

NOTICE 1290 OF 2005

DEPARTMENT OF AGRICULTURE

MARKETING OF AGRICULTURAL PRODUCTS ACT, 1996

(ACT No. 47 OF 1996)

REQUEST FOR AN AMENDMENT TO A STATUTORY MEASURE FOR COTTON

RELATING TO LEVIES TO BE PAID

It is hereby made **known** in terms of section 11 of the Marketing of Agricultural Products Act, 1996 (Act No. 47 of 1996), that the Minister of Agriculture has received a request for **an** amendment to a statutory measure in terms of section 10 of the said Act as set out in the Schedule hereto.

Directly affected **groups** are hereby invited to lodge any objection or representation regarding the proposed statutory measure with the National Agricultural Marketing Council within 14 days of the publication thereof.

Submissions should be in writing and be addressed to:

**The Chairperson
National Agricultural Marketing Council
Private Bag X 935
PRETORIA
0001
Fax No.: (012) 341 1811
Enquiries: Ms Lizette Mellet
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**Ronald Ramabulana
CEO: NATIONAL AGRICULTURAL MARKETING COUNCIL**

**APPLICATION FOR AN AMENDMENT OF STATUTORY MEASURE (LEVIES) ON
COTTON IN TERMS OF THE MARKETING OF AGRICULTURAL PRODUCTS ACT,
1996 (ACT NO 47 OF 1996), AS AMENDED**

1. AMENDMENT OF STATUTORY MEASURE – LEVIES

The statutory measure that is requested to be amended, is that the Minister in terms of section 15 of the Act, by notice in the Government Gazette, direct that the levy amounting to 17 cents per kg cotton lint (excluding VAT), also be made applicable on all cotton lint imported into South Africa for further processing, and be made payable by the importers to Cotton SA.

2. INFORMATION REQUIRED BY SECTION 10 OF THE ACT

The particulars as required by section 10 of the Act to be included in a request for the amendment to a statutory measure, are as follows:

- 2.1 The amendment to the statutory measure, would relate to cotton lint. (Cotton lint is the fibre derived from seed cotton after the seed cotton has been ginned).
- 2.2 The categories of directly affected groups which would probably be effected by the establishment of the proposed statutory measure, are those groups of persons who are party to the purchase of seed cotton from producers, those persons who process seed cotton for the sale of the products derived therefrom, persons who import or export seed cotton or products derived therefrom, persons who import cotton lint and those persons who produce seed cotton.
- 2.3 Letters of support for the proposed statutory measure on cotton, by the different categories of directly affected and other groups in the cotton industry, were not yet received.
- 2.4 The proposed statutory measure will apply to the whole of the Republic of South Africa, in order to have a uniform levy.
- 2.5 According to the applicant, the amendment to the statutory measure applied for, will further the objectives of the Act as stipulated in section 2(2) thereof. Such amendment will also not contravene section 2(3) of the Act.
- 2.6 The manner in which the objectives referred to in section 2(2) of the Act will be furthered (namely the increasing of market access for all market participants, the promotion of the efficiency of the marketing of agricultural products, the optimisation of export earnings from agricultural products and the enhancement of the viability of the agricultural sector), are summarised in the following motivation by the applicant:

“The principle that a commodity should take responsibility for the financing of its industry functions is generally accepted but in the case of cotton, only a certain sector currently bears this responsibility, namely the cotton farmers. Although the current levy is payable by ginnerers on cotton lint produced, this levy is indirectly recovered from cotton farmers in that ginnerers take the levy into account when announcing new season producer prices.

In order to create a more equitable situation where all role players in the cotton chain contribute to the services provided by Cotton SA from levy income, a broader base for the collection of the levy would be more just, as all role players equally enjoy the benefits ensuing from the application of levy income. The easiest and most simplistic way to achieve this would be to make the levy applicable on all cotton imported from local processing as this cotton is also indirectly benefiting from industry-wide functions paid for by local cotton produced by local farmers. The implementation of a levy on imports will spread the cost of industry programs across a broader base.

South African farmers have been the only sector paying (by means of levies) for information, research and promotion programs designed to lower production and processing costs on the one hand and to boost consumer demand for cotton products on the other hand, for close to 30 years. Local cotton producers are concerned about the fact that growers outside the RSA (mainly from SADC countries) whose cotton is purchased by local spinners are indirectly benefiting from the industry wide functions as well as market development paid for by local producers, while these foreign growers have never been requested to assist in paying for these privileges.

The major part of the local cotton demand is annually imported (between 38% and 74% of total demand since the 1995/96 season). On average over the past 10 years, only 43% of cotton carried the levy burden to pay for all industry functions provided by Cotton SA to the entire industry.

Another important aspect is the fact that in years of low local production the levy income from local production was inadequate to cover the expenses of Cotton SA which meant that some services had to be scaled down to the detriment of the industry and reserves had to be utilised to cover deficits. Should Cotton SA be able to also collect the levy on cotton imports, the huge fluctuations in its annual income will be averted to a great extent, allowing for more accurate budgeting and improved and more efficient execution of its functions.

Levies collected from cotton imports will not only ensure that imported cotton also contributes to local industry functions such as information, research and promotion, but levy funds can also be utilised to offset the costs involved in the implementation of the Cotton Sector Plan. The higher and more stable levy income from imports can be fruitfully employed to support the main objectives of the Cotton Strategy Plan, namely to:

- Grow farm output to a stable 370 000 lint bales by 2007;
- To broaden participation and empower emerging farmers to contribute on average 25% of the National cotton crop by 2007 and 35% by 2014; and
- To raise productivity by training at least 60% of emerging farmers by 2007 and by improving research and extension services and technology transfer.

In this respect, Cotton SA would be in a position to consider using the additional income to employ, for example a fulltime person or persons to attend to emerging cotton farmers' training and extension services and other needs specifically. As far as research is concerned, the industry will also be able to increase its contribution which is currently at about 10%, well below the expected 50%, the

rest being made up by increased funding from government via the research institution.

There are seven RSA gins that are presently subject to the payment of statutory levies on cotton lint produced. Should imported cotton lint also be subject to levies, only nine RSA spinners who import cotton for further processing will be affected. These spinners are already compelled to submit monthly statutory returns to Cotton SA showing particulars of cotton lint imports, thus making the administration, control and collection of the levies a relatively simple task for Cotton SA. These importers (spinners) are also already represented on the Board of Directors of Cotton SA as well as on relevant industry committees, and will thus have a voice regarding matters of mutual concern.

Should the 17c/kg levy be collected on cotton lint imports, the total levy value is expected to be relatively small in proportion to import values. The total value of RSA cotton lint imports for the past season (2004/05) is estimated at about R235 million (calculated at the current low level of world prices) with a total potential levy value on these lint imports of about R5 million, which represents just over 2% of the total import value. In all likelihood, there will be no measurable change in prices paid by RSA consumers for cotton products because of the introduction of a levy on imported cotton, as for instance, the cotton value in a cotton shirt accounts for only about 3% of the retail price of the shirt.

The proposed levy on imported cotton may encourage spinners to rather take up more local cotton instead of importing, as spinners who satisfy all their needs from local cotton, will not be liable to pay any levies. Since January 2004 when the SADC FTA came into full effect, the take-up of the local cotton crop has slowed down to such an extent that less than 60% of the 2004/05 marketing season crop were taken up by spinners nine months into the marketing season. This creates cash flow problems not only for farmers but also for ginners who have to carry the interest burden on unsold stocks. The levying of cotton imports may contribute to alleviating this untenable situation.

The levying of cotton imports as proposed, will for the reasons stated above, not only increase market access for all market participants, but will also promote the efficiency of the marketing of cotton and enhance the viability of the cotton industry in particular, and the agricultural sector at large. "

2.7 DATE OF IMPLEMENTATION AND DURATION OF STATUTORY MEASURE:

The measure requested for should be implemented before the forthcoming marketing season which starts on 1 April 2006 and it was suggested that the duration of the proposed amendment be until 31 March 2008 when the current levy will lapse.

2.8 MOST APPROPRIATE BODY TO ADMINISTER MEASURE:

SACPO proposed that Cotton South Africa, a non profit seeking company under section 21 of the Company Act, is the most appropriate institution for the implementation and administration of the statutory measure applied for. This company which is industry

driven and independent has proved itself over the past 7 years to be a capable, unbiased and responsible administrator of the current statutory levy.

The Board of Directors consist of:

- four persons representing producers of which one is a representative of small scale farmers;
- two persons representing the cotton ginning industry;
- one person representing the cotton spinning industry;
- one person representing the clothing and household textile sector;
- one person representing a national consumers organisation; and
- one person representing the labour sector.

2.9 PARTICULARSON ENFORCEMENT

As Cotton SA was formed *inferred alia* for the administering of the proposed statutory measure relating to levies, the most appropriate means of organising the inspection and the enforcement of the intervention would be to assign that function to the company. In this regard it is envisaged that the Minister would appoint either personnel of the company or independent contractors as inspectors in terms of section 21 of the Act to inspect and enforce the proposed measures.

List of persons liable to pay levies under the measures, will be kept by Cotton SA and the company will be aware of failure to comply with the measure. Furthermore, the company can carry out random inspections from time to time, to ensure the compliance with the measure.

2.10 FINANCIAL IMPLICATIONS FOR THE FISCUS

The levy will be collected from ginners and cotton lint importers and be used to finance the functions of Cotton SA. The financial implications for the fiscus would be all costs incurred in investigating and promulgating the amendment to the current statutory cotton levy.

2.11 DISPOSAL OF FUNDS AND ASSETS IN CASE OF DISSOLUTION

In the event of Cotton SA being deregistered or terminated, all statutory funds and assets of the company acquired with statutory funds, after meeting all its obligations and paying all its debts, should be transferred to another South African organisation with similar objectives, subject to the approval of the Minister of Agriculture.

2.12 AUDITING MEASURES

The accounts of Cotton SA will be kept in accordance with generally accepted accounting practises and be subject to annual audits by the Auditor-General.