

# **REPORT NO. 609**

**INCREASE IN THE RATE OF CUSTOMS DUTY ON FULLY- AUTOMATIC  
TOP LOADER WASHING MACHINES OF A DRY LINEN CAPACITY NOT  
EXCEEDING 10KG**

The International Trade Administration Commission herewith presents its Report No. 609: **INCREASE IN THE RATE OF CUSTOMS DUTY ON FULLY-AUTOMATIC TOP LOADER WASHING MACHINES OF A DRY LINEN CAPACITY NOT EXCEEDING 10KG**, with recommendations.

  
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**CHIEF COMMISSIONER**

**PRETORIA**

**13/09/2019**

**REPUBLIC OF SOUTH AFRICA**

**INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA**

**REPORT NO. 609**

**INCREASE IN THE RATE OF CUSTOMS DUTY ON FULLY-AUTOMATIC TOP LOADER WASHING MACHINES OF A DRY LINEN CAPACITY NOT EXCEEDING 10KG**

**Synopsis**

Defy Appliances (Pty) Ltd applied for an increase in the general rate of customs duty on fully-automatic top loader washing machines, of a dry linen capacity not exceeding 10kg, classifiable under tariff subheading 8450.11, from free of duty to 30% *ad valorem*.

The Commission considered the application in light of information at its disposal. In particular, the Commission took the following factors into account:

- In terms of policy, the white goods industry remains a strategic sector for the development and realisation of government's objective to position South Africa as a leading exporter of locally manufactured goods, especially to the African continent;
- The recent investment of approximately R130 million made for the manufacture of the subject products in the SACU region;
- The significant employment opportunities created by the manufacture of subject products;
- The high level of imports despite the depreciating currency and the concomitant low market share of the SACU manufacturer;
- The significantly low production capacity utilisation of a newly established industry and its competitive position;
- The multiplier effects in terms of the considerable potential to deepen the value chain through supplier development initiatives, indirect employment and

investment opportunities;

- The Commission considered that the recommended duty would not be applicable to the subject products originating from countries that are under trade agreements such as EU and EFTA and this will ensure that importers of the subject product for commercial application have alternative sources of supply;
- A weakening exchange rate does not provide sustainable protection because of the inherent volatility of the exchange rate and the rising cost structure of the locally manufactured goods. The local manufacture of the subject products requires imported critical inputs, such as steel, which are also affected by the exchange rate movement;
- The Commission found that there are various controls in place to enforce the clearance of the subject products upon importation and this limits the potential for abuse of the relevant tariff line. For instance, the subject products form part of the SARS' Consolidated Prohibited and Restricted List. In addition to SARS processes, the subject products are subject to a Letter of Authority issued by National Regulator for Compulsory Specifications NRCS in terms of the National Regulator for Compulsory Specifications Act, No. 5 of 200;
- Tariff support will result in the growth of the local industry, specifically creating an appetite for import substitution of the subject products by other importers thereby encouraging investment and employment in the domestic industry; and
- The applicant has undertaken to increase the local content of its products. This should contribute positively to the government's policy objective of promoting local manufacturing.

The Commission concluded that an increase in the general rate of customs duty on fully automatic top loader washing machines, of a dry linen capacity not exceeding 10kg, classifiable under tariff subheading 8450.11 to the WTO Bound rate of 30% *ad valorem*, would improve the price-competitiveness position of a newly established domestic industry in the face of foreign competition. The support would enable the domestic industry to increase the domestic production for the subject products;

improve its production capacity utilisation; achieve economies of scale; and create both direct and indirect jobs.

The Commission recommended an increase in the rate of customs duty on fully automatic top loader washing machines, of a dry linen capacity not exceeding 10kg, classifiable under tariff subheading 8450.11, from free of duty to 30% *ad valorem*.

Furthermore, the tariff support will enable the domestic industry to increase its local content.

## **THE APPLICATION AND TARIFF POSITION**

1. Defy Appliances (Pty) Ltd (“Defy”) applied for an increase in the general rate of customs duty on fully-automatic top loader washing machines, of a dry linen capacity not exceeding 10kg, classifiable under tariff subheading 8450.11, from free of duty to 30% *ad valorem*.
2. As motivation for the application, the applicant cited, *inter alia*, the following reasons:
  - Defy intends switching from importing fully-automatic top loader washing machines and commence manufacturing the subject products locally. It is envisaged that the new production line will be fully operational in 2019;
  - There is currently no customs duty on imported fully-automatic top loader washing machines. As such, Defy will not have protection once the manufacturing commences;
  - The white goods industry in South Africa has been facing challenges at an operational level. These challenges include amongst others: high cost of raw material (steel); high energy and labour costs; and rising low-priced imports. Therefore there is a need to protect and maintain the investment and job creation in this industry; and
  - The 30% tariff increase requested will serve as an incentive for other companies to invest in the manufacturing of fully-automatic washing machines in the SACU region. This would be to the benefit of the domestic industry.

3. The application was published in the Government Gazette on 29 March 2019 for comments by interested parties, as follows:

**Increase in the general rate of customs duty on:**

*"Increase in the general rate of customs duty on fully-automatic top loader washing machines, each of a dry linen capacity not exceeding 10kg, classifiable under tariff subheading 8450.11, by way of creating an additional 8-digit tariff subheading, from free of duty to 30% ad valorem".*

4. The existing tariff structure for the subject products is as follows:

**Table 1: The current tariff structure of top loader washing machines**

Tariff subheading	Description	Statistical unit	Rate of duty				
			General	EU	EFTA	SADC	MERCOSUR
84.50	Household or laundry-type washing machines, including machines which both wash and dry:						
8450.1	Machines, each of a dry linen capacity not exceeding 10 kg:						
8450.11	Fully-automatic machines	u	free	free	free	free	free

Source: SARS 2019

5. The South African Revenue Service (SARS) provided the tariff structure as depicted in Table 2 below. The proposed tariff structure introduces an 8-digit tariff subheading in order to cater for the subject products currently manufactured by the domestic industry whilst excluding products that are not manufactured locally.

**Table 2: The requested tariff structure for top loader washing machines**

Tariff subheading	Description	Statistical unit	Rate of duty				
			General	EU	EFTA	SADC	MERCOSUR
84.50	Household or laundry-type washing machines, including machines which both wash and dry:						
8450.1	Machines, each of a dry linen capacity not exceeding 10 kg:						
8450.11	Fully-automatic machines						
8450.11.10	Top loader machines	u	30%	free	free	free	free
8450.11.90	Other	u	free	free	free	free	free

Source: SARS 2019

6. The WTO bound rate on the subject products is 30% *ad valorem*.
7. Table 3 and 4 below depicts Schedule 3 industrial rebates and Schedule 4 temporary rebates used for the importation of input materials used in the manufacture of the subject products. The rebate provisions are aimed at assisting local manufacturers to source input materials at world competitive prices, which are not manufactured locally. The applicant and/or its suppliers currently make use of the relevant rebate

provisions.

**Table 3: Schedule 3 rebate provisions**

Rebate Item	Tariff Heading	Rebate Code	CD	Description	Extent of Rebate
<b>316.00</b>	<b>MACHINERY AND MECHANICAL APPLIANCES; ELECTRICAL EQUIPMENT; PARTS THEREOF</b>				
<b>316.01</b>	<b>INDUSTRY: MACHINERY AND MECHANICAL APPLIANCES AND IMPLEMENTS</b>				
316.01	4016.93	01.06	67	Gaskets, washers and other seals, of unvulcanised rubber, seals for the manufacture of automatic washing machines of heading 84.50	Full duty
316.01	4016.99	01.06	66	Blocks of unvulcanised rubber, for the manufacture of automatic washing machines of heading 84.50	Full duty
316.01	73.18	01.04	48	Screws, bolts, nuts and washers, of iron or steel for the manufacture of refrigerators, automatic tumble drying machines, automatic washing machines and air conditioners of headings 84.15, 84.18, 84.50 and 84.51	Full duty
316.01	7320.90	01.06	68	Springs (excluding leaf-springs and helical springs), of iron or steel, for the manufacture of automatic washing machines of heading 84.50	Full duty
316.01	8302.10	01.06	66	Hinges of base metal, for the manufacture of automatic washing machines of heading 84.50	Full duty
316.01	8302.49	01.06	61	Mountings of base metal, for the manufacture of automatic washing machines of heading 84.50	Full duty
316.01	8516.80	01.06	64	Electric heating resistors, for the manufacture of automatic washing machines and fan heaters of headings 84.14 and 84.50	Full duty
316.01	8536.50	01.06	61	Switches, for the manufacture of fan heaters and automatic washing machines of headings 84.14 and 84.50	Full duty

**Table 4: Schedule 4 rebate provisions**

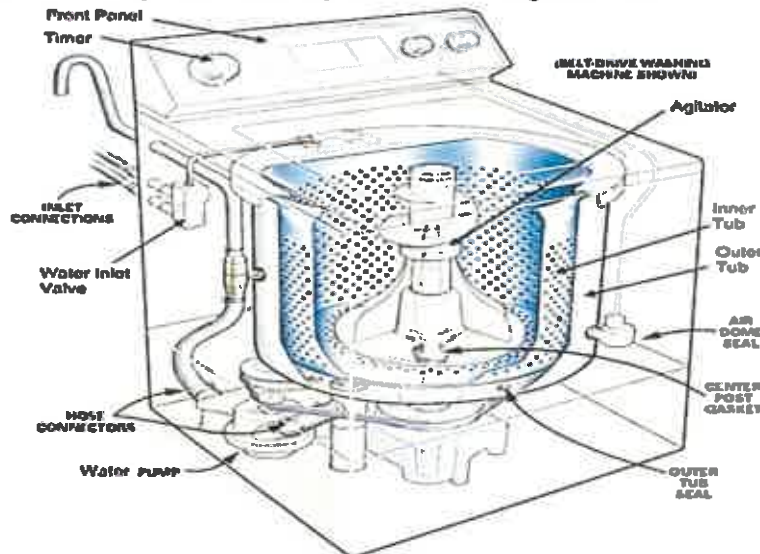
Rebate Item	Tariff Heading	Rebate Code	CD	Description	Extent of Rebate
<b>460.15</b>	<b>ARTICLES OF IRON OR STEEL AND ALUMINIUM</b>				
460.15	7210.70	01.06	63	Flat rolled products of iron or non-alloy steel, of a width of 600 mm or more, painted, varnished or coated with plastics, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the products are not available in the SACU market	Full duty
460.15	7210.81	01.06	64	Flat rolled products of iron or non-alloy steel, of a width of 600 mm or more, plated or coated with aluminium-zinc alloys, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the products are not available in the SACU market	Full duty



## **INDUSTRY AND MARKET**

8. The subject products are fully-automatic top loading washing machines of a dry linen capacity not exceeding 10 kg.
9. The subject products are household appliances used to wash laundry. Fully automatic washing machines enable the washing of laundry automatically without having to supervise its operation. The applicant is the sole manufacturer of the subject products in SACU region since 2019.
10. Figure 1 below, depicts the fully-automatic top loader machine reflecting the various inputs used in its assembly.

**Figure 1: Fully-automatic top loader washing machine**



11. Most parts of a washing machine are manufactured using flat-rolled steel, usually coated with zinc to improve rust resistance. These include the body, the tub and the drum. Other parts are manufactured from plastic; such parts include pump, the tub guards and the agitator.
12. It is generally maintained that, the demand for the subject products is mainly driven by rising living standards across the developed and developing economies with rising populations able to afford more machines that are convenient for use and simplify house chores.

13. According to the information at the Commission's disposal, there has been steady growth in the white goods sector driven mainly by middle-income households and the public electrification programme for low-income households.
14. Generally, the manufacturing process of a washing machine is split into fabrication (manufacturing of parts), sub-assembly (putting parts together to make components), and assembly (putting the components together to form the final product). These washing machines are distinguished based on their structure, with one being a front loading washing machine and another being a top loading washing machine.
15. It was found that, the major SACU manufacturers of white goods are Defy Appliances (the applicant), KIC/Whirlpool (Pty) Ltd and Hisense South Africa (Pty) Ltd.
16. Defy is the sole manufacturer of the subject product in SACU region since 2019.
17. The identified importers of the subject products in the SACU include, *amongst others*, the following companies:
- Samsung Electronics South Africa (Pty) Ltd;
  - LG Electronics (Pty) Ltd;
  - Hisense South Africa (Pty) Ltd;
  - Zero Appliances (Pty) Ltd;
  - Lead Group of Companies;
  - Masstores (Pty) Ltd; and
  - KIC/Whirlpool (Pty) Ltd.
18. It should be noted that the import statistics relate to all imported fully-automatic washing machines with a dry linen capacity not exceeding 10 kg for the domestic market whether it is top loader or front loader washing machines.

19. Due to the nature of the current tariff classification, the import volumes as provided by SARS cannot be separately analysed to show the specific import trends for the subject products (fully automatic top loader washing machines with a dry linen capacity not exceeding 10 kg), over the period.
20. The subject products are mainly exported to SADC countries such as, Mozambique and Zambia.

### **COMPETITIVE POSITION**

21. In line with policy, the white goods sector remains a strategic industry for development and realisation of government's objective to position South Africa as a leading exporter of locally manufactured white goods, especially to the African continent.
22. The domestic manufacturing industry's key challenges include high input costs, high volume of imports and the small size of the local market.
23. According to the information at the Commission's disposal, the domestic industry is experiencing a significant price disadvantage vis-à-vis foreign manufacturers of the fully-automatic top loader washing machines of a dry linen capacity not exceeding 10kg.

### **COMMENTS RECEIVED**

24. Comments objecting to the application were received from Samsung Electronics South Africa (Pty) Ltd, Lead Group Companies (Pty) Ltd, and Masstores (Pty) Ltd.
25. The main reasons for the objections included, but were not limited to, the following factors:
- At the time of the application for an increase in the general rate of customs Defy had not yet commenced manufacturing, therefore, reliance by Defy on the "infant industry" argument is misplaced;
  - The duty increase will result in the applicant being a monopoly within this market and this will have a negative impact on consumers and the whole supply chain;

- The Rand/dollar exchange rate has weakened which negatively influences prices of imported goods;
- A 30% customs duty increase will have a severe financial impact on the importers and it will result in higher selling prices, reduced demand/less profits, fewer imports, less money for the fiscus and actual and/or potential job losses;
- The commercial market for top loaders is relatively small (most consumers choose to purchase cheaper brands and units) but it is vulnerable to the cost-raising impact of the proposed duty increase;
- The 30% increase in the customs duty, if granted, will only address the challenge of rising low-priced imports and would not address high steel price, energy, and labour costs; and
- Currently fully-automatic top loader washing machines are classified based on dry linen capacity. Although this is an HS standard, it creates enforcement difficulties for SARS Customs as there is presently no institution or entity in South Africa that is able to measure dry linen.

26. At the time of the application, the industry had already invested in the manufacture of the subject products. When the application was initiated, the applicant had already commenced the manufacture of the subject products in SACU.

27. Although Defy specialises in top loaders for domestic application, the Commission found that the majority of the market for top loaders in the domestic market is for household applications while a relatively smaller market is for commercial applications. The nature of the subject products is such that they were designed for domestic applications. Given the interchangeability, the exclusion of commercial machines from the recommendation may undermine tariff support afforded to the domestic industry.

28. The Commission considered that the recommended duty would not be applicable to the subject products originating from countries that are under trade agreements such as EU and EFTA and this will ensure that importers of the subject product for commercial application have alternative sources of supply.
29. A weakening exchange rate does not provide sustainable protection because of the inherent volatility of the exchange rate and the rising cost structure of the locally manufactured goods. The local manufacture of the subject products requires imported critical inputs, such as steel, which are also affected by the exchange rate movement.
30. The Commission found that there are various controls in place to enforce the clearance of the subject products upon importation and this limits the potential for abuse of the relevant tariff line. For instance, the subject products form part of the SARS' Consolidated Prohibited and Restricted List. In addition to SARS processes, the subject products are subject to a Letter of Authority issued by National Regulator for Compulsory Specifications NRCS in terms of the National Regulator for Compulsory Specifications Act, No. 5 of 2008.

## **FINDINGS**

31. The Commission considered the application in light of information at its disposal. In particular, the Commission took the following factors into account:
- In terms of policy, the white goods industry remains a strategic sector for the development and realisation of government's objective to position South Africa as a leading exporter of locally manufactured goods, especially to the African continent;
  - Defy Appliances (Pty) Ltd is currently the sole manufacturer of the subject products in the SACU region since February 2019;
  - The recent investment of approximately R130 million made for the manufacture of the subject products in the SACU region;

- The applicant has undertaken to increase the local content of its products. This should contribute positively to the government's policy objective of promoting local manufacturing;
- The significant job opportunities created upon commencement of the manufacture of subject products;
- This industry is strategic in terms of employment and investment as the production process of the subject products is very labour intensive;
- The applicant's current installed production is significantly low, even when the production units are extrapolated for the year;
- The high level of imports despite the depreciating currency and the concomitant low market share of the newly established SACU industry; and
- The multiplier effects in terms of the considerable potential to deepen the value chain through supplier development initiatives, indirect employment and investment opportunities.

32. Tariff support will result in the growth of the local industry, specifically creating an appetite for import substitution of the subject products by the other importers thereby encouraging investment and employment in the domestic industry.

33. The Commission concluded that an increase in the general rate of customs duty on fully automatic top loader washing machines, of a dry linen capacity not exceeding 10kg, classifiable under tariff subheading 8450.11 to the WTO Bound rate of 30% *ad valorem*, would improve the price-competitiveness position of a newly established domestic industry in the face of stiff foreign competition. The support would enable the domestic industry to increase the domestic production for the subject products; improve its production capacity utilisation; achieve economies of scale; and create both direct and indirect jobs.

34. Furthermore, the tariff support will enable the domestic industry to increase its local content.

## **RECOMMENDATION**

35. In light of the foregoing, the Commission recommended an increase in the general rate of customs duty on fully-automatic top loader washing machines, of a dry linen capacity not exceeding 10kg, classifiable under tariff subheading 8450.11, from free of duty to 30% *ad valorem*.
36. The Commission further recommended that the duty structure be reviewed to determine its impact on the industry value chain after three years from the date of implementation, or such other period as decided by the Commission.