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Commentary – RSA Wheat Import Tariff

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Industry should prepare itself for another possible hike in the wheat import tariff – 26 May 2016

The South African wheat import tariff could increase further to levels around R1 550.00 per ton in the next two weeks, from the current level of R1 224.30 per ton. This is under the assumption that international wheat prices (*US No 2HRW fob*) remain at the current levels of US$193 per ton and the Rand/US dollar exchange rate at levels around R15.30. However, this expected increase might only be applicable if the industry role players submit an application for a revision of the tariff to the International Trade Administration Commission (ITAC) of South Africa.

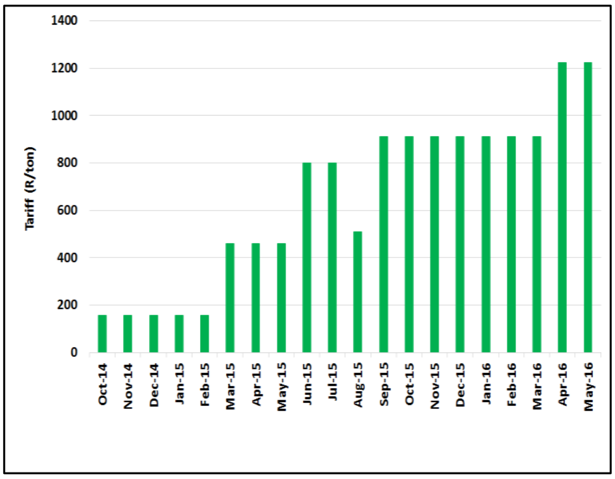

Figure 1: RSA wheat import Tariff levels (R/ton)

Source: SAGIS, Agbiz Research

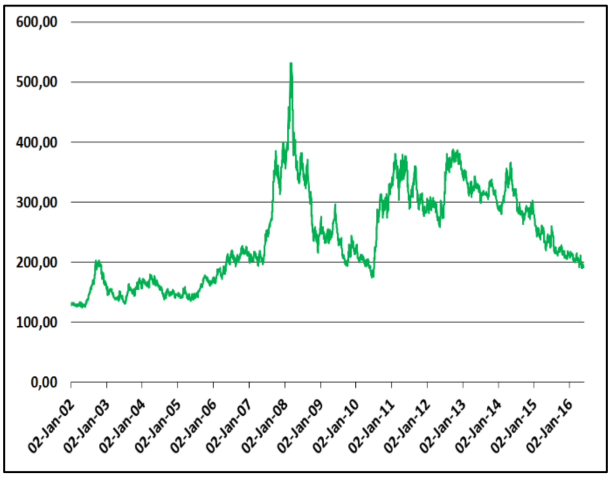

Figure 2: International wheat prices (US No2 HRW) (USD/ton)

Source: International Grains Council, Agbiz Research

The wheat import tariff has triggered 19 times since 2002, in response to changes in the international wheat price movements. The tariff has gradually increased 8-fold between 2014 and 2016, from R157 per ton in October 2014 to R1 224.31 per to in April 2016 (**figure 1**). This significant increase was largely driven by lower international wheat prices, which are currently at a six year low, as well as the weaker Rand (**figure 2**).

The wheat import tariff is envisioned to support the domestic farmers against imports of subsidised wheat. It is important to highlight that this is not aimed at increasing the domestic wheat prices, but rather to ensure that local wheat prices do not fall to levels that make competitive production impossible in a distorted trade environment.

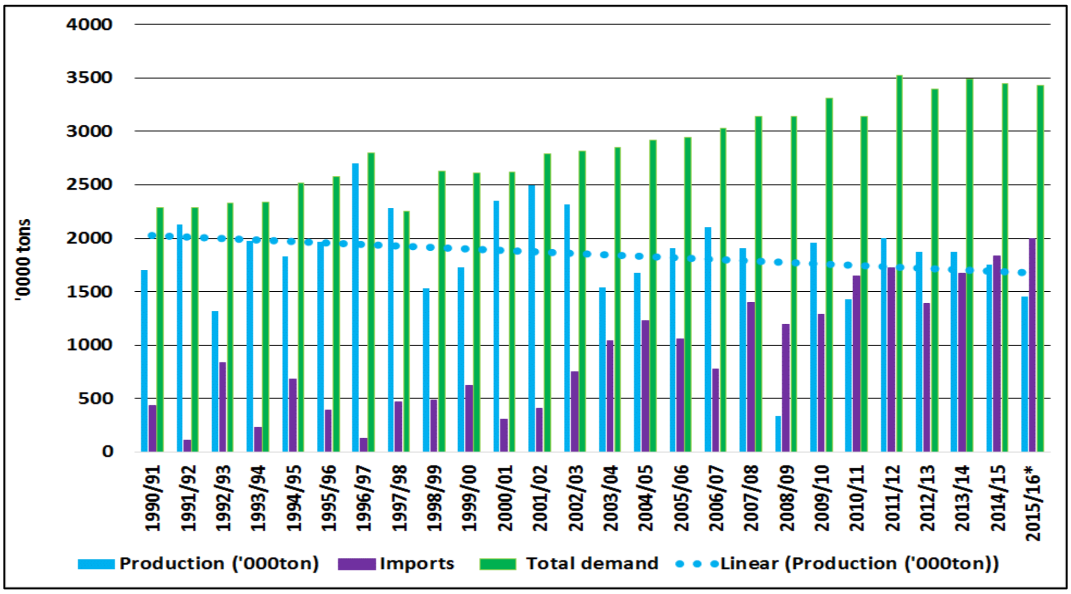

Figure 3: South African wheat supply and demand

Source: Grain SA, Agbiz Research

South Africa is not self-sufficient in the production of wheat; the country now imports roughly 60% of its annual consumption (**figure 3**). Over time the levels of imports have been increasing steadily due to increasing demand and decreasing production. The increase in demand can be attributed to both increasing population and widening middle-class – with consumers demanding more wheaten products.

Meanwhile, a decrease in the country's wheat production can be explained by a change in climate, which has resulted in many farmers, particularly in the Free State province, opting out of high risk wheat production.

The increase in South Africa's wheat demand has also meant an increase in the country's dependency on imported wheat. To reduce this dependency level, the South African wheat industry is currently working on production strategies that are aimed at increasing wheat yields, in an effort to boost domestic wheat production. While this is in progress, the import tariff ostensibly provides a certain level of protection for the domestic wheat industry, and to some extent, incentivise farmers to continue with wheat production.

However, high import tariff is also a double-edged sword, protecting farmers from unfair international competition on the one hand, but burdening consumers through increased prices on the other. Disconcerting is the astronomical levels to which the tariff has increased to, under the weight of a weakening Rand, all adding to inflationary pressures that are now a cause for concern. This current season is exceptional in that the country is experiencing an El Nino-induced drought, which will potentially lead to lower levels of production, and elevated food prices. Under such circumstances, the effect of a tariff becomes critical, and considerations have to be given to both producers and consumers.

Outlook

Considering recent developments, the international wheat prices are expected to remain at lower levels for a prolonged period due to large global supplies. The International Grains Council (IGC) forecast 2015/16 global wheat production at 732 million tons, up by 1% from the previous season. This increase is mainly due to large production in the European Union, Australia, Canada, Kazakhstan, Russia, Ukraine, United States of America and Argentina. In the same season, global ending-stocks are estimated at 214 million tons, which is 6% higher than the previous season.

The aforementioned raises the likelihood of an increase in the import tariff to levels around R1 550 per ton. Such an increase would provide an essential buffer for local wheat prices, which is beneficial for farmers. Nonetheless, there are also unintended consequences which could weigh in on the value chain. With that said, empirical evidence suggests that the pass-through to consumers might not be as significant as the increase in a raw commodity prices. However, the food manufactures should be aware of the potential increase in wheat prices as it could increase their production costs.

In early April 2016, the Ministry of Finance, in a media statement, proposed a review of the existing variable formulae for wheat, sugar and maize import tariff.

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