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# FOREWORD BY THE MINISTER OF TRADE AND INDUSTRY

**Hon. MANDISI MPAHLWA**

**I**t is imperative that during every year of our second decade of freedom, we must, on the economic front, achieve new advances towards eradicating underdevelopment and creating a framework to ensure that our people shall share in the country's wealth.

Therefore, the programme for the coming years to position the country on a higher growth trajectory will be based on the broad objectives of increased investment, lowering the cost of doing business, enhancing economic inclusion, and providing the skills required by the economy.

The International Trade Administration Commission of South Africa (ITAC) will also have an important role to play in lowering the cost of doing business and improving economic inclusion. Our current competitiveness problems can be traced to the poor economic policy choices that were taken decades ago. These policies of erecting protective barriers led to our manufacturing industry becoming uncompetitive. ITAC indeed needs to be wary of neo-protectionist tendencies in the form of anti-competitive, unfounded, or factitious anti-dumping and other trade remedies petitions from industry, the injudicious imposition of which would stifle our progress and precipitate non-competitiveness. Also pertinent is the vexed issue of import parity pricing. The government's programme of action includes a planned review of the tariff structure in the chemicals sector and also on textiles to provide lower input costs. ITAC will be much involved in these investigations.

As globalisation vastly increases the knowledge flow between and among countries, the new era



of increased globalisation that we are experiencing inexorably will lead us onto a higher growth path. Openness and globalisation tend to be accompanied by the introduction of new technologies and in this way will play a significant role in confronting the challenges of competitiveness.

Closer to home, in the light of the re-negotiated SACU Agreement, the emerging SACU institutions would necessitate the involvement of ITAC, especially through capacity-building and the transfer of technical skills and expertise.

Wishing it all the success, I should say that ITAC certainly has a challenging agenda ahead.

**MANDISI MPAHLWA, MP**  
***MINISTER OF TRADE AND INDUSTRY***





## REVIEW BY THE DIRECTOR-GENERAL

### Dr ALISTAIR RUITERS

In its second year since inception, ITAC, a member of the Department of Trade and Industry's (the dti) Council of Trade and Industry Institutions (COTII), has consolidated itself as an institution that facilitates an environment that enables fair and competitive trade, inspiring investor confidence.

The South African government and the dti in particular have embarked on a policy framework to ensure that the South African economy is internationally competitive and the manufacturing firms are enterprising, innovative and modern.

In this light, the process of continued, but managed, tariff liberalisation has an important role to induce efficiency and innovation into the economy through competition, the lowering of cost structures, and the derived gains from specialisation of production.

ITAC is currently co-operating closely with the dti policymakers on the important tariff reform that would advance South Africa's development, meaning enhancing the efficiency and competitiveness of industries. Similarly, ITAC co-operates with the dti on the tariff simplification process for achieving greater transparency in the tariff structure.

In the spirit of building complementary relations with other dti agencies, ITAC will increasingly seek closer co-operation with the Competition Commission on the overlapping international and domestic competition issues.



ITAC has also been actively involved in providing advice to Trade and Investment South Africa (TISA) and managing the Duty Credit Certificate Scheme (DCCS) for the textiles and clothing industries as well as continuing to improve the efficient administration of the Motor Industry Development Programme (MIDP) and providing advice on the policy review of the MIDP scheduled for 2005-2006.

I congratulate ITAC on the excellent progress made during its second year.

Dr ALISTAIR RUITERS  
*DIRECTOR-GENERAL: DEPARTMENT  
OF TRADE AND INDUSTRY*





# REPORT OF THE CHIEF COMMISSIONER

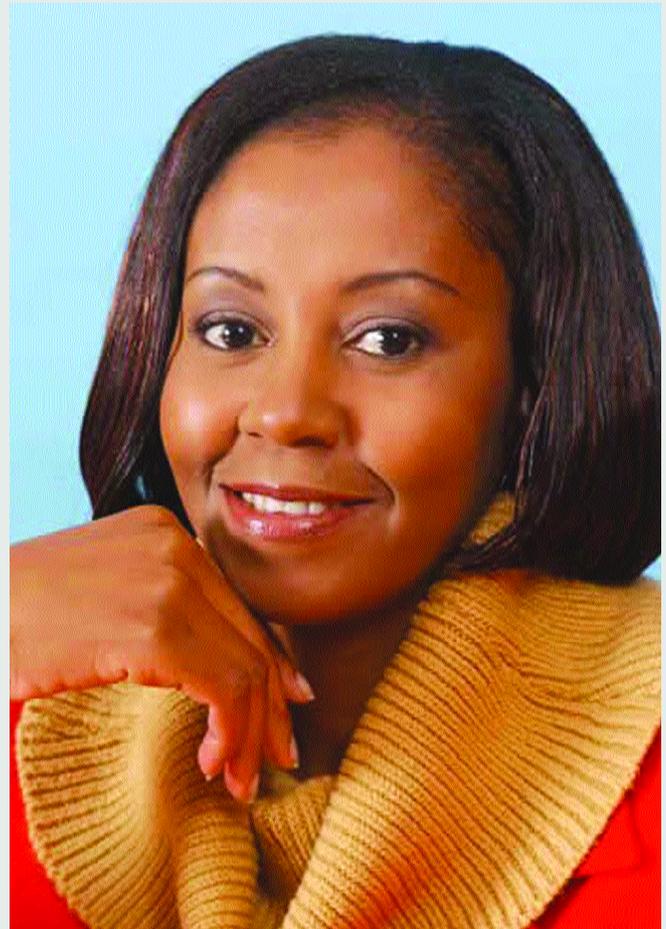
## Ms NOMONDE MAIMELA

In reporting on the activities of the Commission in its second year of operation, I will discuss the salient achievements of the past year, the change in focus, and the shift of emphasis. We have conducted and finalised investigations that have accentuated our mandate of efficiently and effectively enabling fair international trade.

We are increasingly focusing on streamlining our processes, improving turnaround times for investigations and reviewing operational policies in the core business areas of import and export control, tariff and rebate investigations and trade remedy investigations. We will continue to spend considerable effort on increasing the skills and competency base of our staff to increase our investigative capacity for effectively dealing with the domestic and foreign firms that we investigate.

We have aligned our objectives in full convergence with the dti goals of accelerating the economic growth rate, creating new employment opportunities and promoting equity.

In particular, our activities would be geared towards the lowering of cost structures, promoting sustainable value-added industrialization and specialization. These objectives will be embodied in a new customs tariff policy that has been developed and completed over the past year in co-operation with the dti. In this respect, we have launched an investigation into the duty



structure for the steel industry with the aim of reducing cost structures in the manufacturing economy. We have also initiated an investigative review of the variable tariff formula for the grain and related downstream industries.

In the sphere of trade remedy investigations, we have displayed vigilance not to revert to past inward-looking strategies, encouraging anti-competitive behaviour. The trade remedy instruments will be viewed as means to provide the necessary protection against proven injurious unfair trade. We consider it critical that the approach to trade remedy





investigations, in particular the methodology for considering the injury effects and establishing causality between injury and dumping, does not compromise principles of competitiveness and of economic growth and development in the guise of providing remedial assistance.

A high impact case that was conducted during the year under review was the removal of the anti-dumping duties on steel imported from Russia, which could assist in promoting downstream, fabricated steel manufacturing.

Over the past year, the last in the trio of trade remedy regulations, the countervailing duty regulations governing subsidized exports, has been completed and will be notified to the World Trade Organisation (WTO) in the next financial year. These regulations will complement the anti-dumping duty and safeguards regulations. The regulations should ensure fairness, consistency and certainty and would provide clarity in investigations.

The import and export control measures administered by ITAC are essentially meant to enforce industrial development, health and safety, environmental and security concerns. These import and export control measures are also applied, especially to used or second-hand imported goods, to protect existing industries. But the approach that the Commission has taken is to critically review these measures and remove those that retard or hinder further economic activity. We will also continue to intervene, through the managed reduction of these measures, to reduce start-up and production costs for small, medium and micro enterprises (SMMEs) and black economic enterprises (BEEs).

In the past year, we have participated, by providing support to **the dti** on pertinent negotiating issues, in various trade agreements with Mercosur, the United States of America (USA) and the European Free Trade Association (EFTA).

On the regional front, our activities have included driving the important process of building capacity within SACU through technical assistance as far as tariff and trade remedy investigations are concerned. We aim to foster strong institutional links, refine our methods and modes of consultation and synchronize the tariff activities within SACU. We will continue, as we did over the past year, to act as the *de facto* tariff board for SACU until the establishment of the SACU Tariff Board.

The tariff investigation unit has continued its efficient and effective administration of the Motor Industry Development Program (MIDP) and Duty Credit Certificate Scheme (DCCS) for the automotive and textiles and clothing industries respectively. We were also instrumental, through an amendment to the legislation and regulations governing the MIDP, in accommodating a new investment in automotive components manufacturing.

In the quest for achieving our strategic objectives, we place much emphasis on maintaining and consolidating our organizational systems, corporate infrastructure and especially our human resources, to ensure the effective and efficient functioning of the Commission. We view good corporate governance as pivotal to our ultimate success.

Signed on 31<sup>th</sup> May 2005.



NOMONDE MAIMELA  
Chief Commissioner





## List of Reports issued by the Commission in the period 1 April 2004 to 31 March 2005:

Report No.	Title
50	Investigation into the alleged dumping of fabrics of acrylic fibres originating in or imported from the People's Republic of China: Preliminary Determination
51	Termination of the investigation into the alleged dumping of glass fibre rovings originating in or imported from the People's Republic of China and Chinese Taipei
54	Investigation into the alleged dumping of articles of plaster or of compositions based on plaster, faced or reinforced with paper or paperboard only, commonly referred to as "Gypsum plasterboard" originating in or imported from Indonesia: Preliminary determination
55	Termination of anti-dumping duties on float and drawn glass originating in or imported from Israel
56	Reduction in the rate of duty on fully automatic washing machines
57	Reduction in the rate of duty on telecommunication apparatus for carrier-current line systems or digital line system
58	Sunset review of the anti-dumping duties on welded stainless steel tubes and pipes of a circular cross section with an outside diameter of 21,34 mm or more but not exceeding 114,3 mm and a wall thickness of 2mm or more but not exceeding 6mm originating in or imported from Chinese Taipei, Malaysia and South Korea: Final determination
59	Review of the duty structure for pigments and preparations based on titanium dioxide
60	Investigation into the alleged dumping of forged or stamped, but not further worked, grinding balls and similar articles for mills originating in or imported from the People's Republic of China (PRC): Preliminary determination
61	Investigation into the alleged dumping of aluminium overhead cable originating in or imported from India: Preliminary determination
62	Reduction in the rate of duty on expanded polypropylene classifiable under tariff subheading 3902.10
63	New shipper investigation into aluminium hollowware originating in or imported from Egypt: Final determination
64	Reduction in the duty on certain glass fibre chopped strands and rovings
65	Application for an increase in the customs duties on frozen pork carcasses and half carcasses
66	Rebate of the duty on ceramic fibre mineral wool for press-cutting into shapes suitable for use in the manufacture of catalytic converters
67	Sunset review of the anti-dumping duties on acrylic blankets originating in or imported from India, Hong Kong and the Republic of Korea: Termination of the anti-dumping duties
68	Investigation into the alleged dumping of fabrics of acrylic fibres originating in or imported from Turkey: Final determination
69	Sunset review of the anti-dumping duties on drawn and float glass originating in or imported from the People's Republic of China (the PRC) and India: Final determination
70	Termination of the anti-dumping duty on nuts of iron or steel originating in or imported from Australia
71	Reduction in the rate of duty on packs of cards, tables, screens, containers and other apparatus specially designed for the performance of conjuring tricks
72	Sunset review of the anti-dumping duties on stainless steel hollowware originating in or imported from the People's Republic of China (PRC), Chinese Taipei and South Korea: Final determination
73	Reduction in the rate of duty on line facsimile transmission and reception apparatus
74	Investigation into the alleged dumping of articles of plaster or of compositions based on plaster, faced or reinforced with paper or paperboard only, commonly referred to as "Gypsum plasterboard" originating in or imported from Indonesia: Final determination
75	Application for rebate of the duty on atactic polypropylene classifiable under tariff subheading 3902.10
76	Reduction in the rate of duty on vinyl chloride-vinyl acetate copolymers





**List of Reports issued by the Commission in the period 1 April 2004 to 31 March 2005 (Continued):**

Report No.	Title
77	Application for rebate of the duty on carpet backing used in the manufacture of tufted carpets
78	Reduction in the duty on animal feed supplements containing by mass 40 per cent or more of choline chloride
79	Termination of the anti-dumping duties on hydrogen peroxide and optical fibre cables originating in or imported from South Korea
80	Investigation into the alleged dumping of fabrics of acrylic fibres originating in or imported from the People's Republic of China: Final determination
81	Investigation into the alleged dumping of aluminium overhead cable originating in or imported from India: Final determination
82	Investigation into the alleged dumping of forged or stamped, but not further worked, grinding balls and similar articles for mills originating in or imported from the People's Republic of China (PRC): Final determination
83	Amendment of rebate item 316.01/7604.21/01.06 relating to the composition of aluminium alloys used in the manufacture of condensers and evaporators for automotive airconditioners
84	Application for reduction in the duty on pneumatic tyres classifiable under tariff subheading 4011.94.10
85	Sunset review of the anti-dumping duties on stainless steel sinks originating in or imported from Egypt, Korea and Malaysia
86	Rebate of the duty on vulcanised rubber rods classifiable under tariff subheading 4008.29 for the manufacture of supertension units used for anti-vibration, dampening, tensioning or oscillating purposes
87	Investigation into the alleged dumping of fibre glass chopped strand mats originating in or imported from the People's Republic of China (PRC) and Chinese Taipei: Preliminary determination
88	Amendment of the implementation of the rebate provision of the anti-dumping duties on plates, sheets, film, foil, tape and strip of polymers of vinyl chloride from 10 October 2003 to 22 February 2002
89	Investigation into the customs tariff dispensation with respect to dairy products
90	Sunset review of the anti-dumping duties on sutures originating in or imported from Germany
91	Application for a reduction in the rate of duty on citric acid (2918.14)
92	Amendment of the description of the anti-dumping duties on uncoated woodfree paper
93	Sunset review of the anti-dumping duties on hot rolled plates and sheets of steel originating in or imported from the Russian Federation and the Ukraine: Final determination
94	Reduction in the rate of duty on air springs
95	Investigation into the alleged dumping of cheddar cheese originating in or imported from Ireland: Preliminary determination
96	Investigation into the alleged dumping of steel wheels originating in or imported from Brazil, the People's Republic of China, Chinese Taipei and Turkey: Preliminary determination
97	Reduction in the rate of duty on unmounted strips of rubber
98	Reduction in the rate of duty on polyether polyol
99	Reduction in the customs duty on used pneumatic tyres
101	Investigation into the alleged dumping of wheat flour originating in or imported from India: Preliminary determination
102	Termination of the anti-dumping duties on supertension cables originating in or imported from Germany
103	Sunset review of the anti-dumping duties on acrylic blankets originating in or imported from the People's Republic of China and Turkey: Final determination
104	Rebate of the duty on ter- and copolymers of propylene for the manufacture of plates, sheets, film, foil and strip of biaxially oriented polypropylene





## COMMENTARY BY THE COMMISSION'S CHAIRPERSON

**Prof. COLIN MCCARTHY**

**I**ncreasing economic prosperity for all in South Africa is the final goal that ITAC sets itself. The contribution that the Commission can make in this regard is to encourage economic growth in an increasingly competitive global trading environment. This we hope to achieve by using the principal instrument at our disposal, namely the import tariff, which can be rebated or be changed in accordance with operational guidelines that are derived from current government policy, or as a trade remedy to facilitate fair competition for South African industry. The key word in this regard is competitiveness, that is, an enhanced ability to compete in export markets and in the domestic market against imports.

The past year has proven to be difficult for South African firms who had to face major difficulties in adjusting to competition in export markets and against imports in the domestic market. However, the major force that impacted on competitiveness, namely the exchange rate, falls outside the domain of trade policy. Although ITAC often encounters expectations to the contrary, the tariff cannot be used as an instrument to counter the effect of a strong and appreciating currency.

The impact of the exchange rate has been exacerbated by an increase in imports from low-cost producers. ITAC is aware of the negative effect this has had, particularly on employment and production in labour intensive industries such as textile and garment producers. The Commission is determined to participate fully in public and private sector efforts to address the problems of competitiveness facing these industries.



An important development during the past year has been the implementation of the new Agreement that governs the operation of the Southern African Customs Union (SACU). The Agreement, adopted in 2002, has important implications for the development of the region's economy. ITAC is very conscious of the contribution it will have to make in building capacity in the various SACU institutions involved in the management of the customs union and also in contributing, in collaboration with the *dti*, to the development of common industrial policies for the member states. A common understanding on industrial development that also addresses the need for balanced development in the common customs area as required by the Agreement, and sensible policies to achieve this, will be a prerequisite for the rapid development of the region in a competitive world economy.

**COLIN MCCARTHY**  
Chairperson





# BACKGROUND ON THE COMMISSION



The International Trade Administration Commission of South Africa is a body governed by the provisions of the International Trade Administration Act 71 of 2002 (ITA Act). The Act establishes the commission as a body that is accountable for encouraging economic growth and employment in South Africa and within the broader customs union through the efficient and effective administration of trade regulations. The commission further makes recommendations to the Minister on its three core business areas namely:

- Import and Export Control
- Trade Remedies (Anti-dumping, Countervailing duties and Safeguard Measures)
- Tariff Investigations (Customs tariff and Rebate provisions)

The legislation provides for a Chief Commissioner who also serves as the Chief Executive Officer and is directly accountable to the Minister of Trade and Industry. Furthermore the Chief Commissioner is assisted by a Deputy Chief Commissioner and a maximum of eight part time Commissioners.





**Table: Performance against predetermined objectives**

Goal	Key performance indicator	Target	Performance result	Reason for variance
Promotion of sustainable economic development through the improvement of international competitiveness and optimal use of resources.	Increase in the customs tariffs.	8	13	In total 13 investigations were received based on applications received; 11 were approved and 2 are in process.
Cost reduction and increased in global competitiveness.	Reduction in the customs tariffs	36	34	A total of 34 investigations were conducted based on applications received. 14 were approved; 13 rejected; 4 are in process and 3 were withdrawn.
Cost reduction of inputs. Increased global competitiveness. Promotion of manufacturing activities in the SACU	Rebate of the customs tariffs.	36	35	Based on the applications received.
Cost reduction on inputs Competitiveness in export market. Growth and development of the SACU industry. Assistance to welfare, educational, health and religious organizations. Assistance to low income consumers.	Permits for rebate and drawback of the customs tariffs.	1 300	1 365	Based on applications received.
Improvement of global competitiveness of motor vehicle and component manufacturing industry	Eligible export certificates.	300	705	Based on applications received.
Improvement of global competitiveness of motor vehicle and component manufacturing industry.	Import Rebate Credit Certificates	3 800	3 550	Based on claims submitted by the motor industry.
Improvement of global competitiveness of clothing and textile manufacturing industry.	Duty Credit Certificates	1 400	1 247	Based on claims submitted by the clothing and textile industry.
Ensure that used imported goods do not erode SACU industry. Control for health, environment, and security reasons. Safety and quality compliance.	Import Control permits	12 000	18 700	Increased demand
Assist in enhancement of beneficiation of goods prior to export and ensure compliance with provisions of international agreements. Enhance control over outflow of goods regarded as strategic, smuggled and stolen goods.	Export Control permits	9 000	4 100	Reduction in demand and removal of export control measures.
Investigate contraventions of the ITA Act and regulations. Seize illegally imported goods and goods destined for export.	Enforcement	24	42	Increased activity
Protection for SACU industry against unfair international trade practices	Anti-dumping and countervailing investigations and reviews	30	24	Demand driven investigations. Directorate is dependant on applications received during the year.





## IMPORT AND EXPORT CONTROL

**I**n terms of the provisions of the International Trade Administration Act, an import and export permit system is maintained to contribute to ITAC's endeavours of promoting international competitiveness and supporting sustainable industrialisation. In this regard the Import and Export Control unit ensures that goods that are subject to control measures are imported/exported in accordance with the import and export control regulations, policies and procedures that support the specific objectives.

### Import Control

**I**n the application of the import control measures, the focus was on ensuring that the importation of used and second hand goods do not erode local manufacturing processes and that job opportunities are not lost because of the erosion of industrial activities.

In instances where the importation of used or second hand goods were allowed, such imports occurred in accordance with specifically defined policies. As such, the importation of used tyre casings for retreading purposes was, for instance, allowed to augment the local supply of retreadable tyre casings. Similarly, the importation of used clothing was allowed in terms of customs rebate item 311.18 for the manufacture of industrial wiping rags and the recovery of fibres.

Import control measures are also maintained on waste and scrap to ensure that such imports are channelled to the relevant industries that utilise these materials as raw materials for manufacturing purposes or for recycling. The import control measures on these imports were also exercised in terms of the provisions of the environmental Basel Convention.

The importation of certain identified chemicals was controlled to comply with South Africa's obligation in terms of international agreements such as the Montreal Protocol and the 1988 Convention against the use of chemicals in the illegal manufacture of narcotic drugs. In the case of the Montreal Protocol, chemicals with an ozone-depleting potential were restricted and imports were only allowed in accordance with the protocol programme.

Contribution has been made to ensure that imported pneumatic tyres and used vehicles comply with quality and safety specifications promulgated by Government and its agencies. Further contribution has been added to health, the environment, safety and security in the process of controlling the importation of fish, fish products, firearms and ammunition.

As certain goods such as fossil fuels are regarded as being of a strategic nature, the importation of petrol, diesel and oils is controlled to support the goals of the Department of Minerals and Energy.





## Export Control

In applying export control, the focus is on specific industry sectors such as the minerals sector where strategies of beneficiation are supported. Processes and procedures with regard to the exportation of ferrous and non-ferrous waste and scrap are applied in an endeavour to provide the local recycling industry with an opportunity to obtain the materials destined for export prior to its exportation.

As crime involving motor vehicles has an eroding effect on the economy with specific reference to, for instance, insurance claims as well as the re-introduction of stolen and exported vehicles into the market place, export control on vehicles is exercised to assist law enforcement agencies in ensuring that vehicles are legally exported.

As fossil fuels are considered to be of strategic value to the South African economy, export control was exercised to assist the Department of Minerals and Energy in ensuring that sufficient fuel stock levels are available at all times. The exportation of specific chemicals listed in terms of the Montreal Protocol and 1988 Convention was also restricted in the process of complying with South Africa's obligation emanating from the two international agreements.

As the Basel Convention is also applicable to the exportation of waste containing environmental unfriendly substances, control was exercised to assist in ensuring that the exportation of waste listed in terms of the Convention leave South Africa in compliance with the provisions of the Convention.

During the 2004/2005 fiscal year the statistics pertaining to permit applications and permits issued are as follows:

**Table 1**

1. Import permits issued	18 701
2. Export permits issued	4 180
3. Permit applications declined	303

## Development

The development of the electronic system for processing and forwarding import permit information to the South African Revenue Service (SARS) has entered the pilot testing phase. Linking the system with the customs system has commenced. The system became fully integrated and operational in March 2005. The design of a similar system for export permits has commenced.

The import control regulations were amended to remove import control measures on sugar originating from Malawi whilst the export control regulations were amended to remove export control measures on the exportation of automatic pool cleaners.

Import and export permit applications forms were re-designed for alignment with the electronic permit system and to be more user friendly. The introduction of the importers customs code number on import permits resulted in linking individual importers' to the Import permit and customs systems. The import and export control policies were reviewed, updated and implemented.





## Operations

In the process of conducting its business, the **Import and Export Control Unit** re-affirmed its strategic partnerships with Government Departments such as the Department of Health, SARS, the South African Police Services (SAPS), Department of Environmental Affairs and Tourism, Department of Minerals and Energy, Department of Transport, other Government Agencies such as the South African Bureau of Standards (SABS) and industry representative organisations.

Various discussions and workshops were held between the Import and Export Control Unit and the aforementioned Departments to streamline processes such as the phasing out of the use of chemicals which have an ozone depleting potential, the alignment of control procedures on the importation of fish and fish products, control measures pertaining to chemicals used in drug manufacturing and the illegal importation of used vehicles and used pneumatic tyres. Contributions were also made to SARS in the amendment of the restricted and prohibited list of imports and exports. Procedures regarding the importation of gold were revised in cooperation with the SA Reserve Bank and subsequently introduced.

## Enforcement

The investigations unit of the Import and Export Control unit is responsible for enforcement of relevant provisions of the ITA Act by ensuring compliance with the conditions contained in permits as well as compliance with provisions of the ITA Act and to detect contraventions hereof.

During the 2004/2005 fiscal year, the following activities were undertaken by the investigation unit:

**Table 2**

1. Unscheduled inspections	465
2. Container inspections	685
3. Investigations pertaining to contravention of the Act	19
4. Seizure of illegally imported goods	23
5. Court Cases	8

During the year under review, several cases pertaining to contraventions of the ITA Act were heard in various courts and a number of transgressors were tried and convicted. Industry sectors in terms of which contraventions occurred are the chemical, clothing, rubber and automotive sectors. Further legal proceedings relating to contravention of the Act pertaining to tyres, ozone depleting chemicals, vehicles and clothing were instituted. Convictions are expected during the course of 2005.

To ensure that legal proceedings were speedily introduced after the unit had conducted its investigations, various relationship-building exercises were held with the SAPS and SARS. Cooperation forums such as the Illegal Vehicle Task Team and the Industry Coordination Task Group were introduced and re-affirmed.

Training programmes pertaining to the import/export control regulations have also been implemented and training was provided to investigators of the SAPS and SARS. These programmes assist the unit in aligning its functions, which enables it to carry out its duties efficiently and effectively. A training video in cooperation with SARS and the motor industry was produced with a specific focus on the consequences of the importation and sale of illegally imported used motor vehicles.





# TRADE REMEDIES

## Background

The Trade Remedies Unit is responsible for all aspects relating to unfair international trade practises, including investigations and policy issues, as well as for safeguard action in cases of a surge of imports. These trade remedies or trade defence instruments are anti-dumping, countervailing measures and safeguards. These instruments are the subject of Agreements in the WTO and are generally accepted exceptions to trade liberalisation.

Anti dumping is covered under the WTO Agreement on Implementation of Article VI of GATT 1994 (the Anti-Dumping Agreement), and subsidised exports are covered under the WTO Subsidies and Countervailing Measures Agreement. A surge of imports is covered under the WTO Agreement on Safeguards.

All three remedies are provided for in the ITA Act, while specific anti-dumping regulations were promulgated in November 2003 to ensure fairness and to provide more clarity and transparency in anti-dumping investigations. The anti-dumping regulations are applicable, with the necessary changes, to countervailing (anti-subsidy) investigations. The anti-dumping regulations are also WTO-consistent. In its investigations, ITAC is also

subject to the Promotion of Administrative Justice Act, 2000, and the promotion of Access to Information Act, 2000.

ITAC plays a crucial role in protecting SACU industries against unfair trade. The Trade Remedies unit investigates allegations of injurious dumping, subsidised exports and/or a surge of imports and presents its submissions to the Commission for consideration. Where the Commission finds the presence of material injury caused by dumping, it may recommend that anti-dumping duties be imposed to offset the injury caused by such dumping and it may also recommend the imposition of a countervailing duty where it has found that subsidised exports are causing material injury. The remedy in the case of a surge of imports can be a duty and/or a quota that is referred to as a measure.

## Trade Remedies Policy

ITAC has developed new regulations during the year under review pertaining to safeguards and countervailing (anti-subsidy) investigations. Safeguard regulations were promulgated in August 2004 and the countervailing regulations are expected to be promulgated within the first quarter of the new financial year.





## Trade Remedies Investigations and Reviews

### (a) Anti-Dumping Investigations

Anti-dumping investigations are conducted to determine whether to impose anti-dumping duties to protect the SACU industry against unfair trade practices where foreign producers export their products to SACU at prices lower

than their normal values (normally their domestic selling prices), thereby causing material injury to the SACU industry.

(i) Brought forward from 2003/2004

\*PRC=Peoples Republic of China

**Table 1**

Product	Country	Date initiated
Acrylic Fabrics	PRC, Turkey	23/05/2003
Chopped strand mats	PRC, Chinese Taipei	14/11/2002
Flat rolled products of iron or steel	Australia	15/11/2002
Grinding Media	PRC	03/10/2003
Glass Fibre Rovings	PRC, Chinese Taipei	14/11/2003
Aluminium Overhead Cable	India	10/10/2003

### (ii) Initiations

The following investigations were initiated during 2004/2005:

**Table 2**

Product	Country	Date initiated
Wheel rims	Brazil, PRC, Taipei and Turkey	28/05/2004
Wheat Flour	India	12/11/2004
Cheese	Ireland	25/06/2004
Steel Plates	Russia, Ukraine	14/05/2004
Bolts and Nuts	PRC, Taiwan	23/07/2004





*(iii) Preliminary decisions published*

The following preliminary decisions were published during 2004/2005:

**Table 3**

Product	Country	Date published	Result
Grinding Media	PRC	18/06/2004	No duty
Cheese	Ireland	11/02/2005	Duty Imposed
Aluminium Overhead Cable	India	11/06/2004	No Duty

*(iv) Finalised*

The following investigations were finalised during 2004/2005:

**Table 4**

Product	Country	Date finalised	Result
Grinding Media	PRC	03/12/2004	No Duty
Gypsum Plasterboard	Indonesia	17/09/2004	Duty Imposed
Acrylic Fabrics	PRC, Turkey	12/11/2004	Duty Imposed
Steel Plates	Russia, Ukraine	08/02/05	Duty Revoked
Flat rolled products of iron or steel	Australia	02/04/2004	Duty Imposed
Glass Fibre Rovings	PRC, Chinese Taipei	21/05/2004	No Duty

*(v) Brought forward to 2005/2006*

**Table 5**

Product	Country	Initiation	Stage
A4 cut paper	Brazil	16/04/2004	Court Case





The following anti-dumping investigations were brought forward from the previous fiscal period:

*(b) Countervailing investigations*

Countervailing investigations are conducted to determine whether to impose countervailing duties to protect the SACU industry against unfair trade practices where foreign producers export their products to SACU at subsidised prices, thereby causing material injury to the SACU industry.

No countervailing investigations were conducted during 2004/2005.

*(c) Interim reviews*

Interim reviews of anti-dumping and countervailing duties are conducted at the request of any interested party to determine whether the continued imposition of anti-dumping or countervailing duties is justified at the existing level. An interested party requesting an interim review must prove that there are changed circumstances that have led to the change in the margin of dumping, the margin of subsidy or the injury experienced by the SACU industry.

No interim reviews were brought forward from the previous fiscal period. No interim reviews were conducted during the 2004/2005 fiscal year.

*(d) New shipper reviews*

New shipper reviews are conducted on request in cases where an exporter in a country that is subject to a residual anti-dumping duty, which did not export to SACU during the original investigation period, wants to start exporting to SACU, and where such an exporter is not related to any other party in the exporting

country specifically covered by the anti-dumping duties. The purpose of the review is to enable the new shipper to prove that it will not be dumping the product on the SACU market.

Only one new shipper review was carried forward from the previous fiscal year. ITAC initiated the following new shipper review during the investigation period 2004/2005:

*Brought Forward*

**Table 6**

Product	Country	Initiated
Aluminium Hollowware	Egypt	16/01/2004

The following new shipper review was finalised at the end of the 2004/2005 fiscal:

**Table 7**

Product	Country	Date	Results
Aluminium Hollowware	Egypt	04/10/2004	New Shipper Exempted

*(e) Sunset reviews*

Anti dumping and countervailing duties remain in place for a period of five years after imposition of the last substantive (margin of dumping and injury) review thereof, to determine whether the continued imposition of such duties is required. In sunset reviews, ITAC determines whether there is a likelihood that the removal of the duty would lead to a continuation or recurrence of injurious dumping or injurious subsidised exports.

*(i) Brought forward from 2003/2004*

The following sunset reviews, which all related to anti-dumping duties, were brought forward from the previous fiscal period:



**Table 8**

Product	Country	Date initiated
Stainless steel hollowware	PRC, Chinese Taipei, Korea	03/10/2003
Stainless steel tube & pipes	Chinese Taipei, South Korea, Malaysia	23/05/2003
Drawn & Float Glass	PRC, India	19/03/2004
Drawn & Float Glass	Israel	30/05/2003

*(ii) Initiations*

The following sunset reviews were initiated during 2004/2005:

**Table 9**

Product	Country	Date initiated
Steel Plates	Russia, Ukraine	14/05/2004
A4 cut paper	Brazil Indonesia	02/04/2004
Bolts and nuts of Iron or Steel	PRC, Chinese Taipei	23/07/2004
Blankets	PRC, Turkey	11/06/2004
Acetaminophenol	PRC, France, USA	11/06/2004
Electric Cable	India	22/10/2004
Steel plates and sheets	Russia, Ukraine	14/05/2004

*(iii) Finalised*

The following sunset reviews were finalised during 2004/2005:

**Table 10**

Product	Country	Date finalised	Result
Needles and syringes	Belgium, Germany, Spain	08/04/2004	Duty Revoked
Stainless steel tube & pipes	Chinese Taipei, Korea, Malaysia	16/07/2004	Duty Imposed



**Table 11**

Product	Country	Date finalised	Result
Stainless steel hollowware	PRC, Chinese Taipei, Korea	28/09/2004	Duty Imposed
Float Glass	PRC, India	05/11/2004	Duty Imposed
Flat Glass	PRC, India	05/11/2004	Duty Imposed
Blankets	India, Hong Kong, Korea	30/07/2004	Duty Revoked
Float Glass	Israel	02/07/2004	Duty Revoked
Steel plates and sheets	Russia, Ukraine	11/02/2005	Duty Revoked

*(f) Anti-circumvention reviews*

Anti-circumvention reviews are undertaken in cases where it is alleged that the anti-dumping or countervailing duties are being circumvented.

The following anti-circumvention reviews were carried forward to the 2004/2005 fiscal year:

**Table 12**

Product	Country	Initiated
Gypsum Plaster Boards	Indonesia	02/01/2004

*(i) Preliminary decisions published*

The following preliminary decisions were published during 2004/2005:

**Table 13**

Product	Country	Date published	Result
Gypsum Plaster Boards	Indonesia	21/05/2004	Duty Imposed

*(ii) Finalised*

The following anti-circumvention review was finalised during 2004/2005:

**Table 14**

Product	Country	Date finalised	Result
Gypsum Plaster Boards	Indonesia	02/07/2004	Duty Imposed

*(g) Refund reviews*

In cases where a party can show that it had paid an anti-dumping duty in excess of the actual margin of dumping for the period, it may request a refund to the extent of the overpayment.

During the course of 2004/2005 no refund reviews were conducted.





# TARIFF INVESTIGATIONS

## Introduction

The Tariff investigations section is responsible for ordinary customs duty, rebate and drawback amendments. This responsibility is carried out by conducting investigations based on applications received from the industry and in some cases through proactive investigations. Submissions on the findings of such investigations are presented to the Commission, which then makes a recommendation to the Minister of Trade and Industry for approval. Once the Minister of Trade and Industry approves, that decision is communicated to the Minister of Finance for implementation, which is ultimately implemented by the SARS by amending the relevant Schedule to the Customs and Excise Act, 1964.

Customs duties are a tax on imported goods. Ordinary customs duties are distinguished from anti-dumping and countervailing duties; and

safeguard measures in the sense that the former is used in respect of normal competition, whereas the latter is used in respect of unfair trade. Rebates and drawbacks are a waiver provided for the domestic industries not to pay customs duties. This instrument was created to allow manufacturers to source inputs for downstream manufacturing at internationally competitive prices and to promote exports. It therefore has a cost reduction effect for the manufacturing sector.

Besides the amendments referred to above, the section administers various kinds of rebates and drawbacks falling under Schedules 3; 4; & 5 of the Customs and Excise Act, 1964.

This administration is done by issuing permits and certificates according to the Customs and Excise Act, 1964 and set guidelines, cutting across all sectors, granting permission to qualifying industry users to clear goods imported without paying customs duties or obtaining a refund.





## CUSTOMS DUTY AMENDMENTS

**Table 1: Applications regarding an increase in the rate of duty**

APPLICANT	TYPE	PRODUCTS	OUTCOMES
South African Meat Industry Corporation	Increase	Pork	Rejected
South African Olive Growers Association	Increase	Olive oil	Withdrawn
Grain SA	Increase	Wheat & Wheat Flour	1001.90: From free to 1,867c/kg 1101: From free of duty to R2.80c/kg
Grain SA	Increase	Maize & Maize Flour	10.05: From free of duty to 3,168c/kg 1102.20: From free of duty to 4,750c/kg
Grain SA	Increase	Maize & Maize Flour	10.05: From 3,168c/kg to 8,424c/kg 1102.20: From 4,750c/kg to R12.636c/kg
Denel Swartklip	Increase	Flares	Rejected
Steelmor	Increase	SS fittings	In process
Pilot Tools	Increase	Inserts	Rejected
Trifecta Trading	Increase	Arthroscopic irrigation system	Rejected
O E Bearings	Increase	Split bearing housings	In process
Pretoria Clutch	Increase	Clutches & components	Rejected
Bell Equipment	Increase	Dumpers	Rejected
Bell Equipment	Increase	Two wheeled tractors	Rejected

Table 1, shows that for the 2004/2005 financial year, the Commission considered 13 applications for ordinary customs duty increases. The number of rejected applications was seven with one withdrawn by the applicant and two still in process. Only three increases were recommended and these pertain to agricultural products in which a variable tariff formula is applied for wheat, maize and sugar. These results are reflective of the customs tariff policy, which states that the general rule is to reduce duties and increases are only considered under exceptional circumstances. The intention is to lower costs of production, thereby increasing international competitiveness, diversifying the product range available to consumers and enhancing economic efficiencies.





The formula duties in respect of wheat, maize and sugar work in the following manner:

### Wheat

The customs duty on wheat is calculated as the difference between the domestic reference price for wheat (US\$157/ton) and the world reference price. An adjustment to the level of protection is triggered when the three weeks moving average of US No. 2 ordinary hard red wheat fob price, deviates by more than US\$10/ton for three consecutive weeks from the moving average price at which the previous adjustment was triggered.

### Maize

The customs duty on maize is calculated as the difference between the world reference price for yellow maize (US\$110/ton) and the USA No. 2 yellow maize moving average price. An adjustment to the level of protection is triggered when the 21 day moving average (American

trading days) of US No. 2 Yellow maize (fob) Gulf price, deviates by more than US\$7/ton for 21 consecutive American trading days from the moving average price at which the previous adjustment was triggered.

### Sugar

The customs duty on sugar is calculated as the difference between the reference price for sugar (US\$330/ton) and the moving average London No 5 sugar price. An adjustment to the level of protection is triggered when the 20-day moving average of the London No 5 price deviates by more than US\$20/ton for 20 consecutive trading days from the London No 5 price at which the previous adjustment was triggered.

Due to changed industry and market conditions globally and domestically for the wheat sub-sector the Commission decided to initiate a review of the tariff regime for this sub-sector with a view to develop a sustainable and efficient regime.



**Table 2: Applications regarding a reduction in the rate of duty**

APPLICANT	TYPE	PRODUCTS	OUTCOMES
South African Sugar Association	Reduction	Sugar	From 101,8c/kg to 71.8c/kg
South African Sugar Association	Reduction	Sugar	From 71,8c/kg to 55,0c/kg
National Chamber of Milling	Reduction	Maize & Maize Flour	10.05: From 1,65c/kg to free of duty 1102.20: From 2,48c/kg to free of duty
Automotive Control Systems	Reduction	Tacho graph charts	Rejected
NeoNovo	Reduction	Mangoes	Rejected
Bible Society	Reduction	Opaque thin print paper	Additional 8-digit from 6% to free
Villa Corp Protection	Reduction	Alachlor	In process
National Adhesive and Sealant Manufacturers Association	Reduction	Vinyl acetate	Rejected
Dow Chemicals	Reduction	Polyether polyol	3907.20.05: reduced from 5% to free
Kenoron Production	Reduction	Acrylic Adhesive	In process
South African Federation of Soft Drinks	Reduction	Citric acid	Rejected
Automar	Reduction	Expanded polypropylene	3902.10.90: Rebate – full duty
Retail Motor Industry	Reduction	Tyres	4012.20.90: Reduced from 25% to free
Woest Aphine	Reduction	Tyres mining	Rejected
Southern Chemicals	Reduction	Vinyl chloride	3904.30: Reduced from 10% to free
Chemimpo	Reduction	Vinyl acetate	Withdrawn
Ciba Specialist	Reduction	Flame retardant	Withdrawn
Afrox	Reduction	Calcium carbide	Rejected





APPLICANT	TYPE	PRODUCTS	OUTCOMES
Vae Perwa	Reduction	Rails	Rejected
Owens Corning SA	Reduction	Rovings	7019.12.90 Reduced from 16% to free
Owens Corning SA	Reduction	Fibreglass chopped strand	7019.11 Reduced from 16% to free
Defy	Reduction	Washing machines	8450.11.15 Reduced from 30% - free
Telkom	Reduction	Line systems	8517.30, 8517.50 & 8517.80 Reduced from 5% to free
Safcor Panalpina	Reduction	Fax machines	Rejected
Saul Gerdis	Reduction	Playing cards	9505.90 Reduced from 30% to free
Barloworld Stainless	Reduction	Certain flat rolled coils	Rejected
Macsteel Trading	Reduction	Certain seamless pipes	Rejected
Safcor Panalpina	Reduction	Fork-lift trucks	In process
GC Tillage	Reduction	Agricultural Equipment	Rejected
John Deere	Reduction	Electric vehicle	Rejected
Starlight Aviation	Reduction	Mobile flight simulator	Rejected
Nampak Tissue	Reduction	Surgical drapes	In process
TEM South Africa	Reduction	Gloves, overalls	Withdrawn
Amantif Pipe System Africa	Reduction	Glass fibre roving	7019.11 & 7019.12.90 Reduced from 16% to free

Table 2 indicates increased applications for reductions considered and approved by the Commission in contrast to applications for increases in customs duties. This could be interpreted to mean that some sectors, particularly industrial goods, are responsive to the trade policy trajectory of reducing duties. The Commission is also inclined to support customs duty reductions.

Out of the 34 applications considered, fourteen were approved. Thirteen of these applications were rejected, as they could not be justified in terms of the customs tariff policy. There were four applications that were still being processed and three were withdrawn.





**Table 3: Applications regarding revision of the duty**

APPLICANT	TYPE	PRODUCTS	OUTCOMES
National Department of Agriculture	Revision	Dairy products	Duty structure remains the same
Board on Tariffs and Trade	Revision	Titanium dioxide	Duty structure remains the same
International Trade Administration Commission	Revision	Iron & steel	In process
South African Cotton Textile Manufacturers	Revision	Cotton lint	In process

Table 3 shows applications for a revision of the tariff regime for the specified products. It is usually not clear at the initiation of a revision whether it is aimed at a possible reduction or increase in the rate of duty.

Among the revisions above, the application by the Department of Agriculture, originated from the SACU Agriculture Technical Liaison Committee. This came as an attempt by SACU to have a uniform tariff and rebate regime. However, as a result of a lack of common strategy for SACU on dairy the end result was to maintain the status quo.

Also worth highlighting from the revisions above is the revision on the iron and steel industry. The iron and steel tariff structure review was initiated by the Commission due to observed changes in the global and domestic economic conditions for the primary steel industry and the effects that these changes had for downstream value addition.

## REBATES AND REFUNDS

**Table 4: Applications with regard to rebates and refunds**

APPLICANT	TYPE	PRODUCTS	OUTCOMES
McCormick SA	Rebate	Onion powder	Rejected
Marine Growers	Rebate	Abalone feed	In process
Espin Manufacturing	Rebate	Products for diapers	In process
Blue Atlantic	Rebate	Salmon	In process
Darachem	Rebate	Water proofing sheets	Rejected
Oscillating Systems	Rebate	Rubber	4008.29: Rebate of full duty





APPLICANT	TYPE	PRODUCTS	OUTCOMES
Baja Capsules	Rebate	Poly-laminated raw materials	Rejected
New World	Rebate	Components	In process
Suburban Guns	Rebate	Components for ammunition	Rejected
Safcor Panalpina	Rebate	Gantry cranes	Rejected
Smiths Manufacturing	Rebate	Condensers	Rejected
BPW Axels	Rebate	Air springs	8708.99.90 Reduced from 20% to free 8716.90 Reduced from 15% to free
Smiths Manufacturing	Rebate	Air conditioner components	Rebate description amended
Smiths Manufacturing	Rebate	Hollow profiles	Rebate description amended
3M SA	Rebate	Mineral wool	6806.10 Rebate of full duty
International Trade Administration Commission	Rebate	Components for wheelchairs	Rejected
International Trade Administration Commission	Rebate	Original equipment	Note amended
International Trade Administration Commission	Rebate	Automotive products	Rebate amended
Tata Automobiles	Rebate	Bus bodies with imported chassis	Rejected
Hesto Harnesses	Rebate	Wiring harnesses	Rejected
Bell Equipment	Rebate	Components for heavy vehicles	Rejected
Smith Manufacturing	Rebate	Rubber hoses	In process
Federal Mogul	Rebate	Rubber for windscreens	4016.99.20 Reduced from 20% to free
Dunlop Tyres	Rebate	Components	All components in tariff used for tyres: Rebate of full duty





APPLICANT	TYPE	PRODUCTS	OUTCOMES
International Trade Administration Commission	Rebate	Textiles	In process
International Trade Administration Commission	Rebate	Used clothing	In process
Nettex	Rebate	Texturised yarn	Rejected
Rosschef	Rebate	Medical vests	In process
Belgotex	Rebate	Tufted carpets	5407.20 Rebate of the full duty
Sappi	Rebate	Caustic soda	2815.12 Rebate of the full duty
Vynide	Rebate	Silicone coated paper	In process
South African Revenue Service	Amendment	PAA rebate provision	Rebate amended
Bell Equipment	Amendment	Rebate: 317.02	Rejected
Toyota Tool	Amendment	Note 20 to 317.04	Rejected
International Trade Administration Commission	Amendment	PAA guidelines	Amended
South African Revenue Service	Withdrawal	Item 536.00/87.06	Refund item withdrawn

The Commission considered 36 applications relating to amending and creating rebate provisions for specific products as tabulated above. Thirteen of these applications were rejected and nine are still in process. The Commission approved 13 of the total applications with two of the 13 converted to an ordinary customs duty reduction.

Besides the amendments approved to existing rebate provisions, there were six new rebate provisions created. The Commission only accepts the creation of new rebate provisions as a last option. The preferred form of reforming the tariff structure is to reduce duties, which

contributes to the simplification of the tariff structure.

### Rebate Provision 470.03 and Drawback 521.00

One of the highlights in terms of the various rebate provisions administered by ITAC is rebate provision 470.03 and drawback 521.00. The aim of these provisions is to promote manufacturing for export by waiving the duty on inputs that are used in the manufacture of goods destined for export. The provisions have the effect of improving the international competitiveness of the manufacturing sector through cost reduction. In the next financial





year, the Tariff Investigations unit will revise the current 470.03 and 521.00 guidelines and questionnaires in order to make the procedures less cumbersome for economic operators.

During the year under review 1 365 rebate 470.03 and drawback 521.00 permits were issued to various companies cutting across all sectors, with Automotive, Engineering and Agro-processing as leading sectors. A growing industry that is increasingly making use of this provision to source its inputs from abroad is Yacht building.

### Motor Industry Development Program (MIDP)

The tariff investigations section administers the MIDP. The objectives of the programme are to provide quality and affordable vehicles; sustainable and increased employment; growth and improved trade balance. A major pillar of the MIDP is rebates that come in the form of Import Rebate Credit Certificates (IRCCs) issued by ITAC. The good performance of the motor industry in recent years relative to the manufacturing average has been largely attributable to the MIDP. This performance has to a great extent been driven by exports. The calendar years 2005 and 2006 will see the MIDP undergo a review that is aimed at ensuring the sustainability of the program.

### The Duty Credit Certificate Scheme (DCCS) for Exporters of Clothing and Textiles

The objective of the DCCS is to influence and encourage textile and clothing manufacturers to compete internationally. Specialisation in export products is encouraged whilst the participant's

domestic product range can be broadened by importing additional goods duty free, using the duty credit certificate.

In all 1842 certificates were issued, including sales and transfers.

The DCCS came to an end in March 2005. The Minister of Trade and Industry has approved an interim Textile and Clothing Development Programme for a period of two years, commencing 1 April 2005. During this period, TISA, a division of the dti will be completing a detailed policy review on the textile and clothing industries.

### Rebate Provision 405.04

This rebate provision covers donated goods from abroad and allows for the clearing of such goods without paying the customs duty. There is a strong social dimension in this rebate provision in terms of addressing, in particular, the needs of the poor. The target groups are mostly churches; welfare organizations; educational institutions and people with disabilities. These provisions cover all goods, excluding clothing. There are set conditions, procedures and control measures that have to be complied with, to ensure that such goods do not end up in the domestic market thus impacting negatively on domestic manufacturers.

In respect of donated clothing, the general policy is to restrict the importation of donated clothing by not granting rebate permits. The reasons for such restrictions is the sensitive nature of the clothing sector, the pressure that this sector is undergoing and the fact that such clothes end up in the market to the detriment of domestic manufacturers. However, under the following exceptional circumstances, donated clothing is allowed under strict control measures:





- a) areas that have been declared disaster areas;
- b) the value of the imported secondhand clothing is less than R5 000;
- c) it is a single consignment;
- d) the Commissioner for SARS is satisfied that the organization that the clothing is to be donated to, is a non-profit organization that is registered with the Department of Welfare; and
- e) the Commissioner for SARS is satisfied that the clothing is needed by indigent people and will not be sold in the open market;

A total of 146 permits were issued under the rebate provision 405.00. With the delegation of the approval of the majority of the rebate and refund permits from the Commission to the level of Senior Managers, the turnaround time for all permit applications that are not deficient has significantly improved from two weeks to a maximum of five days.

### Rebate provision 304.01

According to the provisions under rebate item 304.01 of Schedule No. 3 of the Customs and Excise Act, 1964, the ITAC may allow, by a specific permit, the importation of meat of bovine animals, sheep or goats, frozen and for boneless, for the manufacture of prepared or preserved meat. The aim of the provision is to promote manufacturing by waiving the duty on inputs used in the manufacture of prepared or preserved meat.

The rebate item 304.01/0202.30/04.06 provides for the importation with rebate of the full duty of meat of bovine, frozen, boneless, for the manufacture of prepared or preserved meat in airtight metal containers. Item 304.01/02.04/01.04 provides for the importation with rebate of the full duty less

56c/kg of meat of sheep or goats, frozen, boneless, for the manufacture of prepared or preserved meat. ITAC allowed, by specific permits, the importation of 4 209 tons of meat of bovine animals and 350 tons of meat of sheep or goats under the provisions of rebate item 304.01 during the period under consideration.

#### Other rebate permits and certificates issued:

Item 460.11/60.00/01.01 provides for full rebate of the duty less 30% ad valorem on used overcoats, car-coats, raincoats, anoraks, ski-jackets, duffle-coats, mantels, parkas and similar clothing articles (excluding wind-jackets and wind-cheaters) in bales not containing other clothing articles, in such quantities, at such times and subject to such conditions as ITAC may allow by specific permit. The Commission decided to follow a restrictive approach with regard to the quantities allowed in terms of the rebate item concerned. The rationale for this approach is to promote the development of the textile and clothing industry within SACU.

In view of the above policy, 56 importers were able to apply for quota entitlements for 2005. The total quota entitlement for 2005 amounted to 2 478 000kg. In 2004, after interacting with the industry, the Commission decided to refund a 20% reduction for both the 2002 and 2003 financial years. This amounted to a total refund of 40%.

The quota used in 2005 will be of a similar quantity to the one used in 2001 and is equal to what was imported in the base year (2000).

Different types of coats are imported but the composition is mainly focused on anoraks/zippers car coats, three-quarter coats, raincoats and wool jackets. The majority of the imported coats are





sold in South Africa, while the remainder is sold in other SACU countries and within SADC. It should be noted that the selling price of these imported products is only a fraction of the selling price to consumers of new coats manufactured in SACU.

Worn clothing and other worn articles of textile material used in the manufacture of wiping rags and cleaning cloths and the recovery of fibres:

Specific provisions exist for the importation of worn clothing and other worn articles of textile material under rebate of the duty for industrial

purposes. These provisions are rebate items 311.18/63.09/01.04 for the manufacture of wiping rags and cleaning cloths and item 311.12/63.09/10.04 for the recovery of fibres.

All applications for the issue of permits in terms of the abovementioned rebate items are subject to the recommendation of the Commission and the conditions which are set out in guidelines and permits.







# HUMAN CAPITAL

## Introduction

The major activity during the year was largely on recruitment and placement where strategic positions were filled to capacitate the organisation to fulfill its mandate of enabling fair trade.

## Management of intellectual human capital

A structured training and development programme was developed to ensure the appropriate development of our skills base and to equip employees to operate in a competitive environment to ensure the organization's growth. This programme is applicable to all employees in order to align their acquired skills, knowledge and competencies to the successful

implementation of the organisational strategy. Bursaries are awarded in line with individual development plans that are aligned to core business skills requirements. Out of 22 bursaries offered to employees, three have completed their studies whilst 19 are still progressing towards completion.

## Transformation

ITAC is committed to accomplishing its employment equity targets in terms of employment as per the plan submitted to the Department of Labour. An Employment Equity/Skills Development forum was initiated and it played a significant role in the development of the Employment Equity policy and plan as well as the Workplace Skills Plan.

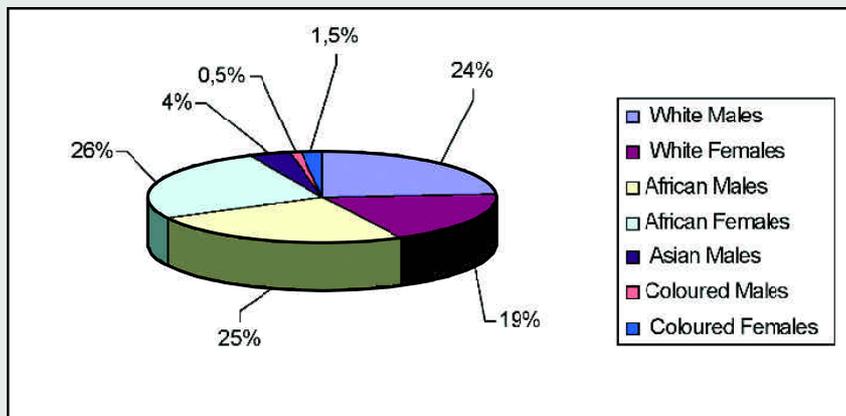
**Table 1: HRD Training Report**

Number of Attendees	Programme	Male	Female	Introduction/Advanced
17	Labour Relations	11	6	Advanced
23	Project Management	11	12	Introduction
12	Business Writing	10	2	Intermediate
5	Customer Care	0	5	Basic
10	Negotiation	7	3	Advanced
1	A+Short Course	0	1	Intermediate

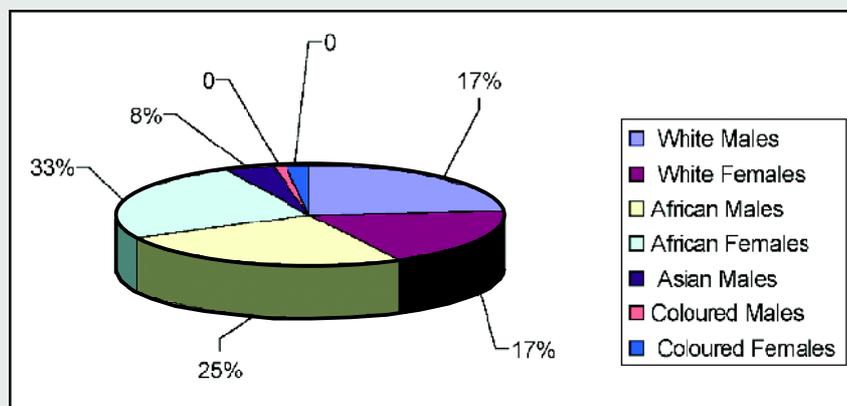




Equity profiles according to race and gender for the year under review:



Employee levels for senior management for the year under review:



## Human Resources Systems

ITAC has introduced an Employee Self Service System where employees are able to apply for leave online, view pay slips and their biographic information and can utilise the e-communication when there are queries pertaining to Human Resources (HR). This has enhanced efficiency in this area. Senior Managers also have access to management reports, including employee leave reports. More improvement on the use of this function is envisaged.

## Employee wellness and industrial relations

Employees have access to quality of work life services as a work support system that will enhance productivity. A structure does exist that deals with industrial issues.

Furthermore, ITAC adheres to the prescripts of the Compensation for Occupational Injuries and Disease Act, 1993 (COIDA).





## Management involvement

Quarterly meetings are held with staff in order to keep them informed about any changes within the work environment and also to address issues from employees to ensure the smooth operation of the organisation.

**Table 2: Recruitment, Promotions and Resignations**

Rank	No. Recruited	No. Promoted	No. Resigned
Chief Information Officer			1
Senior Manager(TRP)			1
Admin:Publication			1
Administrator:IT	1		2
Assistant:Commission		1	1
Investigator(TIA)	2		2
Senior Investigators	3	4	3
Admin:Sec,Operator & PA	3	1	1
Specialist:HRD	1		
Managers	3	3	2
Deputy Chief Commissioner	1		
<b>Total</b>	<b>14</b>	<b>9</b>	<b>14</b>

**Table 3: HR:Table Establishment- ITAC**

Units	Rank	Approved Posts	Filled Posts	Vacant Posts
Executive	Chief Commissioner	1	1	0
	Personal Assistant	1	1	0
	Deputy Chief Commissioner	1	1	0
	Personal Assistant	1	1	0
	Chief Operations Officer	1	1	0
	Personal Assistant	1	1	0
	General Manager	1	0	1
Strategic Support	Secretary	1	0	1
	Senior Manager	1	1	0
Secretariat	Manager	1	1	0
	Assistant Manager	1	1	0
Legal Services & Policy	Senior Manager	1	1	0
	Managers	2	1	1
Trade & Monitoring	Senior Manager	1	0	1
Trade Remedies	Senior Manager	1	1	0



**Table 3: HR:Table Establishment- ITAC (Continued)**

Units	Rank	Approved Posts	Filled Posts	Vacant Posts
	Manager	10	8	2
	Senior Investigators	9	8	1
	Principle Investigator	1	0	1
	Investigators	2	2	0
	Admin: Secretary	1	1	0
Trade Policy	Senior Manager	1	0	1
Tariff Investigation 1	Senior Managers	1	1	0
	Managers	6	5	1
	Senior Investigators	7	7	0
	Investigators	5	2	3
	Senior Admin	1	1	0
	Admin:Secretary	1	1	0
Tariff Investigation 2	Senior Manager	1	1	0
	Managers	5	5	0
	Senior Investigators	14	13	1
	Investigator	1	0	1
	Senior Administrators	3	3	0
	Administrator	1	1	0
	Admin:Secretary	1	1	0
Import and Export	Senior Manager	1	1	0
	Secretary	1	1	0
	Managers	2	2	0
	Assistant Managers	3	2	1
	Senior Investigators	4	4	0
	Administrators	12	12	0
External Relations	Senior Manager	1	1	0
	Secretary	1	1	0
Finance & Admin	Senior Manager	1	1	0
	Manager	1	1	0
	Financial Accountant	1	1	0
	Admin:Facility Manager	1	1	0
	Admin:Procurement	1	1	0
IT & Communications	Senior Manager	1	0	1
	Manager	1	1	0
	IT Support	1	1	0
	Admin Publication	1	0	1
Human Resources	Senior Manager	1	1	0
	Specialists	2	1	1
	Admin:HR Assistant	1	1	0
<b>Total Numbers of Employees</b>		<b>130</b>	<b>110</b>	<b>20</b>

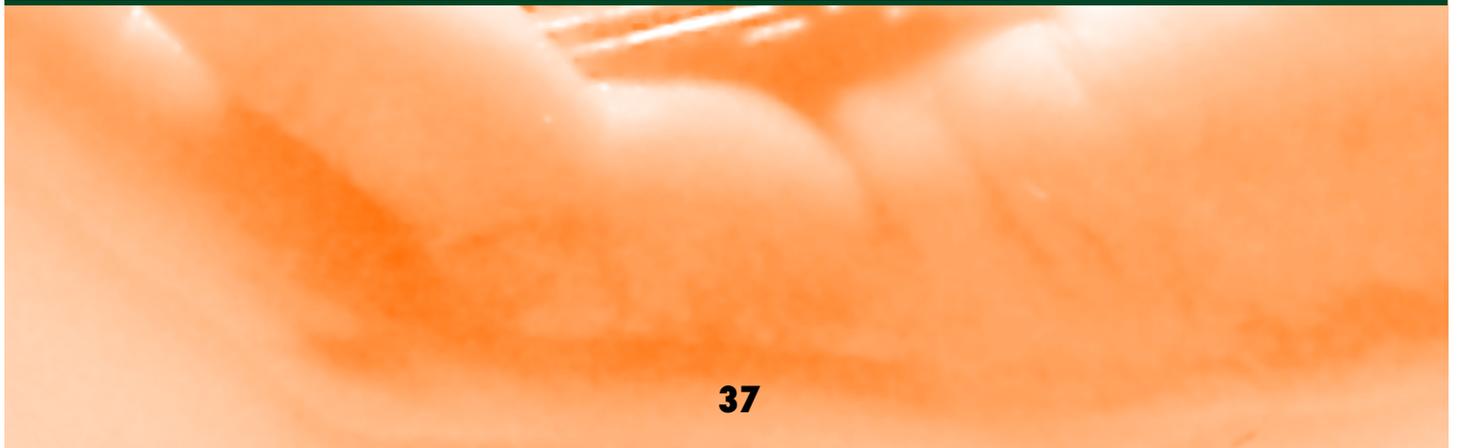




**Table 4: Employment Numbers by Grade, Race & Gender**

<b>Grade</b> <b>Rank</b>	<b>Race</b>				<b>Gender</b>		
	<b>African</b>	<b>Coloured</b>	<b>Indian</b>	<b>White</b>	<b>Female</b>	<b>Male</b>	<b>Total</b>
Chief Commissioner	1				1		1
Deputy Chief Commissioner	1					1	1
Chief Operations Officer	1				1		1
Senior Managers	4		1	4	4	5	9
Managers	11		1	12	9	15	24
Senior Investigators	16		2	13	7	24	31
Assistant Director (Corporate Services)	2	1			2	1	3
Investigator	7	1			1	7	8
Administrators	18	1		13	26	6	32
<b>Total</b>	<b>61</b>	<b>3</b>	<b>4</b>	<b>42</b>	<b>51</b>	<b>59</b>	<b>110</b>







# International Trade Administration Commission of South Africa

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# Statement of Responsibility

## for the year ended 31 March 2005

The International Trade Administration Act No. 71 of 2002 (ITA Act), requires the Chief Commissioner to ensure that the International Trade Administration Commission of South Africa (ITAC) maintains full and proper records of its financial affairs. The annual financial statements for the year ended 31 March 2005 should fairly present the state of affairs of ITAC, its financial performance and its financial position at the end of the year in terms of generally accepted accounting practice.

The annual financial statements for the year ended 31 March 2005 are the responsibility of the Chief Commissioner. The Auditor-General is responsible for independently auditing and reporting on the financial statements. The Office of the Auditor-General has audited the financial statements and the Auditor-General's unqualified report appears on page 44 and 45.

The annual financial statements have been prepared in accordance with generally accepted accounting practice in South Africa and the International Trade Administration Act, 2002. These annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements.

The Chief Commissioner has reviewed the Commission's budgets and cash flow forecasts for the year ended 31 March 2006. On the basis of this review, and in view of the current financial position and existing resources of the Department of Trade and Industry (**the dti**) by way of transfer payments to ITAC, the Chief Commissioner has every reason to believe that the Commission will be a going concern in the year ahead and the going concern-basis has therefore been adopted in preparing the financial statements.

To enable the Chief Commissioner to meet the above responsibilities, the Executive Committee sets standards and implements systems of internal control and risk management that are designed to provide reasonable, but not absolute assurance against material misstatements and losses. The Commission maintains internal financial controls to provide assurance regarding the safeguarding of assets against unauthorised use or disposition. For the year under review the Executive Committee was responsible for the maintenance of proper accounting records and the reliability of financial information.

The internal controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention of the overriding of controls. An effective system of internal control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, financial statement presentation. Furthermore, because of changes in conditions, the effectiveness of internal controls may vary over time.

The Executive Committee has reviewed ITAC's systems of internal control and risk management for the year ended 31 March 2005, and is of the opinion that ITAC's systems of internal control and risk management were effective for the period under review.

No material losses have occurred due to criminal conduct nor has any unauthorised, irregular, fruitless or wasteful expenditure been identified.

Based on tests conducted during the conversion process from **the dti**, we are satisfied that these financial statements represent a fair reflection on the results of ITAC for the year ended 31 March 2005.





# Corporate Governance Report

## for the year ended 31 March 2005

From the outset ITAC's management identified good corporate governance as one of its critical success factors. We have set the highest standards that comply with best practice. As we complete our second year of operation, this stance remains unchanged.

ITAC adheres to a comprehensive set of policies designed and developed in accordance with input from all stakeholders. This contributes towards the effectiveness of corporate governance strategies and is in accordance with the PFMA.

We should add that, in the year ahead, ITAC will have to pay careful attention to the supply chain management requirements that are under development for public entities, specifically the strong emphasis on Black Economic Empowerment (BEE) requirements.

### Internal Financial Control

Internal financial control focuses on critical risk areas, which are identified by management and reviewed by the Audit Committee. The Management Committee and the governing structures are confident that the standards that have been set and the systems of internal control and accounting control that have been implemented are adequate and ensure the integrity and reliability of Financial Statements and accountability of ITAC's assets. These systems are continuously monitored throughout the year by both management and internal audit.

### Risk management

An independent risk process is in place to enable management to effectively identify, evaluate and assess risk. The internal auditors monitor the prescribed procedures. In line with Treasury Regulation requirements, the internal auditors have direct access to the Chief Commissioner, the Audit Committee and the Management Committee.

A Fraud Prevention Plan and a Materiality Framework have been developed and are in the process of being approved. No instances of fraud were identified during the year. In addition, it is a requirement that the Annual Financial Statements of public entities be audited by the Office of the Auditor-General and this has indeed been done. The Office of the Auditor-General has completed the audit and issued the final report, which can be viewed on pages 44 and 45 of the Annual Report.





# Report of the Audit Committee

## for the year ended 31 March 2005

The ITAC audit committee was constituted in terms of the Public Finance Management Act, 1 of 1999 (PFMA). It took office on 1 May 2004, and reports to an Executive Committee of the Commission. The first members are:

**Independent members:**

T C Barnes - Chairperson

H Buthelezi

R Xaba

**From the Commission:**

N Maimela - Chief Commissioner

All the independent members were offered extended appointments for a period of two years.

### Commencement

During its first year the committee applied considerable time on the following processes:

- Adoption of formal terms of reference through a Charter,
- Consideration of various reports on work carried out prior to date of its establishment, including an operational report, an operational risk review and a report on the Information Technology environment,
- Considered the accuracy of financial data transferred from **the dti**,
- Considered the operational functions, accounting environment, data processing, and general administrative controls required following cessation of these functions by **the dti**,
- Implementation of a system of formal interactions between both external and internal auditors through the audit committee process, including consideration of a materiality framework.
- Approval of the commissioning of a fraud risk review.

### Meetings

- The committee met six times during its first year. Attendance was as follows:

Name	Attended	%
T C Barnes – Chairperson	6	100
N Maimela – Chief Commissioner	5	83
H Buthelezi	5	83
R Xaba	5	83





## Internal Audit Process

- As ITAC had been effectively designated in terms of PFMA during 2004, executive management outsourced the internal audit function and adopted an initial audit committee charter prior to establishment of the audit committee. After due consideration, the audit committee ratified this appointment, and set in motion a procedure to consider their reappointment in future. This outsourced service provider has provided additional services, including a review of general computer controls and a fraud risk review, both approved by the committee.
- The internal audit process aims at providing independent assurance on the effectiveness of both the operational and financial controls in terms of a rotational three year coverage plan, reviewed annually by the audit committee.

## Chairman's review on performance of committee and functions

The first year of committee activity has yielded positive results in the following areas:

- The independent members oriented themselves around the nature of the business. They also experienced the need to understand interaction with a former division of **the dti**, while ITAC senior management have gained insights into working with independent committee members.
- Attention focussed on interaction with and performance of both external and internal auditors, and the reliability of information taken over from **the dti**.
- A process supporting application of acceptable standards of corporate governance and ethics in the business, with a view to application of the King II Code where appropriate.
- Supporting production and delivery of the first annual report of ITAC to Parliament.

## Current challenges

While our achievements are generally positive, the first year has highlighted areas for improvement in a number of aspects, which are:

- A need for clarity on related processes between treasury regulations, supply chain management, Auditor-General requirements, definition of executive management, and the functions of the audit committee itself.
- We see opportunities to upgrade the original Charter, and to align with the Protocol on Corporate Governance for Public enterprises.
- Adopting the materiality framework for the future.
- General and continued training on and dedication to the audit committee process by all participants.
- Consideration of the constitution of the Executive Committee to which this committee reports, in particular in terms of ideal balance of membership including independent members' chairmanship and alignment with King II.





## Responsibility

We have pleasure in reporting that in our view we have complied with our responsibilities in terms of sections 76 and 77 of the PFMA and Treasury Regulations 27(1) and (2) respectively. We conducted our mandate within the framework of the PFMA and our Charter. We ratified our inaugural Charter and will review it for appropriateness during 2005/06.

## Effectiveness of financial controls and reporting

During the year the committee has read and considered various reports from the Internal Auditors, third parties, and of the Auditor-General on the Annual Financial Statements. We are satisfied that no material matters of non-compliance on policies or procedures have come to our attention and we are satisfied with the content and quality of initial reports prepared and issued by ITAC during the year.

We are also satisfied that the findings of the periodic internal audit reports, computer controls and fraud risk reviews are being accorded appropriate and timeous attention by management.

## Evaluation of annual financial statements

We have:

- Reviewed and discussed with the Auditor-General and the Accounting Authority (The Chief Commissioner), the audited annual financial statements included in the annual report for 2005.
- Reviewed the Auditor-General's report, emphasis of matter, and the management letter together with management's responses,
- Considered and reviewed the accounting policies, and the more significant adjustments resulting from the audit, including unadjusted errors and take-on balances, and
- Satisfied ourselves that the risk areas are appropriately managed and that the system of internal controls is effective as supported by the reports from both Internal Auditors and the Auditor-General, showing no significant and material weaknesses or non-compliance to policies and procedures.

Our committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements for 2005 and is of the opinion that the audited annual financial statements can be accepted and read together with the report of the Auditor-General

Signed on 31<sup>st</sup> May 2005.

Trevor C Barnes  
Chairperson

On behalf the ITAC Audit Committee





# Report of the Auditor-General for the year ended 31 March 2005

## REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA FOR THE YEAR ENDED 31 MARCH 2005

### 1. AUDIT ASSIGNMENT

The financial statements as set out on pages 46 to 64, for the year ended 31 March 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 24(9) of the International Trade Administration Act, 2002 (Act No. 71 of 2002). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

### 2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

### 3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the International Trade Administration Commission of South Africa (ITAC) at 31 March 2005 and the results of its operations and cash flows for the year then ended, in accordance with generally accepted accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).





#### 4. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matter:

##### 4.1 Framework of acceptable levels of materiality and significance

While ITAC has developed a draft framework of acceptable levels of materiality and significance, this document had not been submitted to the executive authority to ensure agreement as required by Treasury Regulation 28.3.

#### 5. APPRECIATION

The assistance rendered by the staff of ITAC during the audit is sincerely appreciated.

---

F J Joubert *for Auditor-General*

Pretoria

29 July 2005





# Report of the Accounting Authority for the year ended 31 March 2005

## 1. Introduction

Report by the Accounting Authority to the Executive Authority and Parliament of the Republic of South Africa.

## 2. Operating results

The surplus of the Commission for the year was R6 937 105 (2004: R870 826 deficit after restatement).

## 3. Review of operations

ITAC's primary source of revenue is monthly transfer payments from **the dti**. Funds were applied to defray personnel and administrative expenses, as well as costs involved in the establishment of ITAC's infrastructure.

	2005 R	2004 R
Total operating costs	37 156 532	41 247 826
ITAC budget allocation from <b>the dti</b>	43 828 000	40 377 000

## 4. Review of financial position

Approval has been obtained from National Treasury for ITAC to retain the surplus of R6 066 279.

These funds will assist ITAC in acquisition of office equipment to capacitate the SACU delegation, develop appropriate IT systems, a call centre, improvement of systems at the import and export control division and the installation of general operational systems.

## 5. Materiality and significant framework (Draft)

ITAC has developed a materiality and significant issues framework for reporting losses through criminal conduct, irregular, fruitless or wasteful expenditure, as well as for significant transactions envisaged per section 54(2) of the PFMA. This document is in the process of being approved and adopted.

## 6. Events subsequent to balance sheet date

ITAC was deregistered for Value Added Tax as from 1 April 2005 in terms of amendments to the VAT legislation. The effect on the financials is reflected in note 16 to the Annual Financial Statements.

## 7. Senior management remuneration

Disclosure of remuneration of senior management is detailed in note 2 to the annual financial statements on page 58.





## Report of the Accounting Authority for the year ended 31 March 2005 (continued)

### 8. Business address:

DTI Campus (Building E)  
77 Meintjies Street  
Sunnyside  
Pretoria  
0002

### 9. Approval of the financial statements:

The financial statements set out on pages 48 to 64 have hereby been approved by the Chief Commissioner.

Nomonde Maimela  
Chief Commissioner  
Date: 31 May 2005





## Income Statement

for the year ended 31 March 2005

	Note	2005 R	2004 R
<b>Continuing operations</b>			
Funds received from the dti	1	43 828 000	40 377 000
Interest received		265 637	-
		44 093 637	40 377 000
Operating expenses		(37 156 532)	(41 247 826)
Surplus/(deficit) for the year	2	6 937 105	(870 826)





## Balance Sheet

as at 31 March 2005

	Note	2005 R	2004 R
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	3	2 044 731	3 213 896
Intangible assets	4	255 869	756 185
Accounts receivable	5	20 992	24 911
		<u>2 321 592</u>	<u>3 994 992</u>
<b>Current assets</b>			
Inventory	6	23 619	-
Accounts receivable	5	1 129 884	57 348
Prepayments	7	30 096	-
Cash and cash equivalents	8	8 514 089	-
		<u>9 697 688</u>	<u>57 348</u>
<b>Total assets</b>		<u><u>12 019 280</u></u>	<u><u>4 052 340</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Retained funds		6 066 279	(870 826)
<b>Non-current liabilities</b>			
Provisions	9	2 216 514	1 934 651
<b>Current liabilities</b>			
Trade and other payables	10	1 592 380	843 286
Current portion of provisions	9	2 144 107	2 145 229
		<u>3 736 487</u>	<u>2 988 515</u>
<b>Total equity and liabilities</b>		<u><u>12 019 280</u></u>	<u><u>4 052 340</u></u>





## Statements of Changes in Equity

for the year ended 31 March 2005

	Retained funds R	Capitalisation reserve R	Total R
<b>Balance at 1 April 2003</b>	-	-	-
Deficit as previously stated	(303 708)		(303 708)
Prior year adjustment	(567 118)	-	(567 118)
Deficit for the year as restated	(870 826)		(870 826)
Transfer of fixed assets	-	1 473 531	1 473 531
Transfer of liabilities limited to transfer of assets from the dti	-	(1 473 531)	(1 473 531)
<b>Balance at 1 April 2004</b>	(870 826)	-	(870 826)
Net surplus for the year	6 937 105	-	6 937 105
<b>Balance at 31 March 2005</b>	6 066 279	-	6 066 279





## Cash Flow Statement

for the year ended 31 March 2005

	Note	2005 R	2004 R
<b>Operating activities</b>			
Cash generated from operations	11	9 062 312	3 213 709
Movement in working capital		(373 238)	761 027
<b>Net cash from operating activities</b>	11	<b>8 689 074</b>	<b>3 974 736</b>
Interest received		265 637	-
<b>Net cash inflow from operating activities</b>		<b>8 954 711</b>	<b>3 974 736</b>
<b>Investing activities</b>			
Acquisition of computer equipment, furniture & fittings		(247 031)	(3 086 503)
Transfer of fixed assets from the dti		-	1 473 531
Acquisition of intangible assets		(193 591)	(888 233)
Transfer of leave pay provision from the dti		-	(1 473 531)
<b>Net cash utilized investing activities</b>		<b>(440 622)</b>	<b>(3 974 736)</b>
<b>Net increase in cash and cash equivalents</b>		<b>8 514 089</b>	-
<b>Cash and cash equivalents at the beginning of the year</b>		-	-
<b>Cash and cash equivalents at end of the year</b>		<b>8 514 089</b>	-





# Accounting Policies

## for the year ended 31 March 2005

The Annual Financial Statements have been prepared in accordance with generally accepted accounting practice in South Africa.

The following are the principle accounting policies of the Commission which are, in all material respects, consistent with those applied in the previous year, except as otherwise indicated:

### 1 Basis of preparation

The financial statements have been prepared on the historical cost basis.

### 2 Currency

These financial statements are presented in South African Rand as that is the currency in which the majority of the Commission's transactions are denominated.

### 3 Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably.

### 4 Irregular, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The PFMA, or
- Any national legislation providing for procurement procedures in that provincial government.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

### 5 Taxation

ITAC submitted an application for income tax exemption in terms of section 10(1)(c)(A) of the Income Tax Act, 1962. This process is still outstanding pending a response by the South African Revenue Service.





## Accounting Policies (continued) for the year ended 31 March 2005

### 6 Property, plant and equipment

Assets purchased for less than R1 000 are written off in the year of acquisition. Furniture and equipment is stated at cost less accumulated depreciation. Depreciation is charged to amortise cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

#### Computer equipment

Mainframe	5 years
Personal computers	3 years

Office furniture and fittings          6 years

#### Disposals

Any gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income or expense.

### 7 Intangible assets

Intangible assets comprise computer software, which is measured initially at cost and amortised on a straight-line basis over their estimated useful lives, which is on average two years.

### 8 Impairment

At each balance sheet date, the Commission reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are immediately recognised as an expense, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under the standard.





## Accounting Policies (continued)

### for the year ended 31 March 2005

#### 8 Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

#### 9 Employee benefits

##### *Post-employee benefits*

- *Retirement*

The Commission provides a defined benefit fund for the benefit of its employees, which is the Government Employee's Pension Fund. The fund is funded by payments from employees and the Commission. The Commission's contributions to the Government Employee's Pension Fund are charged to the income statement in the year to which they relate. The Commission is not liable for any deficits due to the difference between the present value of the benefit obligations and the fair value of the assets managed by the Government Employee's Pension Fund. Any potential liabilities are disclosed in the financial statements of the National Revenue Fund and not in the financial statements of ITAC.

- *Medical*

No contributions are made by the Commission to the medical aid of retired employees.

- *Short and long-term benefits*

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowance, medical and other contributions, is recognised during the period in which the employee renders the related service.

The vesting portion of the long-term benefits is recognised and provided for at the balance sheet date, based on current salary rates.





## Accounting Policies (continued)

### for the year ended 31 March 2005

- *Termination benefits*

Termination benefits are payable whenever an employee employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Commission recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. If the benefit falls due more than 12 months after balance sheet date, they are discounted to present value.

#### 10 Inventories

Inventories, consists mainly of stationery and consumables. Inventory is valued at the lower of cost and net realisable value determined on the first in first out basis.

#### 11 Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, trade receivables and trade payables. These financial instruments are generally carried at their estimated fair value, which is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The Commission is therefore exposed to the following risks:

- Interest rate risk, which is the risk that the value of a financial instrument will fluctuate due to the change in market interest rates with respect to cash and cash equivalents, and
- Credit risk, which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss with respect to receivables and trade payables.

#### Recognition

Financial instruments are initially recognised using the trade date accounting method.

#### Measurement

Financial instruments are initially measured at cost, which includes transaction cost. Subsequent to initial recognition these instruments are measured at fair value.

Gains and losses arising from changes in the fair value of financial instruments are recognised as income or expense in the year in which they arise.





## Accounting Policies (continued)

### for the year ended 31 March 2005

#### 12 Provisions

Provisions are recognised when the Commission has a present obligation as a result of a past event and it is probable that this will result in an outflow of economic benefits that can be reliably estimated.

#### 13 Operating lease

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

#### 14 Capitalisation reserve

Capitalisation reserve represents a transfer of fixed assets and liabilities from **the dti** to ITAC. The transfer of assets is net of accumulated depreciation. The values of the fixed assets were determined through the use of the logis system where possible. Where this is not possible, the respective amounts were traced to the invoices. In the event that the invoice could not be found, it was agreed with **the dti** that these assets would be taken at R1. The take on liabilities reflected against this reserve were limited to the value of fixed assets transferred from **the dti**.

#### 15 Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.





## Notes to the Annual Financial Statements

### for the year ended 31 March 2005

		2005	2004
		R	R
<b>1</b>	<b>Funds received</b>		
	Funds received comprise transfer payments received from the Department of Trade and Industry (the dti)	43 828 000	40 377 000
<b>2</b>	<b>Surplus / (deficit) for the year</b>		
	The surplus/(deficit) has been arrived at after taking into account the following:		
	Auditors' remuneration	333 473	350 000
	Audit committee	49 616	-
	- Remuneration	41 682	-
	- Expenses	7 934	-
	Accounting services	134 864	160 000
	Depreciation and amortisation	1 779 051	1 456 916
	- Computer equipment and peripherals	848 621	691 662
	- Office furniture and fittings	236 523	225 811
	- Computer software	693 907	539 443
	Internal audit fees	354 493	-
	Loss on disposal of fixed assets	265 015	-
	Rentals in respect of operating leases (minimum lease payments)	2 722 647	1 905 263
	- Buildings	2 118 611	1 505 617
	- Equipment	154 325	77 486
	- Motor vehicles	449 711	322 160





## Notes to the Annual Financial Statements (continued) for the year ended 31 March 2005

	2005 R	2004 R
Included in staff costs are:	7 641 585	10 063 919
- Defined benefit plan expense	2 402 037	2 216 566
- Other long-term employee benefits including long-service leave	5 239 548	7 847 353
Executive remuneration		
- Employee costs include gross remuneration of the following executive and senior staff:		
Chief Commissioner	681 290	615 915
- Basic	415 462	420 601
- Vehicle allowance	134 800	148 230
- Bonus	71 544	13 390
- Pension	47 022	26 508
- Medical	12 462	7 186
Deputy Chief Commissioner (Appointed January 2005)	126 398	-
- Basic	92 437	-
- Vehicle allowance	31 471	-
- Medical	2 490	-
Chief Operating Officer	510 928	482 015
- Basic	328 332	297 436
- Vehicle allowance	125 880	126 087
- Bonus	2 518	27 988
- Pension	39 475	21 468
- Medical	14 723	9 036
Chief Financial Officer	456 638	410 758
- Basic	279 127	253 495
- Vehicle allowance	93 921	85 090
- Bonus	23 512	40 295
- Pension	40 728	18 340
- Medical	19 350	13 538
The General Manager position as at the end of March 2005 remains vacant.		





## Notes to the Annual Financial Statements (continued)

### for the year ended 31 March 2005

	2005 R	2004 R	
Net foreign exchange gains/(loss)	-	5 700	
<p>No material losses have occurred due to criminal conduct nor any unauthorised, irregular or wasteful expenditure, except as indicated below:</p> <ul style="list-style-type: none"> <li>- Theft of computer equipment</li> </ul>			
	66 037	21 270	
<b>3 Property, plant and equipment</b>			
	<b>Computer equipment R</b>	<b>Office furniture and fittings R</b>	<b>Total R</b>
<hr/>			
<b>2005</b>			
Opening carrying amount	2 409 931	803 965	3 213 896
Cost	3 532 031	1 494 431	5 026 462
Accumulated depreciation	(1 122 100)	(690 466)	(1 812 566)
Additions	247 031	-	247 031
Disposals & losses	(105 486)	(225 566)	(331 052)
Depreciation	(848 621)	(236 523)	(1 085 144)
<hr/>			
<b>Closing carrying amount 31 March</b>	<b>1 702 855</b>	<b>341 876</b>	<b>2 044 731</b>
<hr/>			
<b>2004</b>			
Opening carrying amount	449 857	616 279	1 066 136
Cost	894 737	1 081 704	1 976 441
Accumulated depreciation	(444 880)	(465 425)	(910 305)
Additions	2 671 344	415 159	3 086 503
Disposal & losses	(19 608)	(1 662)	(21 270)
Depreciation	(691 662)	(225 811)	(917 473)
<b>Closing carrying amount 31 March</b>	<b>2 409 931</b>	<b>803 965</b>	<b>3 213 896</b>
<hr/>			





## Notes to the Annual Financial Statements (continued) for the year ended 31 March 2005

	2005 R	2004 R
<b>4 Intangible assets</b>		
<b>-Software</b>		
Opening net carrying amount	756 185	407 395
Gross cost capitalised	1 331 799	453 566
Accumulated amortisation	(575 614)	(46 171)
Additions	193 591	888 233
Amortisation	(693 907)	(539 443)
Closing net carrying amount 31 March	<u>255 869</u>	<u>756 185</u>
<b>5 Accounts receivable</b>		
SA Revenue Service (VAT)	1 011 478	-
Staff debtors	118 406	57 348
-Current	1 129 884	57 348
Non-current portion of staff debtors	20 992	24 911
	<u>1 150 876</u>	<u>82 259</u>
<b>6 Inventories</b>		
Consumable stores	<u>23 619</u>	<u>-</u>
<b>7 Prepayments</b>		
Deposit: Software development	<u>30 096</u>	<u>-</u>





## Notes to the Annual Financial Statements (continued) for the year ended 31 March 2005

	2005 R	2004 R
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### 8 Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term, highly liquid investments that are held with Treasury approved registered banking institutions with maturities of three months or less and that are subject to insignificant interest rate risk. Cash and cash equivalents are measured at realisable value.

Cash at bank	6 128	-
Call account	8 502 961	-
Cash on hand	5 000	-
Cash and cash equivalents	<u>8 514 089</u>	<u>-</u>

### 9 Provisions

	Leave pay R	Performance bonus R	Service bonus R	Audit fees R	Accounting fees R	Total R
Opening balance	2 356 838	690 000	523 042	350 000	160 000	4 079 880
Raised during the year	323 851	646 550	482 839	333 473	41 800	1 828 513
Utilisation during the year	(30 296)	(583 600)	(523 042)	(303 034)	(107 800)	(1 547 772)
Less current portion	(433 879)	(752 950)	(482 839)	(380 439)	(94 000)	(2 144 107)
Long term portion	<u>2 216 514</u>	-	-	-	-	<u>2 216 514</u>

The leave pay and bonus provision relate to the Commission's estimated liabilities arising as a result of services rendered by employees.





## Notes to the Annual Financial Statements (continued) for the year ended 31 March 2005

	2005 R	2004 R
<b>10 Trade and other payables</b>		
Accruals	1 592 380	843 286
Management considers that the carrying amount of trade and other payables approximates their fair value.		
<b>11 Reconciliation of surplus/(deficit) before taxation to cash generated from operations</b>		
Surplus/(deficit) for the year	6 937 105	(870 826)
Adjusted for:		
- Interest received	(265 637)	-
- Depreciation on property, plant and equipment	1 085 144	917 473
-Amortisation of intangible assets	693 907	539 443
-Theft of equipment	66 037	21 270
-Scrapping of fixed assets	265 015	-
-Increase in provisions	280 741	2 606 349
Operating cash flows before working capital changes	9 062 312	3 213 709
Working capital changes	(373 238)	761 027
- Increase in inventories	(23 619)	-
- Increase in receivables	(1 098 713)	(82 259)
- Increase in payables	749 094	843 286
<b>Cash generated from operations</b>	<b>8 689 074</b>	<b>3 974 736</b>





## Notes to the Annual Financial Statements (continued) for the year ended 31 March 2005

	2005	2004
	R	R

### 12 Contingent liabilities

#### Guarantees

Staff housing	162 756	260 765
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#### Legal fees

ITAC is involved presently in pending trade litigation and court cases, of which the outcome is not yet determinable. The estimated future costs expected to be incurred are around R300 000.

### 13 Capital commitments

Commitments for the acquisition of computer equipment

- Approved and contracted	305 600	1 086 735
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### 14 Operating lease arrangements

At the balance sheet date there were outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2005	Up to 1 year R	1 to 5 years R	Total R
Equipment		176 684	235 579	412 263
	2004	Up to 1 year R	1 to 5 years R	Total R
Buildings		1 000 482	-	1 000 482
Equipment		23 511	7 139	30 650
Vehicles		397 824	-	397 824
		1 421 817	7 139	1 428 956

ITAC leases its business premises, photocopy machines and motor vehicles under operating leases. A new lease will be entered into with the dti in respect of the new building. The leases in respect of the photocopy machines are for a period of three years. The lease agreements do not impose any restrictions.





## Notes to the Annual Financial Statements (continued) for the year ended 31 March 2005

2005  
R

2004  
R

### 15 Related parties

The Department of Trade and Industry (**the dti**)

Transactions arise due to the transfer of funds from **the dti** to ITAC. No other transactions occurred during the year with other Government Departments. The amounts included in the Income Statement are:

Transfer payments	<u>43 828 000</u>	<u>40 377 000</u>
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### 16 Events subsequent to financial year-end: Value Added Tax Deregistration

The ITAC was deregistered for Value Added Tax as from 1 April 2005 in terms of amendments to the current VAT legislation. As a result, all future input VAT cannot be claimed back from SARS.

### 17 Prior year adjustment

Certain expenses incurred in the previous financial year were not raised as accruals in that year but paid as normal business expenditure in the current year. The effect is as follows:

Increase in expenses	<u>567 118</u>
Increase in deficit for the prior period	<u>- 567 118</u>

Increase in trade payables	<u>567 118</u>
Change in equity as at 1 April 2004	<u>- 567 118</u>

### 18 Financial Instruments

- Credit risk  
Financial assets, which potentially subject the Commission to concentrations of risk, consist principally of trade receivables. Trade receivables are presented net of allowance for doubtful debt. The Commission has no significant concentration of credit risk
- Fair values  
The fair values of the financial assets and liabilities are disclosed in the relevant notes.

