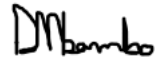


REPORT NO. 698

Creation of a temporary rebate facility for the importation of onion powder, classifiable under tariff subheading 0712.20

The International Trade Administration Commission of South Africa herewith presents
Report No. 698: Creation of a temporary rebate facility for the importation of onion powder, classifiable under tariff subheading 0712.20



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DUMISANI MBAMBO
DEPUTY CHIEF COMMISSIONER

PRETORIA
29 /11/ 2022

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 698

Creation of a temporary rebate facility for the importation of onion powder, classifiable under tariff subheading 0712.20

Synopsis

The Commission considered an application submitted by XA International Trade Advisors on behalf of Sensient Technologies South Africa (Pty) Ltd ("Sensient" or the "Applicant") who applied for the creation of a temporary rebate facility for the importation of onion powder, classifiable under tariff subheading 0712.20.

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:

- South Africa, and by extension the Southern African Customs Union ("SACU"), is self-sufficient in terms of onion production and surplus onions are exported mainly to neighbouring countries. However, over the past ten years, South Africa has processed only an average of 4 400 tons of onions mainly as a food ingredient for spices, soup mixes, baked products such as biscuits, cookies etc., which constitutes less than 1% of total onion production.
- Onion powder is made entirely of onions that have been dried and processed into a powder and it is a prominent ingredient in seasoning salt and spice mixes. Its convenience and its wide use as a seasoning and food ingredient has resulted in the expansion of the onion powder market.

- Information submitted indicated that there are no known domestic manufacturers of onion powder in the SACU and that the Applicant has, since 2019, imported it from the United States of America from its holding company Sensient Natural Ingredients.
- The Applicant submitted that a rebate of the customs duty will assist it to eliminate unnecessary import duty costs and this will have a positive impact on its cost and price structure. The Applicant expects that this price saving will be passed on to consumers.
- In terms of its reciprocity commitments, should a rebate facility be granted for onion powder, the Applicant committed to increase investment, imports and employment during year 1, year 2 and year 3.
- In terms of pricing commitments, the Applicant submitted that whilst they would have committed to keeping their prices constant, prices are expected to increase due to inflationary and exchange rate effects.
- In line with the NGP, together with the Re-imagined Industrial Strategy, Master Plans and SA Trade Policy, appropriate customs tariff policy under the new landscape must reflect a strategic approach, which advances an industrialisation agenda based on, *inter alia*, creating and retaining employment, increasing production and investment, building dynamic firms and economic inclusion, building local capacity (“localisation”) for both local and global markets, greening the economy and enhancing international competitiveness.

In light of the foregoing, the Commission decided to recommend that a temporary rebate facility be created for onion powder, classifiable under tariff subheading 0712.20, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the product is not available in the SACU market.

1. APPLICATION AND TARIFF POSITION

- 1.1. XA International Trade Advisors applied on behalf of Sensient Technologies South Africa (Pty) Ltd ("Sensient" or the "Applicant") for the creation of a temporary rebate facility for the importation of onion powder, classifiable under tariff subheading 0712.20.
- 1.2. Onion powder is used in diversified food products such as soups, pizzas, canned food, seafood, salads and others. The Applicant is a manufacturer and marketer of colours, flavours, and other specialty ingredients. According to the Applicant, they use technologies to develop specialised solutions for food and beverages, as well as products that serve the food, pharmaceutical, nutraceutical, cosmetic, and personal care industries.
- 1.3. Subsequent to engagements between the Applicant and the South African Revenue Service ("SARS"), an application for the creation of a temporary rebate facility for onion powder was published in the Government Gazette Number 46300, Notice 682 of 2022 on 29 April 2022, for interested parties to comment, as follows:

"Onions, in powder, classifiable in tariff subheading 0712.20, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided that the product is not available in the SACU region".

- 1.4. As reasons for the application, the Applicant submitted, *inter alia*, that:
 - There are no local producers of onion powder in SACU. Sensient is incurring an unnecessary cost in the form of tariffs to import a product that is not available in SACU.
 - The current 20% duty in place was meant to protect the SACU manufacturers; however, this is no longer necessary given that there are no domestic manufacturers.

- The duty has become an unnecessary cost burden. The cost savings resulting from duty relief will be better spent elsewhere and at the same time make the pricing of the subject product more competitive.

1.5. The current tariff structure of the subject product is given in Table 1 below.

Table 1: Current tariff structure for onion powder

Heading	Sub-heading	Article Description	Stat. Unit	Rate of Duty						
				General	EU/U	EFTA	SADC	MERCOSUR	AfCFTA	
07.12		Dried vegetables, whole, cut, sliced, broken or in powder, but not further prepared:								
	0712.20	Onion	Kg	20%	free	20%	Free	20%	20%	

Source: SARS

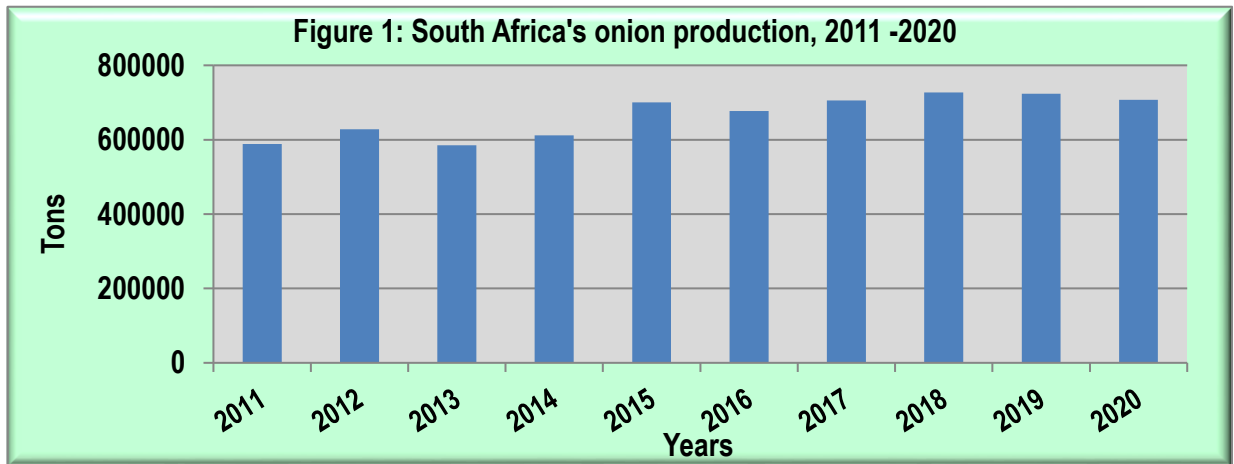
- 1.6. Table 1 above shows that onion powder is currently classifiable under tariff subheading 0712.20 and attracts a 20 per cent *ad valorem* customs duty on imports from General, European Free Trade Association (“EFTA”), Mercosur and the African Continental Free Trade Area (“AfCFTA”) regions. The subject product is duty free when imported from the European Union/United Kingdom (“EU/UK”) and the Southern African Development Community (“SADC”).
- 1.7. According to the Applicant, onion powder is produced entirely from onions that have been dried and processed into a powder and it is a prominent ingredient in seasoning salt and spice mixes. Commercial onion powder is prepared by using methods such as freeze-drying, flow drying, vacuum-shelf drying and dehydration.
- 1.8. The Applicant further submitted that onion powder saves a lot of time spent on cooking as it doesn’t require chopping and that the wide use of onion powder as a seasoning and food ingredient has resulted in the expansion of the onion powder market.

2. DISCUSSION

- 2.1. According to the Department of Agriculture, Land Reform and Rural Development (“DALRRD”), during 2011, South Africa onion production was just 588 000 tons, in

the following year the production output increased by 6.8 per cent as can be seen in Figure 1 below:

Figure 1: SA's onion production from 2011 - 2020



Source: Statistics and Economic Analysis (DALRRD)

- 2.2. As shown in Figure 1 above, in 2014, fresh onion production output increased by 14 per cent relative to 2013 and South Africa's fresh onion production output was just above 700 000 tons. As of 2016, South Africa's fresh onion production output declined slightly by 3.2 per cent relative to the previous year (2015). From 2017 to 2020, South Africa's fresh onion production output was stable at levels above 700 000 tons. South Africa is therefore self-sufficient in terms of fresh onion production and surplus fresh onions are exported mainly to neighbouring countries.
- 2.3. The DALRRD also submitted that in 2011, just over 4 000 tons of onion were further processed into pickled onions, canned food etc., but not into onion powder. In the following years (2012 and 2013) the processed volume declined steadily to just above 2 000 tons. During 2014 and 2015, onion processing activities increased to above 4 000 tons with a slight decline in 2016. In 2017, further processed onion volumes increased to a record high of 6 144 tons. In 2018, there was an 8.2 per cent decline in the further processing of onions, which stabilised in 2019 and 2020, at volumes just above 4 700 tons. It was stated that over the past ten years, South Africa has processed an average of 4 400 tons of onions, which is less than 1% of total production.

- 2.4. It was found that South Africa is a net importer of onion powder, which is mostly imported from India followed by the People's Republic of China.
- 2.5. It was further found that there are different marketing channels for onion powder in South Africa, which includes retailers, restaurants and downstream processors mainly as a food ingredient for spices, soup mixes, baked products such as biscuits, cookies etc. It was further submitted that onion powder is exported to various African countries through marketing agents and export companies.
- 2.6. According to information at the Commission's disposal, the Applicant does not manufacture the subject product but had, since 2019, been importing onion powder from the United States of America ("USA") from its holding company Sensient Natural Ingredients.
- 2.7. According to information at the Commission's disposal, the Applicant employs a total number of 35 people.
- 2.8. No objections to the application were received during the publication period.

3. SUMMARY OF FINDINGS

- 3.1. In light of the foregoing, the Commission found that:
- 3.2. South Africa and by extension SACU, is self-sufficient in terms of onion production and surplus onions are exported mainly to neighbouring countries. However, over the past ten years, South Africa has processed only an average of 4 400 tons of onions mainly as a food ingredient for spices, soup mixes, baked products such as biscuits, cookies etc., which constitutes less than 1% of total onion production.
- 3.3. Onion powder is made entirely of onions that have been dried and processed into a powder and it is a prominent ingredient in season salt and spice mixes. Its convenience and its wide use as a seasoning and food ingredient has resulted in the expansion of the onion powder market.

- 3.4. Information submitted indicated that there are no known domestic manufacturers of onion powder in the SACU and that the Applicant has, since 2019, imported it from the United States of America from its holding company Sensient Natural Ingredients.
- 3.5. The Applicant submitted that a rebate of the customs duty will assist it to eliminate unnecessary import duty costs and this will have a positive impact on its cost and price structure. The Applicant expects that this price saving will be passed on to consumers.
- 3.6. The Applicant made reciprocity commitments, should a rebate facility be granted for onion powder in terms of increasing imports, exports, and investment in plant and machinery.
- 3.7. The rebate facility concerned would be subject to a permit issued by the International Trade Administration Commission with specific Guidelines, Rules and Conditions.

4. **RECOMMENDATION**

- 4.1. In the light of the foregoing, the Commission recommended the creation of a temporary rebate facility for the importation of onion powder, classifiable under tariff subheading 0712.20, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the product is not available in the SACU market.