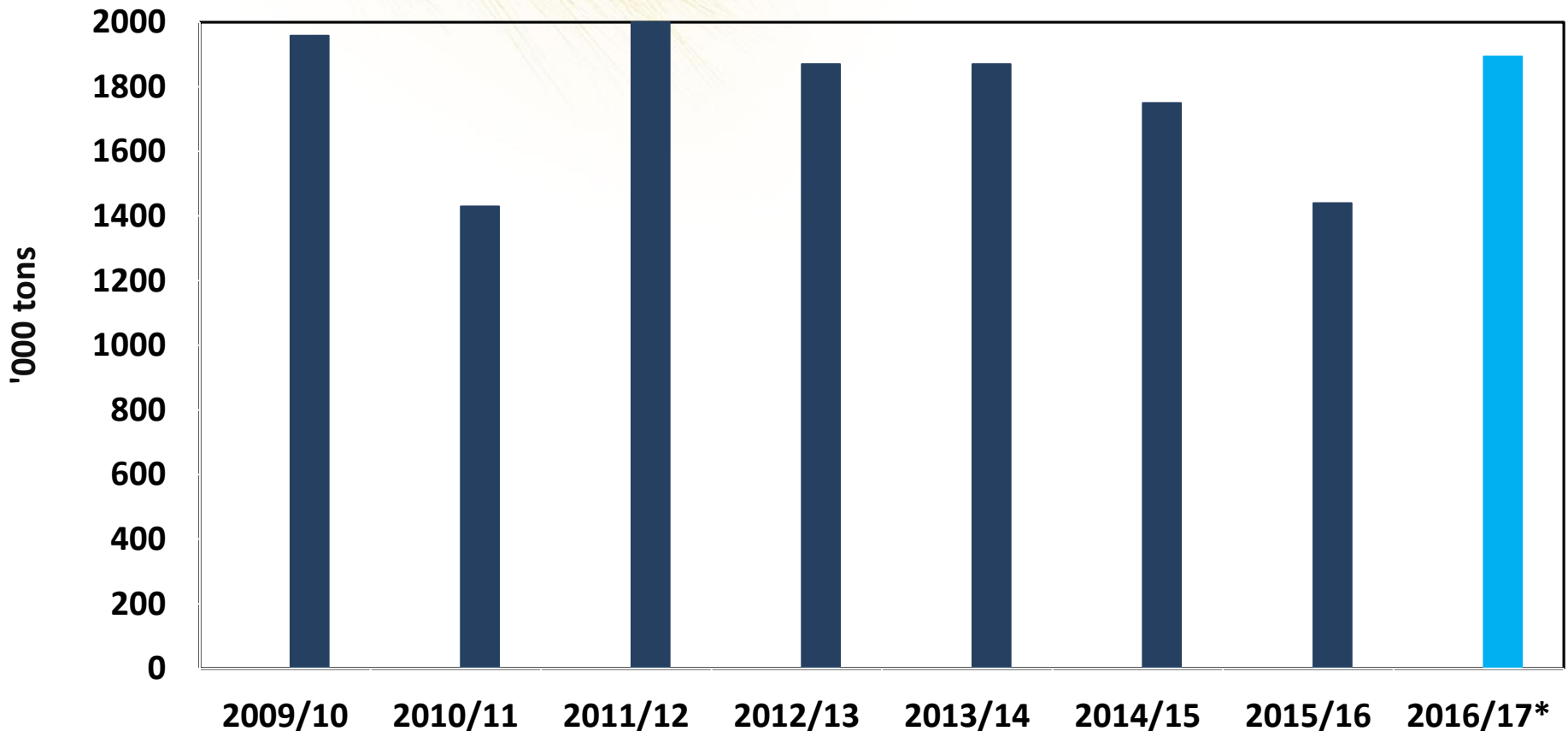
RSA wheat production over the past 100 years...



Source: SAGIS, Agbiz Research

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RSA wheat production set to recover somewhat...

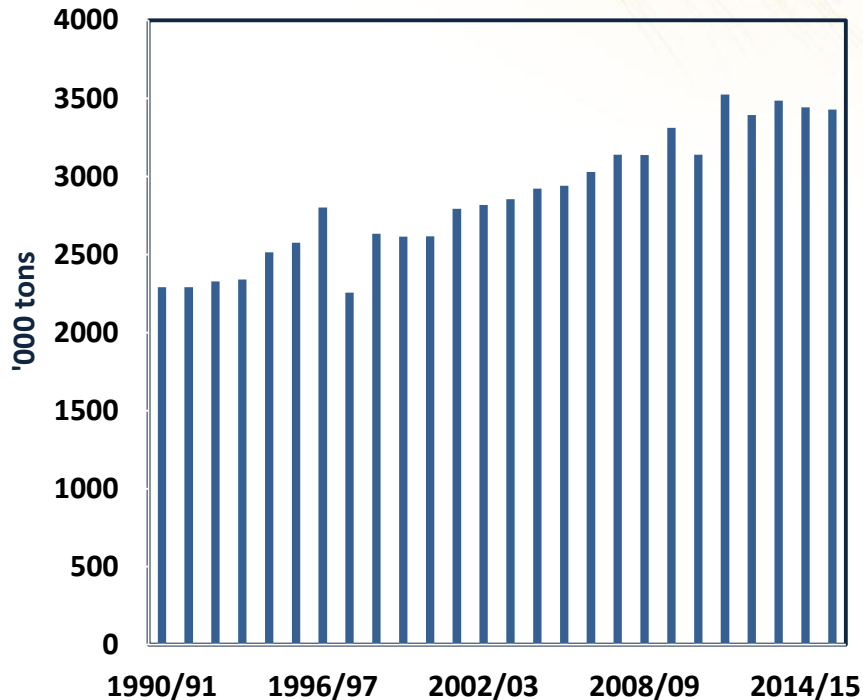


Source: CEC, Agbiz Research

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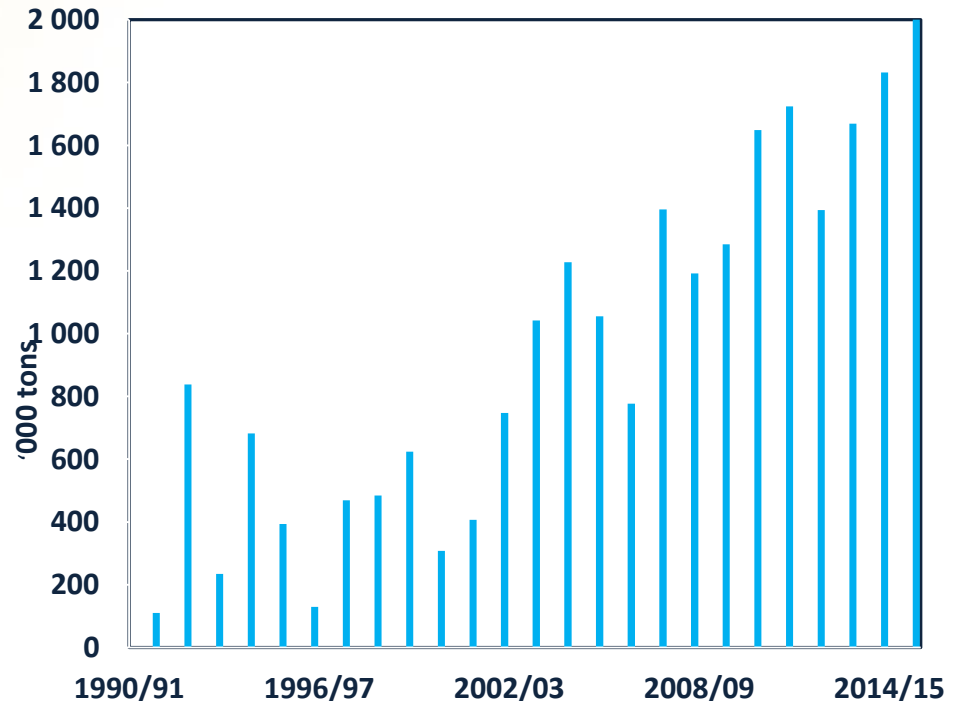
Brief overview of RSA wheat market...

RSA wheat demand...



■ Total demand

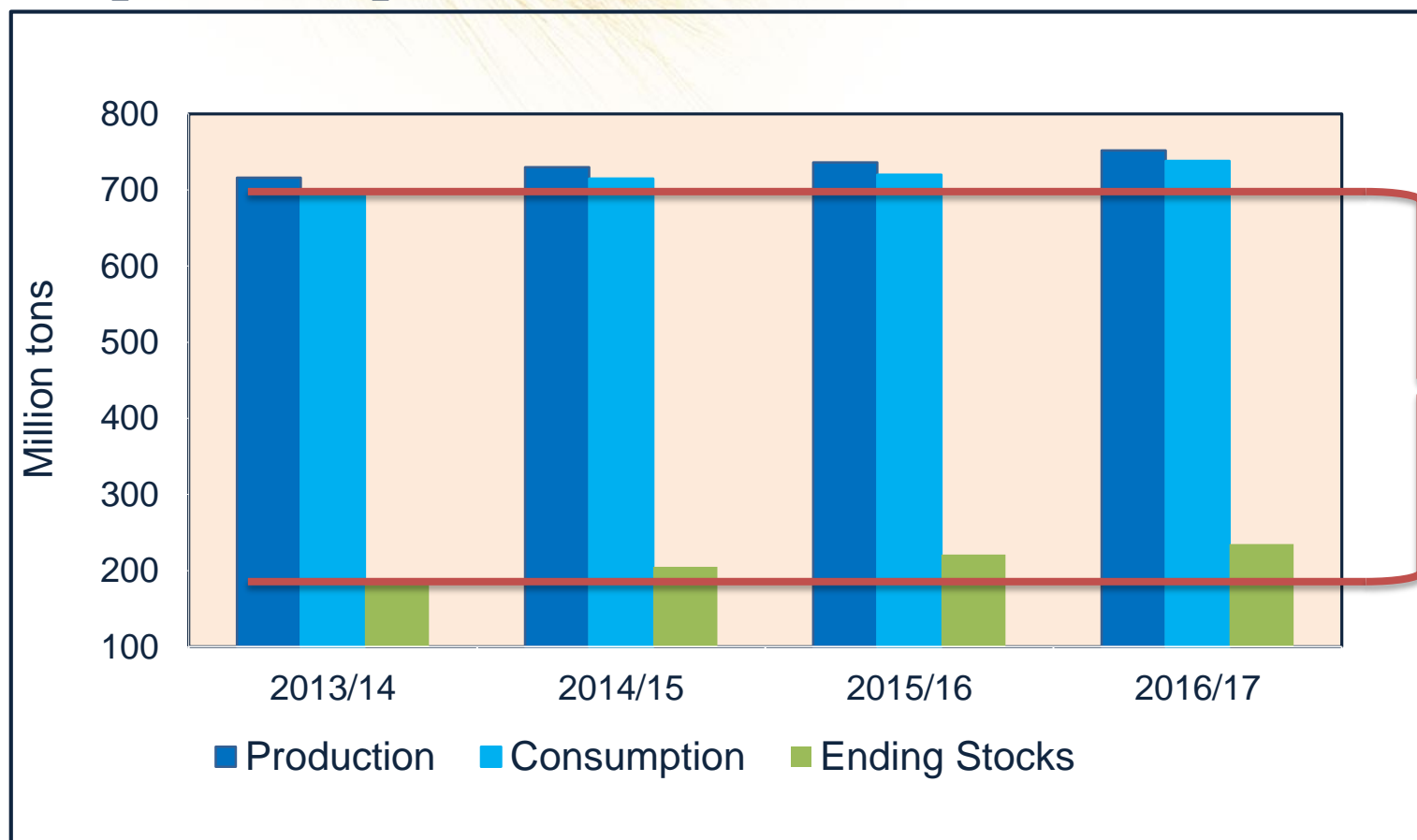
RSA wheat imports...



Source: SASDE, Agbiz Research

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Global wheat supply remains at high levels and could pressure prices over the medium term...

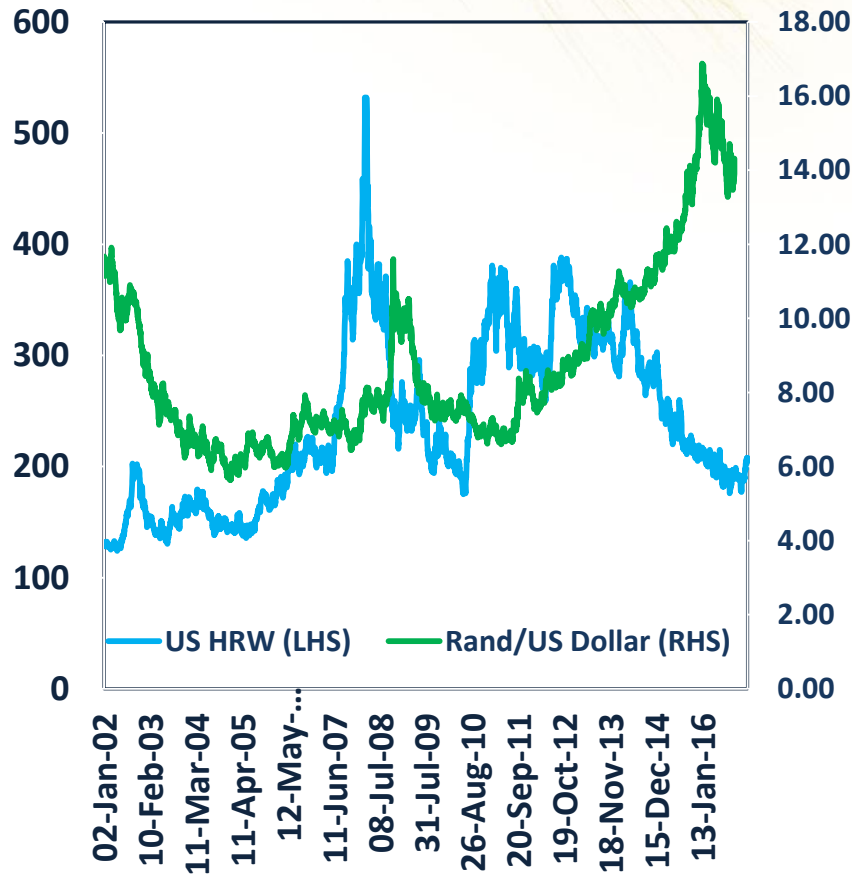


Source: IGC, Agbiz Research

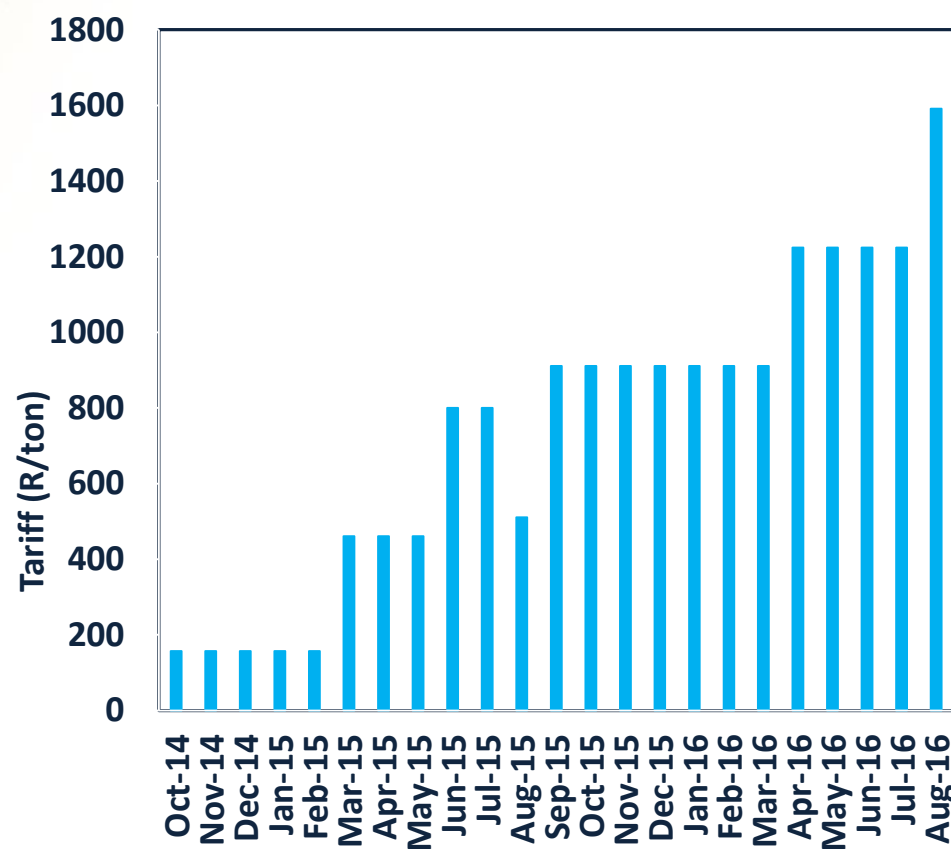
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Lower global wheat prices and weaker ZAR/USD key drivers of a domestic wheat import tariff...

ZAR/USD and global wheat prices...



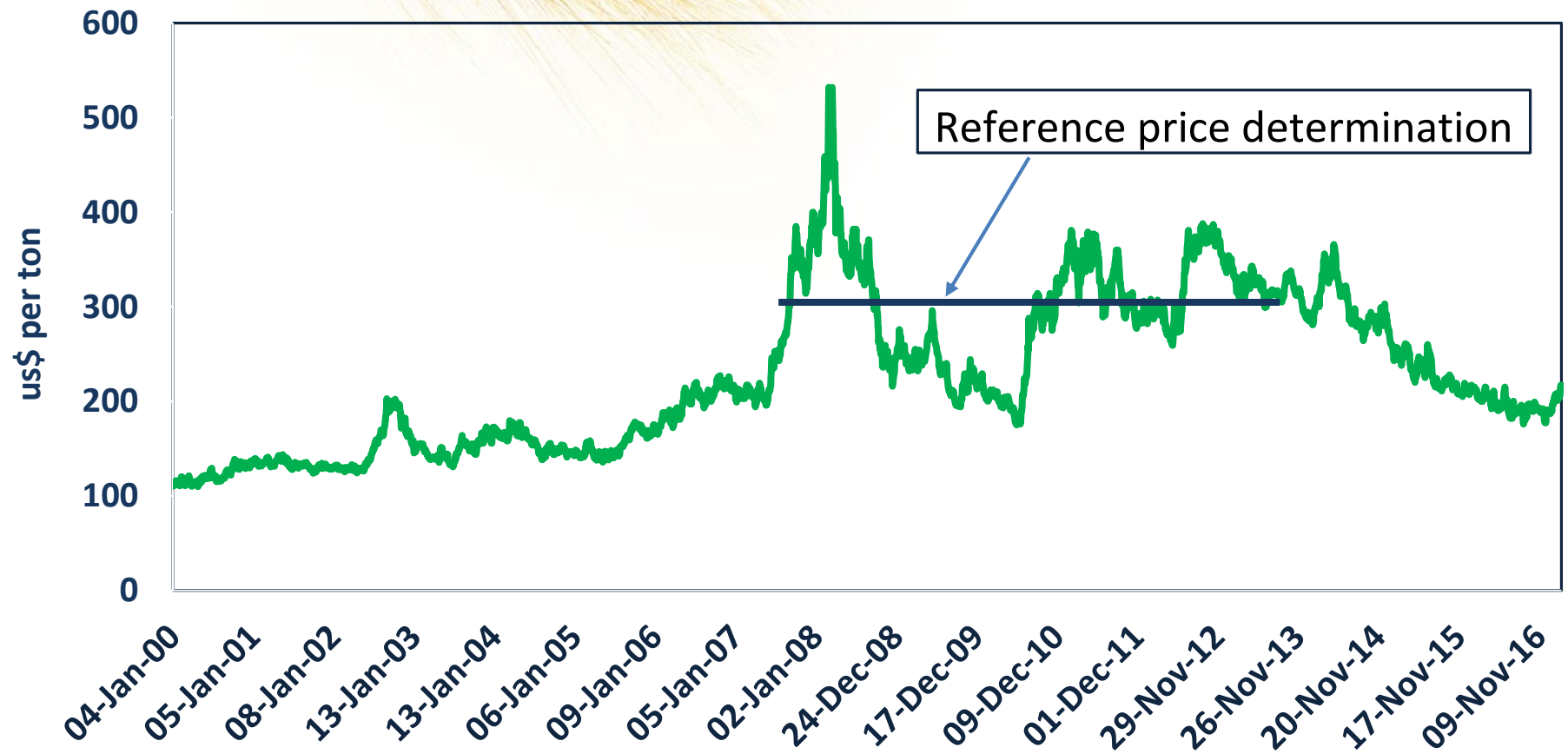
RSA wheat import tariff levels...



Source: SAGIS, IGC and Agbiz Research

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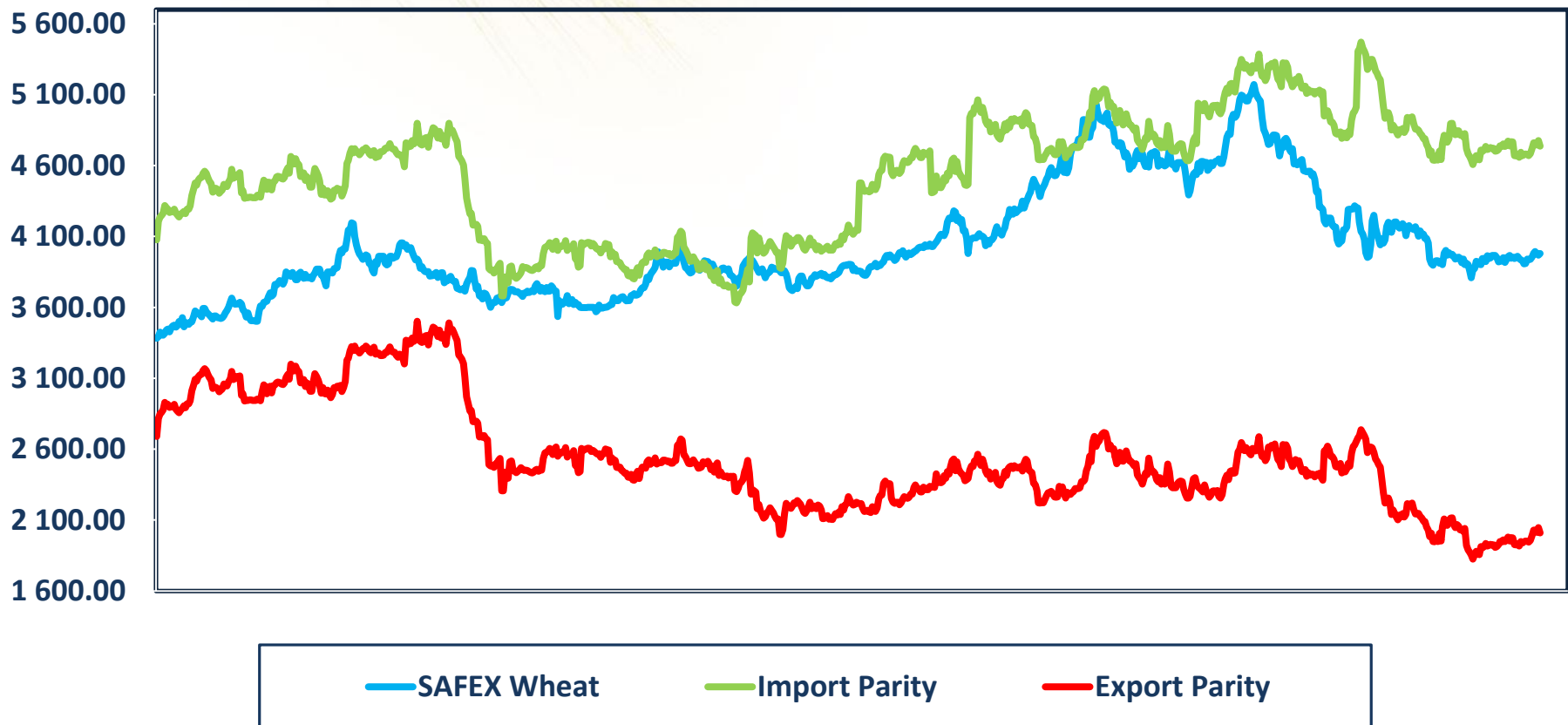
HRW No2 wheat price is normalizing...



Source: IGC, Agbiz Research

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RSA wheat price slightly below US No 2 HRW wheat import parity price...



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Background to current wheat import tariff

- **In 1999**, the Minister of Trade and Industry and the Minister of Finance **took a policy decision to adopt a tariff setting process for selected agricultural products, including wheat.**
- It was agreed that a variation in the customs duty (increase or decrease) on wheat, sugar and maize would be regulated and governed by formulae, also known as **variable import duty formulae, based on a reference price system.**
- The decision to adopt these formulae was taken after consideration of the unique circumstances surrounding the production of these agricultural products and the nature of the international market to which SA producers are exposed, *inter alia*, **to afford protection and provide certainty for domestic producers against international price volatility.**

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Calculation of current wheat import tariff

Variable formula based on following variables:

- Reference price: 5-year average price of international wheat, using US No 2 HRW quoted in US\$.
- Distortion factor: Instituted to negate subsidy effect on international wheat markets. Using OECD's so-called Price Support Estimate (PSE) for determination.
- Freight Cost: Normal subtraction of transport cost to have a landed price (?)

As a variable formula, necessary adjustments according to global price movements. This is essentially done by calculating the difference between the weekly calculated 3-week moving averages of the international price (US No 2 HRW) on the one hand, and the local US\$-based reference price. This creates the base price.

If the difference is consistently more than 10\$ for 3 consecutive weeks, the tariff is triggered.

Import tariff is then the difference between the two US\$ prices.

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Current and new wheat tariff – announcement uncertain

WHEAT TARIFF / KORINGTARIEF

2017-02-16

According to the tariff formula of ITAC / Volgens die tariefformule van ITAC

Table 1 / Tabel 1	Calculated / Berekende	Published/ Gepubliseer (c)
BASE PRICE: WORLD REFERENCE PRICE (US No2 HRW fob (ord) Gulf/ BASISPRYS: Wêreld verwysingsprys (VSA No2 HRW vab (ord) Golf) - 3 weeks moving average as on/ - 3 week skuiwende gemiddeld soos op:	(a) (9) 09 Feb 2017	22 August 2016
A	\$ 205.33 /t	\$ 193.33 /t
RSA INITIAL REFERENCE PRICE RSA OORSPRONKLIKE VERWYSINGSPRYS	B \$ 294.00 /t	\$ 294.00 /t
Dollar duty on wheat / Reg op koring in dollar	C = (B-A) \$ 88.67 /t	\$ 100.67 /t *
Rand duty on wheat / Reg op koring in rand	R 1190.19 /t	R 1591.40 /t *
R/\$ exchange rate / R/\$ wisselkoers	13.4227	15.8081

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national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

ADJUSTMENT OF THE IMPORT DUTY (TARIFF) ON WHEAT AND PROPOSED REVIEW OF THE VARIABLE IMPORT DUTY (TARIFF) FORMULA ON WHEAT

After careful consideration, the Ministry of Finance has decided to approve the implementation of an amendment to the import duty (tariff) on wheat, in accordance with the current variable import duty formula. At the same time the Ministry of Finance has proposed to the Minister of Trade and Industry that he consider instituting a request for an urgent and accelerated review of the variable tariff formula by the International Trade Administration Commission of South Africa.

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The way forward...

- ITAC has conducted Wheat Import Tariff Review and NT officials have made recommendations to Minister of Finance
- Now waiting sign-off by Minister of Finance on Review
- Really do not know what to expect as major industry bodies took totally divergent positions on a new tariff dispensation during hearings/submissions phase.
- Developing a consensus tariff position and submitting that to ITAC?!

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**THANK YOU FOR YOUR
ATTENTION...**

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