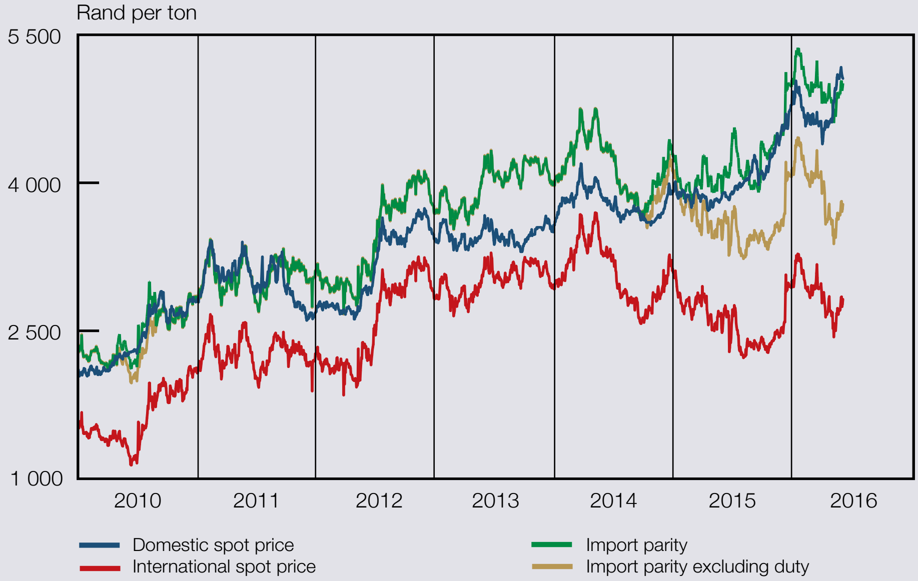
Box 2 South African import tariffs on wheat

Wheat is the second most important crop in South Africa after maize, and is mainly used for human consumption in the form of bread and cereals. The remainder, often of poorer quality, is used as animal feed and other non-food substances. Although not self-sufficient, and being one of the smallest wheat producers in the world, South Africa produces high-quality wheat. Being the country's secondary staple food, local consumption demand outstrips supply by a sizeable margin, making South Africa a net importer of this grain. To compensate for the domestic production shortfall, wheat is sourced from global markets, with countries such as Russia, Germany, Canada and Ukraine being prominent suppliers.

The domestic wheat market was governed by extensive regulations from 1937 to 1996. All marketing, regulation and distribution arrangements of wheat were administered by the Wheat Board, vested with the sole right to buy and sell wheat at predetermined prices, and controlling all imports and exports of this grain. However, the South African wheat industry was officially deregulated in November 1997, leaving domestic price trends to market forces. This was accompanied by a reduction in local wheat production, due to reduced bargaining power and limited profit margins. Low profitability prompted local producers to scale down on wheat production and switch to more profitable, higher-yielding crops. The graphs on the next page illustrate trends in the domestic wheat market since 1990.

The open market system imposed by deregulation allowed ease of access to cheap imports, forcing local producers to compete with international wheat markets. Foreign producers in many instances enjoy the advantages of favourable climatic and soil conditions, and economies of scale. Furthermore, global wheat production is also characterised by heavy subsidies paid to farmers in many developed countries. Wheat prices in global markets are thus generally lower than domestic prices, as shown in the graph below. Although influenced by various other factors, South African wheat prices are largely guided by exchange rate fluctuations, global trends and wheat import parity prices,[1] with domestic wheat farmers essentially being price takers in the market.

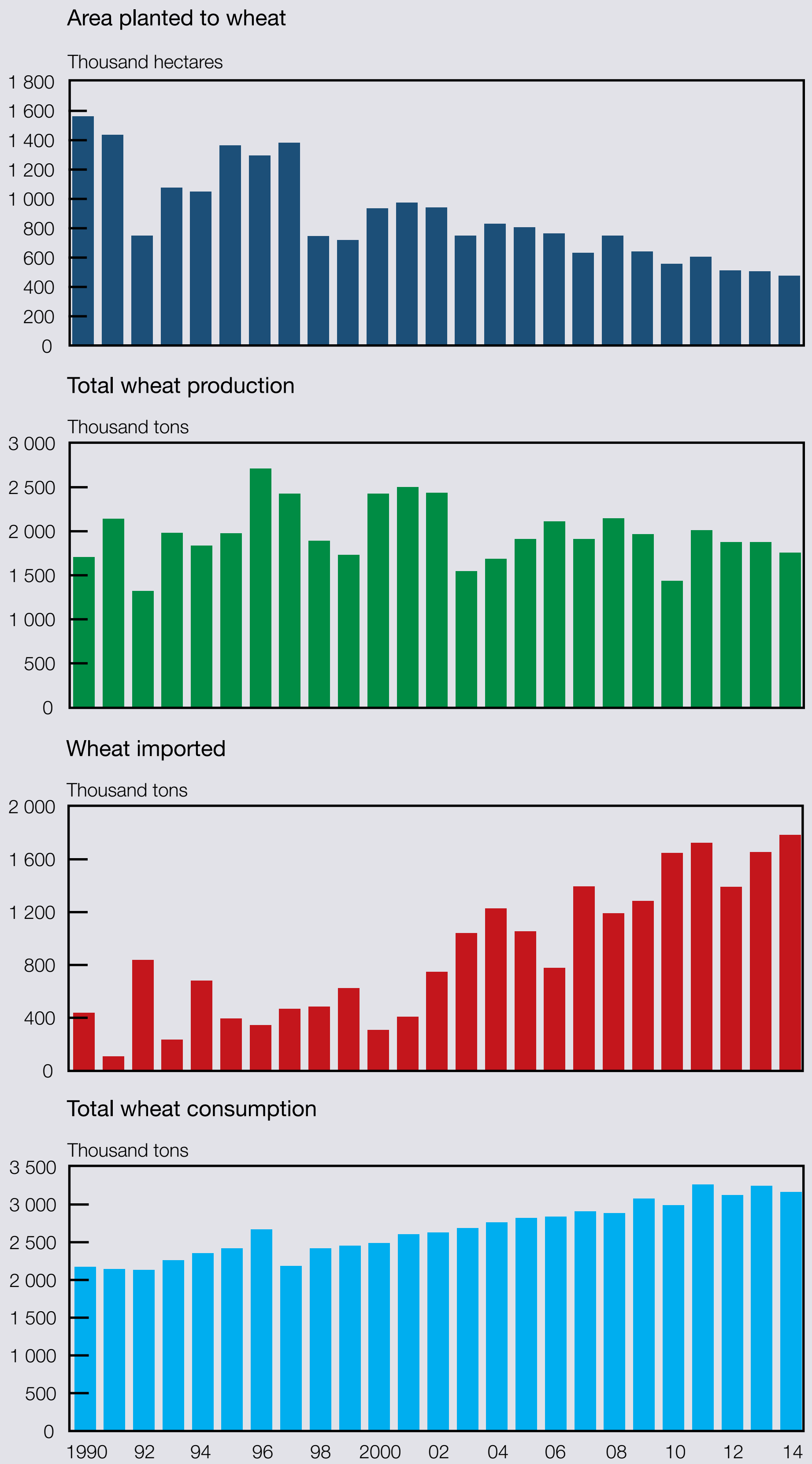
Market price of wheat



The year 2015 was characterised by a noticeable decline in international wheat prices, dragged lower by two back-to-back record world wheat crops, owing to favourable weather conditions. This gave rise to a series of adjustments in the level of the domestic wheat import tariff.[2]

Since deregulation, wheat import tariffs essentially became government's only instrument of intervention in the market. The existing wheat import tariff dispensation, commonly referred to as the variable tariff formula, was introduced in 1999, with the domestic dollar-based reference price set at US$157 per ton. This was later raised to US$215 per ton in March 2010, and since April 2013 has been set at US$294 per ton. The import tariff serves as a price support mechanism to domestic farmers since it raises the cost of imports. For an adjustment review on import tariffs, the affected industry role players will typically submit a request to the International Trade Administration Commission of South Africa (ITAC). This is the body advising the Minister of Trade and Industry on matters relating to the setting of import tariffs. After consultation with the relevant industry role players, ITAC organises its deliberations, and submits its recommendations to the Minister of Trade and Industry for final approval and implementation. With the current dispensation, it may take a long period of time after an adjustment was triggered for a new tariff to be published and implemented.

1. Price of wheat at the port of entry, including a wheat tariff, as well as transport and all other costs.
2. Tax or duty payable on wheat imports at point of entry.



Marketing years where, for example, 2014 refers to the 2014/15 marketing year.

Sources: South African Department of Agriculture, Forestry and Fisheries and South African Grain Information Service

The approach taken to protect domestic wheat producers through a wheat import tariff is to calculate the difference between the domestic dollar-based reference price and the world reference price for wheat. The current domestic dollar-based reference price was arrived at by averaging the international wheat prices (US No. 2 Hard Red Winter (HRW)) over a five-year period, adding an estimate of the subsidy received by foreign producers to that price (since it represents additional money in the pocket of those producers), and subtracting the ocean transport costs of wheat incorporated in the international price (since those costs would have to be paid to shipping companies from the international price, and would therefore not accrue to wheat farmers). The world reference price is the three-week moving average US No. 2 HRW wheat price as published in the International Grains Council *Grain Market Report.* The domestic dollar-based reference price therefore provides a base for adjustments of the import duty payable on international wheat at domestic ports.

The difference between the world reference price and the previous trigger world reference price level is calculated on a weekly basis. The trigger for a change in the import tariff is arrived at when the world reference price shows a variance of more than US$10 per ton from the previous trigger world reference price level for three consecutive weeks. To calculate the new tariff, the world reference price is subtracted from the domestic dollar-based reference price and converted to rand according to the rand/dollar exchange rate prevailing on the day that the adjustment was triggered. When the world reference price is higher than the domestic dollar-based reference price, the formula will not yield any duty.

The table below indicates wheat import tariff adjustments since 2002.

Date implemented	Tariff (Rand per ton)
12 January 2002	196,00
16 September 2002	43,60
23 September 2002	Duty free
4 July 2003	32,80
30 July 2003	105,20
22 August 2003	217,90
3 October 2003	22,00
16 January 2004	Duty free
13 August 2004	18,67
27 July 2005	2% of free-on-board-price
19 December 2008	Duty free
30 April 2010	140,70
15 July 2010	260,90
27 August 2010	Duty free
10 October 2014	157,00
13 March 2015	461,00
19 June 2015	800,10
21 August 2015	510,60
25 September 2015	911,20
11 April 2016	1 224,31

The challenge in raising tariffs runs deeper than merely setting an appropriate level which will benefit local producers. A whole value chain – wheat farmers, millers, bakers, retailers, and consumers – is involved. The subsequent possible inflationary effects, and the ultimate cost to be borne by the consumer, as the final user in the value chain, must also be taken into account. Since tariff revenue feeds into the fiscal accounts, government as fiscal agent is also involved. Concerns regarding the impact of a higher wheat import duty on the price of bread and other staple foods have prompted requests for a review of the variable tariff formula on wheat by ITAC.

Although the current combination of a weak exchange rate of the rand and higher import duties on wheat is bolstering the revenue of wheat producers, the wheat industry continues battling challenges ranging from high input costs to changing climatic conditions. It is acknowledged that increasing import tariffs will not solely address the growing reliance on imports. The industry is collaboratively working on establishing strategies to provide appropriate stimulus so that the growing reliance on imported wheat can be reversed.