REPORT NO. 738

Creation of a rebate facility on palm oil, not fractionated, refined, bleached, and deodorised, but not chemically modified, classifiable in tariff subheading 1511.90.90, for use in the manufacture of soaps and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes.

The International Trade Administration Commission of South Africa ("ITAC") herewith presents its Report No. 738, Creation of a rebate facility on palm oil, not fractionated, refined, bleached, and deodorised, but not chemically modified, classifiable in tariff subheading 1511.90.90, for use in the manufacture of soaps and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes.

AYABONGA CAWE
CHIEF COMMISSIONER

PRETORIA
05 DECEMBER 2024

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

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Synopsis

The International Trade Administration Commission of South Africa ("ITAC" or the "Commission") considered an application by Unilever South Africa (Pty) Ltd, for the creation of a rebate facility on palm oil, not fractionated, refined, bleached, and deodorised, but not chemically modified, classifiable in tariff subheading 1511.90.90, for use in the manufacture of soaps and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes.

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:

- Palm oil constitutes 36% of global vegetable oil supply while utilizing less than 9% of agricultural land dedicated to oil crops, producing 40% of global demand. Indonesia and Malaysia dominate production, contributing over 80% of the 78 million tonnes produced globally in 2022/23, with further growth anticipated.
- The Southern African Customs Union ("SACU") region, including South Africa, relies entirely on imports due to unsuitable agronomic conditions for palm oil cultivation but produces other vegetable oils, such as sunflower and soybean oils.
- Between 2019 and 2023, the Applicant's production and sales volumes fluctuated. Despite this, sales values increased between 2019 and 2023, reflecting higher unit prices or a shift to premium products.

- Regarding investments, the Applicant’s investment levels increased over the period of the investigation, driven by efforts to upgrade production lines, address machinery breakdowns, and support innovations, including a new formulation.
- In terms of soap bar imports, it was found that there was a notable surge in the importation of laundry soap in 2020, marked by a substantial increase of 126.6%. This surge was largely attributed to the onset of the COVID-19 pandemic, which heightened the demand for soap products as a crucial measure for maintaining hygiene and preventing the spread of the virus.
- From 2019 to 2023, direct variable costs experienced steady growth, with a notable surge between 2021 and 2022. This increase was primarily due to rising raw material and production input costs.
- Import-related expenditures followed a similar upward trend, particularly between 2021 and 2022, driven by increased international shipping costs and higher import prices. However, these costs declined in 2023 as global shipping costs stabilized.
- The net ex-factory selling price increased between 2019 and 2023, primarily due to rising production costs, particularly energy and raw material price increases.
- The Applicant's projected costs for the new formulation product is expected to increase due to higher costs for imported materials.
- The new formulation will result in a higher net ex-factory selling price, compared to the current formulation, leading to a higher selling price per unit.

In light of the foregoing, the Commission decided to recommend the creation of a rebate facility on palm oil, not fractionated, refined, bleached and deodorised, but not chemically modified, classifiable in tariff subheading 1511.90.90, for use in the manufacture of soap and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes, classifiable in tariff subheading 3401.1, 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 goods are not available in the SACU.

1. THE APPLICATION AND TARIFF POSITION

1.1. The Commission received an application from Unilever South Africa (Pty) Ltd, (‘’Unilever’’ or the “Applicant"), for the creation of a rebate facility on palm oil, not fractionated, refined, bleached, and deodorised, but not chemically modified, classifiable in tariff subheading 1511.90.90, for use in the manufacture of soaps and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes.

1.2. As motivation for the application, the Applicant submitted, *inter alia*, that:

a) *“Unilever South Africa is facing increasing costs and inflationary pressures due to the current global commodity markets, inflation, and currency fluctuations. The company has invested heavily in local manufacturing capabilities and the creation of local jobs but is grappling with growing pressures from cheaper imported noodles/soaps. Consequently, it finds it increasingly difficult to remain competitive in the market when confronted with these cost pressures.*

b) *Additionally, Unilever is altering its formulation for producing soap bars to support its strategy of sourcing sustainable materials to prevent harm to people and plants. This formulation utilizes palm oil, which currently attracts a 10% duty. A rebate on the duty on imported palm oil is therefore necessary to maintain local manufacturing and competitiveness in the domestic market.*

c) *The palm oil currently imported cannot be cultivated locally in the Southern African Customs Union (SACU), and there are no future plans to grow palm oil locally due to unsustainable environmental conditions. While some soft oils such as sunflower and soybean oil are available in the local market, they are unsuitable for soap making due to their chemical structure. They need to be further processed in order to be used in soap formulation resulting in a higher cost of products compared to palm oil.’’*

1.3. The application was published on 23 August 2024 in Government Gazette No. 51114, Notice 2695 of 2024, to solicit comments from interested parties.

1.4. The current tariff structure for the subject product 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
15.11		Palm oil and its fractions, whether or not refined, but not chemically modified:							
1511.90		Other:							
	1511.90.90	**Other**	**kg**	**10%**	**free**	**10%**	**free**	**7.5%**	**10%**

Source: SARS

1.5. The subject product, classifiable under tariff subheading 1511.90.90, attracts a 10% *ad valorem* duty for countries under the General, European Free Trade Association ("EFTA") and the African Continental Free Trade Agreement ("AfCFTA"), and it is free of duty from countries under the Southern African Development Community ("SADC") and the European Union/United Kingdom ("EU/UK") while MERCOSUR countries attract a 7.5% *ad valorem* duty.

2. DISCUSSION

2.1. Palm oil constitutes a significant portion, nearly 36%, of the world's vegetable oil supply, despite occupying a relatively small fraction of total agricultural land dedicated to oil production, meeting 40% of global demand on less than 9% of such land (Ritchie, 2021)[1].

2.2. Table 2 below outlines the distribution of global palm oil production, with Indonesia and Malaysia emerging as the primary producers, collectively contributing over 80% to the global output in 2022/23 (USDA FAS, 2023)[2]. Production volumes have

[1] Ritchie, H. (2021). "Palm Oil Production." Our World in Data. Retrieved from https://ourworldindata.org/palm-oil
[2] USDA Foreign Agricultural Service (2023). Palm Oil Explorer
https://ipad.fas.usda.gov/cropexplorer/cropview/commodityView.aspx?startrow=11&cropid=4243000&sel_year=2023&rankby=Imports

demonstrated a steady ascent, reaching 78 million tonnes in 2022/23, with continued growth anticipated.

Table 2: Global Palm Oil Production

Market	% of Global Production	Total Production (2022/2023, 1000 Metric Tons)
Indonesia	59,6%	46 500
Malaysia	23,6%	18 387
Thailand	4,4%	3 415
Colombia	2,3%	1 800
Nigeria	1,8%	1 400
Guatemala	1,2%	910
Papua New Guinea	1,0%	780
Honduras	0,8%	600
Cote d'Ivoire	0,8%	600
Brazil	0,7%	570
Sum of other countries	4,0%	3 101

Source: USDA FAS, 2023

2.3. In terms of consumption, palm oil finds its way into a diverse array of products, ranging from cooking oils and processed foods to cosmetics and biofuels. According to Gregory (2022)[3], consumption patterns vary significantly across regions, with Asia emerging as the largest and fastest-growing consumer, accounting for two-thirds of global consumption. India, China, and the EU stand out as the largest consumers, collectively representing 45% of global demand.

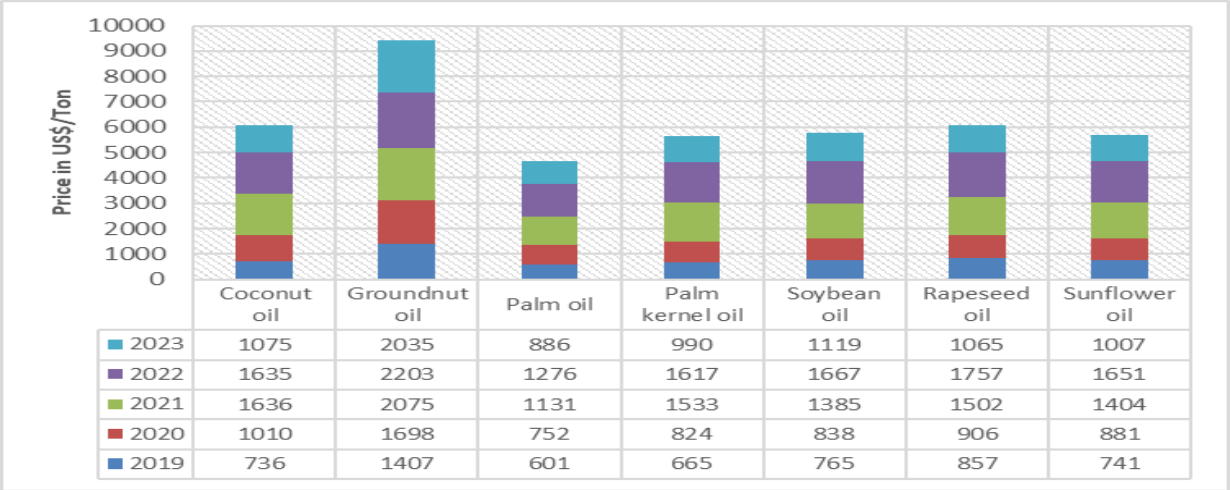
2.4. In the global palm oil trade landscape of 2022/23, Indonesia, Malaysia, and Thailand were prominent exporting nations, while India, China, and the EU assumed key roles as principal importers. According to data provided by the USDA FAS (2023), South Africa positioned itself at the twentieth rank worldwide in terms of palm oil importation, with an import volume of 535,000 metric tons.

2.5. Global palm oil prices have experienced notable volatility, attributed to factors such as production costs, demand dynamics, and the prices of substitute oils. Figure 1 below

[3]Gregory, M. (2022). Palm Oil Production, Consumption and Trade Patterns: The Outlook from an EU Perspective. https://www.fern.org/fileadmin/uploads/fern/Documents/2022/Palm_oil_production_comsumption_and_trade_pattern.pdf

depict global vegetable oil price trends for the period 2019 to 2023.

Figure 1: Global vegetable oils prices



	Coconut oil	Groundnut oil	Palm oil	Palm kernel oil	Soybean oil	Rapeseed oil	Sunflower oil
2023	1075	2035	886	990	1119	1065	1007
2022	1635	2203	1276	1617	1667	1757	1651
2021	1636	2075	1131	1533	1385	1502	1404
2020	1010	1698	752	824	838	906	881
2019	736	1407	601	665	765	857	741

Source: World Bank, 2023

2.6. As shown in Figure 1 above, palm oil trades at much lower prices in international markets than any of the other major vegetable oils and this relationship is not expected to change. According to Meyer *et al.,* (2020)[4], palm oil is not only a low-cost alternative to many other vegetable oils but yields up to ten times more oil per unit area than other oilseed crops.

2.7. According to information at the Commission's disposal, there is currently no domestic producers of palm oil in the SACU region as the region does not have the necessary agronomical climate to produce palm trees.

2.8. Nevertheless, despite the absence of palm oil production, SACU member states are engaged in the cultivation and processing of a diverse range of other vegetable oils, such are sunflower oil, soybean oil and canola oil.

[4] Meyer, F and Davids, T (2020). Opportunities and limits of import replacement for South African veggie oils. Accessible on: https://www.bfap.co.za/wp-content/uploads/2023/04/Opportunities-and-limits-of-import-replacement-for-South-African-veggie-oils.pdf

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:

- Palm oil constitutes 36% of global vegetable oil supply while utilizing less than 9% of agricultural land dedicated to oil crops, producing 40% of global demand. Indonesia and Malaysia dominate production, contributing over 80% of the 78 million tonnes produced globally in 2022/23, with further growth anticipated.
- The SACU region, including South Africa, relies on imports due to unsuitable agronomic conditions for palm oil cultivation but produces other vegetable oils, such as sunflower and soybean oils.
- Between 2019 and 2023, the Applicant's production and sales volumes experienced fluctuations. Production experienced a notable decline in 2020 due to machinery breakdowns.
- Sales volumes followed a similar trend, decreasing between 2019 and 2022 before recovering in 2023. Despite this, sales values increased during the period of the investigation, reflecting higher unit prices or a shift to premium products.
- Regarding investments, the Applicant's investment increased over the period of the investigation, driven by efforts to upgrade production lines, address machinery breakdowns, and support innovations, including a new formulation.
- In terms of soap bar imports, it was found that there was a notable surge in the importation of laundry soap in 2020, marked by a substantial increase of 126.6%. This surge was largely attributed to the onset of the COVID-19 pandemic, which heightened the demand for soap products as a crucial measure for maintaining hygiene and preventing the spread of the virus.
- From 2019 to 2023, direct variable costs experienced steady growth, with a notable surge between 2021 and 2022. This increase was primarily due to rising raw material and production input costs.
- Import-related expenditures followed a similar upward trend, particularly between 2021 and 2022, driven by increased international shipping costs and higher import prices. However, these costs declined in 2023 as global shipping costs stabilized.

- Indirect variable costs increased consistently, peaking in 2022, largely due to higher utility and steam costs resulting from a breakdown in the mass boiler and increased diesel prices.
- Despite fluctuating production, net profit grew during the period of the investigation, with a significant increase from in 2023, driven by better pricing strategies and cost control efforts by the Applicant.
- The net ex-factory selling price increased for the period under review, primarily due to rising production costs, particularly energy and raw material price hikes,
- The Applicant's projected costs for the new formulation product is expected to increase due to higher costs for imported materials.
- The new formulation will result in a higher net ex-factory selling price, compared to the current formulation, leading to a higher selling price per unit.
- In terms of reciprocal commitments, the Applicant submitted that should tariff support be granted, employment is expected to remain constant for the period 2024 – 2026, while it expects total investment in the subject product to increase during the same period.

4. RECOMMENDATION

4.1. In light of the foregoing, the Commission decided to recommend the creation of a rebate facility on palm oil, not fractionated, refined, bleached and deodorised, but not chemically modified, classifiable in tariff subheading 1511.90.90, for use in the manufacture of soap and organic surface-active products and preparations, in the form of bars, cakes, moulded pieces or shapes, classifiable in tariff subheading 3401.1, 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 goods are not available in the SACU.