Annexure 'A'

REPORT NO. 733

Review of the customs duty on frozen mixed vegetables classifiable under tariff subheading 0710.90

The International Trade Administration Commission of South Africa ("ITAC") herewith presents its Report No. 733 pertaining to the review of the customs duty on frozen mixed vegetables classifiable under tariff subheading 0710.90:

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AYABONGA CAWE

CHIEF COMMISSIONER

PRETORIA

…14… /…10……/ 2024

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 733

REVIEW OF CUSTOMS DUTY ON FROZEN MIXED VEGETABLES CLASSIFIABLE UNDER TARIFF SUBHEADING 0710.90

Synopsis

The Commission conducted a review of the customs duty on frozen mixed vegetables classifiable under tariff subheading 0710.90, subsequent to the former Minister of Trade, Industry and Competition's (from here on referred to as the "former Minister") rejection of an application by Nature's Garden (Pty) Ltd ("Nature's Garden") to increase in the duty on frozen mixed vegetables from 10% *ad valorem* to 37% *ad valorem.*

During its deliberations and in arriving at its recommendation, the Commission considered the information at its disposal, including comments received during the investigation period.

The Commission found that:

- Global events like the COVID-19 pandemic and the Ukraine-Russia war caused fluctuations in international food prices. Although prices stabilized slightly in 2023-2024, they remain elevated. Ongoing geopolitical tensions suggest continued price volatility.
- Furthermore, food inflation in South Africa was recorded at 6% in 2023 and is projected at 6.6% for 2024 and 5.2% for 2025, driven by, amongst other factors, exchange rate fluctuations, global conflicts, and supply chain disruptions. Despite a nominal increase in per capita disposable income, real growth was minimal, highlighting constrained household spending power amidst rising inflation.

- Over the period 2018 – 2022, domestic demand and supply for frozen mixed vegetables in the Southern African Customs Union ("SACU") continued to decline, largely due to electricity supply constraints and the related frequent load shedding.
- Overall, production and sales volumes of the domestic industry fluctuated downward, along with imports volume, which resulted in the domestic industry gaining and maintaining its market share over the period of review.
- According to South African Revenue Service ("SARS") import data, between 2018 – 2022, the European Union ("EU") was the primary source of frozen mixed vegetable imports into the SACU market. However, by 2023, imports shifted to the "General" economic regions, which are subject to a 10% duty.
- The decline in EU imports, particularly from Belgium, is attributed to the European summer drought which affected production.
- The analysis of trade data indicated that Belgium's export patterns reveal significant shifts in market dynamics. One of the most significant changes is the decline in exports to South Africa, which declined by 32% from 2019 to 2023. South Africa, once a significant market for Belgian frozen vegetables, declined from being the 7th largest export market in 2019 to the 33rd position by 2023. This substantial decline suggests that South Africa has lost its importance as a key market for Belgium's frozen vegetable exports.
- In terms of price competitiveness, the domestic frozen vegetable industry recently experienced a price advantage against similar imported products.
- The decreasing import levels of the subject product suggests that the existing challenges in the domestic frozen vegetable processing industry in terms of its decreasing production volumes, profitability, and stagnating investment levels, cannot be attributed to import competition.
- ITAC conducted an impact assessment study to assess the price impact of a potential increase in customs duty from 10% to the maximum level of 37% across various income groups, including lower-income and mid-upper income households. It was found that the incidence of the price increase will be higher on lower-income households with a notable impact on their spending. In contrast, mid-upper income households would experience minimal price changes and a potential increase in imports from the duty-free source.

In light of the foregoing, the Commission decided to recommend to the Minister of Trade, Industry and Competition ("the Minister") that the customs duty on frozen mixed vegetables classifiable under tariff subheading 0710.90 be maintained at the current 10% *ad valorem.* It was further decided that the Commission continues to monitor imports of frozen mixed vegetables with a view to review the duty structure, should there be a significant change in the market.

1. THE REVIEW AND TARIFF POSITION

1.1 During the 2018/19 period, the Commission considered an application by Nature's Garden (Pty) Ltd ("Nature's Garden") for an increase in the rate of customs duty on frozen mixed vegetables classifiable under tariff subheading 0710.90 from 10% *ad valorem* to the World Trade Organisation ("WTO") bound rate of 37% *ad valorem*. A full-scale investigation culminated in the Commission's final recommendation on Nature's Garden's application, which recommendation was subsequently forwarded to then Minister of Trade, Industry and Competition (from here on referred to as "the former Minister"), for his consideration.

1.2 The former Minister subsequently referred the matter back to the Commission, highlighting certain concerns relating to the price impact of higher duties and pricing in the frozen vegetable Southern African Customs Union ("SACU") market. ITAC engaged extensively with the former Minister to address and further investigate concerns relating to the said concerns and other matters arising over the period 2019 to 2022.

1.3 The former Minister subsequently communicated to ITAC that he took into account a number of issues such as the current context of high food prices that affects both poor and middle-class consumers, continuing pressures on household incomes from external shocks to the economy, the decline in the level of imports of frozen vegetables from 2020 onwards, the likely impact on aggregate jobs and industrial output in the economy, in deciding whether to impose or decline a tariff increase, weighed against other policy objectives.

1.4 Considering all information at his disposal, the former Minister also considered various options that may mitigate the impact of a customs duty increase on consumers but, weighing up all factors, decided to reject the application for an increase in the rate of customs duty on frozen mixed vegetables classifiable under tariff subheading 0710.90.

1.5 The former Minister, however, acknowledged that circumstances may change in the future, if current geo-political tensions subside and food prices stabilise as the global economy recovers from the impact of COVID-19 and therefore, at the same time, directed ITAC to review the customs duty on frozen mixed vegetables after a period of 9 months.

1.6 The former Minister's directive to review the customs duty on frozen mixed vegetables was initiated on 21 July 2023, through a publication notice in the Government Gazette No. 49011, Notice 1922 of 2024. The Notice called for industry value chain stakeholders to submit comments as well as additional information in the form of an ITAC questionnaire and data template that would enable the Commission to conduct a more detailed analysis of the market, trade, and financial information of the frozen vegetable industry.

1.7 In consideration of the former Minister's concerns, research found that from 2016 – 2024, global events like the COVID-19 pandemic and the Ukraine-Russia war caused fluctuations in international food prices. Although prices stabilized slightly in 2023-2024, they remain elevated. Ongoing geopolitical tensions suggest continued price volatility. As such consumers will be constrained by the additional cost implications of a higher duty.

1.8 The subject product in this review is mixtures of frozen vegetables packs ranging from stew, country, garden, roast and casserole mixes. Frozen vegetables are fresh vegetables rapidly frozen for storage and transportation.

1.9 The current tariff structure for frozen mixed vegetables is as shown in Table 1 below:

Table 1: Tariff position for the subject product

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty					
				General	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA
07.10		Vegetables (uncooked or cooked by steaming or boiling in water), frozen:							
	0710.90	Mixtures of vegetables	kg	10%	free	10%	free	7.5%	10%

Source: SARS

1.10 The current tariff structure of the subject product indicates that mixtures of frozen vegetables are classifiable under tariff subheading 0710.90, which attracts a 10% *ad valorem* duty on imports from General, the European Free Trade Association ("EFTA") and the African Continental Free Trade Area ("AfCFTA") countries, while tariff subheading 0710.90 also attracts a 7.5% *ad valorem* duty from the MERCOSUR countries. The subject product attracts a zero-rated duty mainly on imports from the European Union/United Kingdom ("EU/UK") and the Southern African Development Community ("SADC").

1.11 The WTO bound rate applicable to the product concerned is 37% *ad valorem*.

2. DISCUSSION

2.1 The domestic frozen vegetable industry is involved in the production of a range of frozen vegetable products. The mix vegetable packs comprise of, *inter alia*, peas, sweet corn, carrots, butternut, sweet potato, onion, broccoli, and cauliflower.

2.2 Information at the Commission's disposal indicates that fresh or raw vegetables are mainly sourced domestically from local farms in the SACU.

2.3 The SACU vegetable industry value chain primarily consists of primary vegetable producers and downstream vegetable processors. The downstream vegetable industry is involved in frozen vegetable processing and vegetable canning.

2.4 According to information at the Commission's disposal, Nature's Garden and McCain Foods (Pty) Ltd ("McCain") are the only two processors involved in frozen vegetable production in the SACU.

2.5 Over the period 2018 – 2022, domestic demand for frozen mixed vegetables in the SACU continued to decline, largely due to electricity supply issues and frequent load shedding over the past two years. Similarly, domestic supply declined.

2.6 Overall, production and sales volumes of the domestic industry fluctuated downward, along with imports volume, which resulted domestic industry gaining and maintaining its market share over the period of concern.

2.7 According to SARS import data, between 2018 – 2022, the EU was the primary source of frozen mixed vegetable imports into the SACU market. However, by 2023, imports shifted to the "General" economic regions, which are subject to a 10% duty.

2.8 The decline in EU imports, particularly from Belgium, is attributed to the European summer drought which affected production. The analysis of trade data indicated that Belgium's export patterns reveal significant shifts in market dynamics. One of the most significant changes is the decline in exports to South Africa, which declined by 32% from 2019 to 2023. South Africa, once a significant market for Belgian frozen vegetables, declined from being the 7th largest export market in 2019 to the 33rd position by 2023. This substantial decline suggests that South Africa has lost its importance as a key market for Belgium's frozen vegetable exports.

2.9 In terms of price competitiveness, the domestic frozen vegetable industry recently experienced a price advantage against similar imported products.

2.10 ITAC conducted an impact assessment study to assess the price impact of a potential increase in customs duty from 10% to the maximum level of 37% across various income groups, including lower-income and mid-upper income households. It was found that the incidence of the price increase will be higher on lower-income households with a notable impact on their spending. In contrast, mid-upper income households would experience minimal price changes and a potential increase in imports from the duty-free source.

2.11 A total of seven (7) comments were received during the course of the review. Whilst domestic frozen vegetable processors stated that the current customs duty should be increased to the WTO bound rate of 37% *ad valorem*, other interested stakeholders indicated that the current customs duty of 10% *ad valorem* should be retained.

3. FINDINGS

3.1 During its deliberations and in arriving at its recommendation, the Commission considered the information at its disposal, including comments received during the investigation. The Commission found that:

- Global events like the COVID-19 pandemic and the Ukraine-Russia war caused fluctuations in international food prices. Although prices stabilized slightly in 2023-2024, they remain elevated. Ongoing geopolitical tensions suggest continued price volatility.
- Furthermore, food inflation in South Africa was recorded at 6% in 2023 and is projected at 6.6% for 2024 and 5.2% for 2025, driven by, amongst other factors, exchange rate fluctuations, global conflicts, and supply chain disruptions. Despite a nominal increase in per capita disposable income, real growth was minimal, highlighting constrained household spending power amidst rising inflation.
- Over the period 2018 – 2022, domestic demand and supply for frozen mixed vegetables in the Southern African Customs Union ("SACU") continued to decline, largely due to electricity supply constraints and the related frequent load shedding.

- Overall, production and sales volumes of the domestic industry fluctuated downward, along with imports volume, which resulted in the domestic industry gaining and maintaining its market share over the period of review.
- According to South African Revenue Service ("SARS") import data, between 2018 – 2022, the European Union ("EU") was the primary source of frozen mixed vegetable imports into the SACU market. However, by 2023, imports shifted to the "General" economic regions, which are subject to a 10% duty.
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- In terms of price competitiveness, the domestic frozen vegetable industry recently experienced a price advantage against similar imported products.
- The decreasing import levels of the subject product suggests that the existing challenges in the domestic frozen vegetable processing industry in terms of its decreasing production volumes, profitability, and stagnating investment levels, cannot be attributed to import competition.
- ITAC conducted an impact assessment study to assess the price impact of a potential increase in customs duty from 10% to the maximum level of 37% across various income groups, including lower-income and mid-upper income households. It was found that the incidence of the price increase will be higher on lower-income households with a notable impact on their spending. In contrast, mid-upper income households would experience minimal price changes and a potential increase in imports from the duty-free source.

4. RECOMMENDATION

4.1. In light of the foregoing, the Commission decided to recommend to the Minister of Trade, Industry and Competition ("the Minister") that the customs duty on frozen mixed vegetables classifiable under tariff subheading 0710.90 be maintained at the current 10% *ad valorem.* It was further decided that the Commission continues to monitor imports of frozen mixed vegetables with a view to review the duty structure, should there be a significant change in the market.