UPDATE: South Africa’s wheat import tariff at a record high – 23 August 2016

- South African wheat import tariff has increased by 30% to a record high of R1 591.40 per ton, from the previous level of R1 224.31 per ton (see Chart 1). This came on the back of a decline in international wheat prices (US No 2HRW fob), which are currently at a six year low of US$196 per ton. Additionally, the weaker Rand against the US Dollar also added to this record increase. At the time the tariff was calculated on 24 May 2016, the Rand against the US Dollar was R15.80 (see Chart 2). Therefore, the recent gains on the currency at the time of publication will not be considered in the calculation.

- The wheat import tariff has triggered 12 times since 2002, in response to changes in the international wheat price movements. The tariff has increased 10-fold between 2014 and 2016, from R157 per ton in October 2014 to R1 591.40 per ton in August 2016 (see Chart 1).

- In principle, the wheat import tariff is envisioned to support domestic producers against imports of subsidised wheat. In other words, it is not aimed at increasing the domestic wheat prices, but rather to ensure that wheat prices (domestic) remain viable, and prevent prices from falling to levels that make local production uncompetitive amid a distorted global trade environment.

- That said, South Africa is not self-sufficient in the production of wheat; the country now imports roughly 60% of its annual consumption (see Chart 3 and 4). 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 an increasing population and a widening middle-class – with consumers demanding more wheat 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, a 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.

The wheat tariff has unintended consequences which will weigh in on the food value chain. The increase in the wheat import tariff will subsequently increase food manufactures’ production costs and ultimately affect consumers. With that said, empirical evidence suggests that there is a lag-effect on the pass-through of higher wheat prices within the value chain. A higher import tariff leads to higher import parity prices, which the South African wheat market trades along, but consumers will only feel the increase of the tariff in the long term.

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. However, the current measure will likely be in place until there government announces the outcome of the ongoing review.

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