What is this Wheat Import Tariff Everyone Talks About?

Recently the wheat import tariff created concerns and attracted attention in various media. This created many questions regarding the tariff and its purpose. Below this *infographic* will answer some of the most pressing questions.

What is the purpose of the tariff?

During the early 2000's South Africa was able to produce the majority of our local demand; however this self-sufficiency decreased dramatically over the last decade. This is due to various reasons, but one of the largest contributors is the decrease in local competitiveness due to wheat imports from highly subsidised countries. What does this mean? It means in essence that, due to subsidy support, foreign producers can be more financially feasible than South African producers and can also absorb risks more efficiently. Thus, there was a need to protect our local industry, but most important there was a need to provide the industry with a breathing space to invest in research and development in order to revive the industry.

Thus the variable tariff dispensation operates on the premise that local prices should be equal to a long-term world reference price after adjustments for transport costs and the subsidies implemented by other wheat producing countries were made.

How is the tariff calculated?

The tariff is calculated based on a variable formula ensuring that change in the market is accommodated. What is this variable formula and how is it calculated? The variable formula is based on the following variables:

- Reference price: This is a 5 year average price of the international wheat price (US No 2 HRW) which is quoted in US dollars.
- Distortion factor: This is the subsidy effect on the international markets. Every country has a Producer Support Estimate (PSE) which is calculated by the Organisation for Economic Co-operation and Development (OECD). The PSE percentage is then calculated in terms of a weighted average according to the countries South Africa imports from. The factor only considers the countries we import from and is based on facts. The next question would be: If the PSE of these import countries decrease (meaning they obtain less support) will the PSE factor also decrease? Yes it will and the result will also be that the tariff will decrease.
- Transport cost: This is a normal subtraction of transport costs to have a local landed price.

So why does it constantly change?

This is a variable formula and therefore it is important to make constant adjustments according to world price movements. This is done by means of using the difference between the local and the calculated reference price. In order to create certainty in the market place, the methodology is as follows:

The difference is calculated between the 3 week moving averages of the US No 2 HRW golf settlement price (International price) calculated every week and the domestic US Dollar based reference price. If the difference is more than $10 for 3 consecutive weeks, the tariff is triggered. The import tariff is then calculated according to the difference between the two Dollar prices. This means that the international prices and the local prices are again at equal levels.

Practical explanation:

Date	Domestic Reference Price	Basis	3 Week Weighted International Price	Difference
2016/05/10	$294	$209	$195	$14
2016/05/17	$294	$209	$193.33	$15.67
2016/05/24	$294	$209	$193.33	$15.67

Tariff calculation		
International price	$193.33	A
Reference price	$294	B
Dollar duty	$100.67	B-A

This means the formula develops a floor price for local producers in order to be at the same competitive level as the importing countries. This also means that the wheat price will be at a $294 dollar level.

How long does it take before the tariff is implemented after a trigger?

This is difficult to answer since there is no specific rule. It all depends on the authorisation of different government departments. However, the variability and uncertainty regarding the reaction days create uncertainty in the market and have an effect on trading volumes.

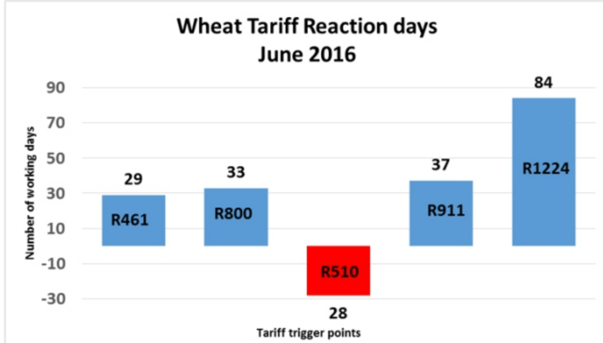


Figure 1: Reaction days after trigger

Does this mean that the wheat price must increase?

No, the wheat price did not increase. The only effect is that imports are now only imported at the $294 dollar level. This means lower imports just moved to the reference price - the same level as before the increase.

When will the wheat prices increase?

When the international prices increase above $294, it will also mean that the tariff will be removed and when the exchange rate weakens.

Can the import tariff decrease as well?

The same methodology for an increase is also used with a decrease. This means "yes", if the International price is at $294, the tariff will be $0.

So, if the exchange rate weakens, do the producers receive a 100% advantage?

This is not true. More than 80% of the producer's inputs or active ingredients within the inputs are imported. This means that the producer will also pay more for fertilizers, chemicals, equipment, etc.

> *Practical example:*
> International fertilizer prices decreased with 20% between April 2015 and April 2016. The local prices of fertilizer only decreased 2% for the same period. This is mainly due to the exchange rate that weakened with 21%.

Does the wheat price have a large impact on bread prices?

The wheat price only contributes 20% towards the overall price of a loaf of bread. This is only four slices of a loaf. This means if the tariff increases with R367,09/ton, the bread price, in a worst case scenario, can only increase with 22c (1700 loaves from a ton of wheat). Remember the import tariff does not increase prices, it only changes the import price to a $294 level. The effect of wheat prices on bread prices can also be explained by means of using a graph.

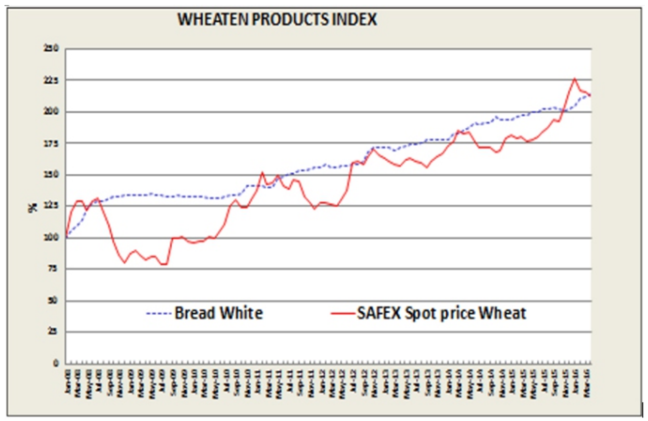
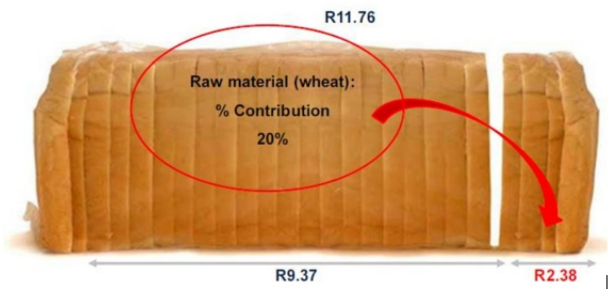


Figure 2: Price index of Bread and Wheat *Source: SAGIS*

It is clear from the graph that there is a very small correlation between the wheat price and the bread price. In some periods the wheat prices decreased drastically and it had no effect on the bread prices.

Factors amongst others such as energy, transport, packaging and labour costs are the largest contributors in terms of costs within bread production and can contribute to the increase in bread prices.



Why must the producers be protected and why can't we just import cheaper wheat?

The local industry will just stop producing wheat, which means that this will have a depraved effect on social and rural economies. Thus, in the long run, South Africa will experience enormous losses, not to mention the risk in terms of food security. It is also a concern in terms of quality. South Africa produces very high quality wheat and if we import lower priced wheat, we will also import lower quality.

Furthermore the industry can only invest capital in terms of research and development if the producers produce and growth is experienced. It is therefore important to create a platform where producers can produce on a competitive basis. The goal would always be to reach levels of self-sufficiency. It is also very important to understand that agriculture is not the same as manufacturing. A capital investment does not have an immediate effect in terms of revitalization. Research and new development of cultivars and production techniques are subject to nature and production cycles, which mean it takes time. This is why it is very important to create the platform where producers can increase their competitiveness.

Are there any strategies in place to revive the industry to compete globally?

Definitely "yes". Large sums of money are invested by government and local agribusinesses. A wheat turnaround strategy developed by various stakeholders within the value chain is currently being implemented.

The producers also contribute in terms of statutory levies. This is an amount that is directly deducted from their wheat selling price and which is currently managed by the Winter Cereal Trust. A recent submission was made that stated that producers are willing to pay an additional amount just for cultivar breeding purposes.

In essence the producer is not just enjoying protection; they are also willing to contribute in order to ensure sustainable self-sufficient production on a competitive basis.

Does the producer/consumer receive the revenue from the import tariff?

The import tariff is a revenue stream for South Africa and is administrated by the Department of Treasury. The majority of the funds, close to R2 billion, is mainly transferred to BLNS countries (Botswana, Lesotho, Namibia, Swaziland). These countries also import wheat from South Africa at a zero tariff rate.

Do the importers receive any support in terms of imports?

Yes they do. They can import under a discounted rate through the Minimum Market Access (MMA) Quota program of the World Trade Organisation, as well as the quota through the Free Trade Agreement (FTA) with the European Union at a zero tariff.

What will happen if the import tariff is removed?

The local producers will stop producing wheat in South Africa and will make use of possible alternatives. The largest production area in terms of wheat is the Western Cape. Since wheat is a winter crop, there is a limited amount of alternatives. The probability would be that producers will start to plant permanent pastures which means once they stopped producing wheat, a reverse decision will take place in a longer period. This is mainly due to the fact that established pastures are a long term farming decision (initial capital investment, maintenance). This is only the implication on farm level. As explained previously, there is also a negative effect on rural economies, employment opportunities and social status within these production areas.

What is the current news in terms of the tariff?

The International Trade Administration Commission of South Africa (ITAC) conducted a survey in order to test the relevance of the current variable formula, which is currently implemented on maize, wheat and sugar. If there is a suggestion to change the formula or adopt a new formula, stake holders must first provide comments on the new proposal. Until there is no formal notice of change published in the government gazette, the normal methodology will be in place.

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