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South Africa’s wheat import tariff decrease

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Report Highlights:
South Africa announced a new wheat import tariff of R379.34 per ton on September 8, 2017. The new wheat tariff is 60 percent lower than the previous tariff of R947.20 per ton and the lowest levels since February 2015. Post estimates that South Africa will have to import more than 2.0 million tons of wheat in the 2017/18 MY, as drought in the main wheat producing area, the Western Cape Province, decreased local production. However, the window of opportunity to import at the lower tariff is limited, as an increase in the import tariff to R752.35 was triggered in August 2017. It is, however, unclear when this higher tariff will be published.
South Africa’s wheat import tariff decrease to its lowest level in two and a half years

On September 8, a new wheat import tariff of R379.34 per ton for South Africa was published. The new tariff is 60 percent lower than the previous tariff of R947.20 per ton and the lowest level since February 2015. The new wheat import tariff was announced in the midst of an expected 16 percent drop in the 2017/18 MY wheat crop to 1.6 million tons. The Western Cape Province, where more than 60 percent of South Africa’s wheat is planted, is currently experiencing a major drought. As a result, the decrease in the wheat import tariff did not impact the domestic wheat price significantly. The weather remains the primary focus in the domestic wheat market as the current wheat crop approaches the pollination stage of development which requires high moisture. Unfortunately, the outlook for rain in the Western Cape is bleak as the South African Weather Service indicated that the south-western parts of the country could remain fairly dry over the foreseeable future.

This new import tariff was triggered in July 11, 2017, but was only published on September 8, 2017. The wheat tariff is calculated based on a variable formula which is supposed to ensure that changes in the market are constantly accommodated. The formula is based on a reference price which is the 5-year average price of United States Hard Red Wheat No 2, plus adjustments for distortion factors (subsidies) in the global wheat market and subtraction of the average freight costs to South African shores. The reference price was set by the International Trade Administration Commission of South Africa (ITAC) at US$279 per ton in June 2017. The wheat tariff is then determined by calculating the difference between the 3-week moving average of the United States Hard Red Wheat No 2 and the reference price. If the difference is more than $10 for three consecutive weeks, the tariff is triggered. The import tariff is then calculated according to the difference between the two Dollar prices.

As the world price of wheat decreased in the past few months, another two tariff changes were triggered on August 8, 2017 and September 5, 2017. The August 8th trigger, which will be announced next, was set at R752.35 per ton. The trigger that was set on September 8th indicated an import tariff of R909.99 per ton. It is, however, unclear when these new tariffs will be announced as the reaction days to implement a new tariff differs as authorization depends on different government departments. The current tariff took 60 days to be implemented, while in other cases it took more than 80 days. Sometimes it takes less than 40 days to implement a new import tariff. This variable implementation time period creates uncertainty in the South African wheat industry and influences the effectiveness of the tariff. However, it also creates opportunity for importers to benefit from the lower import tariff.

Post estimates that South Africa will have to import more than 2.0 million tons of wheat in the 2017/18 MY. This is double the expected wheat imports in the 2016/17 MY, mainly due to the drought in the Western Cape Province. This scenario creates an opportunity for competitive priced United States wheat exporters. In the 2016/17 MY, South Africa mainly imported wheat from Germany (231,000 tons), Russia (184,184 tons) and the Czech Republic (150,378 tons).