

# Call to drop duties on VAT-exempt French fries

● *Food industry consultant urges the government to weigh up effect of duties on cost of food*

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Food industry players have questioned the government's decision to implement import duties on French fries, especially considering that they are VAT-exempt to make them more affordable.

Donald MacKay, the founder and director XA International Trade Advisors, a major trade advisory firm in SA, highlighted at a media briefing on Wednesday that potatoes and fries are VAT-exempt under current government legislation.

A zero VAT rating aims to provide basic foodstuffs at a reduced price to benefit the poor. French fries make up a large part of food servings sold by restaurants and takeaways, especially the popular kotlas and Gatsbys sold by quick-service food outlets in townships.

"This begs the question: why is government imposing duties on VAT-exempt products which it knows will result in price increases? This kind of misalignment in government policy reinforces the need for a comprehensive review of our trade policy, especially at a time when consumers are buckling under the strain of a hyperinflation cycle," MacKay said.

The government is under pressure to slash import duties on many products as consumers come under pressure.

In August, trade, industry & competition minister Ebrahim Patel suspended anti-dumping duties on chicken imported from



**Chips are up:** Duties have increased the price of French fries by 88%, from R16/kg in 2021 to R30/kg this year. /123RF/serezniy

five countries for the next 12 months, citing the fight against food inflation and its effects on the poor.

Yet the government recently introduced higher duties for imported frozen potatoes from Europe in a bid to protect the local industry, a move that is set to push up the price of French fries while many households struggle to afford basics as the cost-of-living crisis deepens.

The International Trade Administration Commission (Itac), the organisation that is responsible for customs tariff investigations, trade remedies and import and export controls, imposed provisional anti-dumping duties for frozen potato chips imported from or origina-

ting in Belgium, Germany and the Netherlands.

The provisional duties, which are up to 181% for German producers, 104% for some producers in the Netherlands and 23% for those in Belgium, will be in place until January 2023, when the final five-year tariff determination will be finalised.

MacKay said the government needs to conduct an urgent review of the impact of import duties on the increasing cost of food, and remove newly imposed duties on imported French fries.

"We cannot continue to impose duty upon duty on food and expect it not to harm consumers. The duties on fries specifically have increased the

price of fries by 88%, from R16/kg in 2021 to R30/kg in 2022. Duties are not in the public interest, they are just another form of tax that consumers have to bear and have the concerning consequence of increasing the cost of food in an already tightly squeezed consumer market."

MacKay said it was time to take "a hard look at our trade policy and to weigh up its impact on the rising cost of living".

He said of major concern was that Itac applied the duties without taking into account the real state of the sector, its challenges or the impact that duties have on consumers. Nor has Itac seen fit to take into account evidence submitted by numerous importers and trade partners, MacKay said.

"For example, Itac has not considered two fundamental facts: the first being that there is a shortage of domestic potatoes used to make fries, and second, that there is not enough fries processing capacity in SA to meet local demand."

Itac could not be reached for comment on Wednesday, but it has previously indicated that it is considering all submissions on the issue.

Georg Southey, GM of multinational consumer goods firm Merlog Foods, explained that 88% of all potatoes grown in SA are processed for consumption and 12% for seed. Of the 88%, only 20% is used for the production of French fries and crisps. McCain, the largest local manufacturer, owns over 75% of the

market for French fries, and thus controls the bulk of the fries-processing sector and the potatoes used to make fries.

"The result of a general shortage of SA potatoes used for fries, and a constrained processing capacity, compounded by the fact that the largest manufacturer uses in the region of 75% of all potatoes in this category means that everyone else has to import fries in order to meet the growing demand for fries in the SA market," Southey said.

In September, SA's potato industry said it is looking to invest in expanding local production to meet high demand for French fries amid a widening demand-supply gap.

SA imported about 13,000 tonnes of frozen chips in 2020 despite low demand due to Covid-19 lockdowns, which brought economic activity to a near standstill. The figure nearly doubled to about 24,000 tonnes last year amid local shortages.

"A distinction must be drawn between fresh potatoes and processed products such as French fries, as SA potato farmers were producing a surfeit of fresh, raw potatoes," said Willie Jacobs, the CEO of Potatoes SA, which represents local producers.

Jacobs estimated that 12,000 tonnes of fresh potatoes are available at national fresh produce markets around the country every day. But there is not enough production capacity to meet the demand for processed products such as French fries.

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