

**REPORT NO. 370**

**Creation of a rebate facility for dehydrated castor oil used for the manufacture of alkyd resins**

The International Trade Administration Commission of South Africa herewith presents Report No.370: **Creation of a rebate facility for dehydrated castor oil used for the manufacture of alkyd resins**



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**CHIEF COMMISSIONER**

**PRETORIA**

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## REPUBLIC OF SOUTH AFRICA

### INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

#### REPORT NO. 370

#### **Creation of a rebate facility for dehydrated castor oil used in the manufacture of alkyd resins**

##### **Synopsis**

Uniresins (Pty) Ltd, applied for a rebate of duty on dehydrated castor oil, classifiable under tariff subheading 1518.00.90, for the manufacture of alkyd resins in primary form classifiable under tariff subheading 3907.50.

As reasons for the application, the applicant stated that dehydrated castor oil is not produced in the SACU and that the duty is an unnecessary cost-item. A rebate of the duty would increase its competitive position in the face of low-priced imports.

The Commission found that dehydrated castor oil is not manufactured in the SACU, and that payment of the duty is an undue burden on the SACU alkyd resins manufacturers in the face of low-priced competition from abroad. The rebate of the duty provision recommended below would also eliminate the negative rate of effective protection for the industry manufacturing alkyd resins.

The Commission therefore recommended the creation of a rebate facility for the duty-free importation of dehydrated castor oil classifiable under tariff subheading 1518.00.90, for use in the manufacture of alkyd resin in primary form, classifiable under tariff subheading 3907.50, in such quantities, at such times and under such conditions as the International Trade Administration Commission of South Africa may allow by specific permit.

##### **THE APPLICATION AND TARIFF POSITION**

Uniresins (Pty) Ltd applied for a rebate of the duty on dehydrated castor oil classifiable under tariff subheading 1518.00.90, for the manufacture of alkyd resins in primary form, classifiable under tariff subheading 3907.50.

As reasons for the application, the applicant stated that dehydrated castor oil is not produced in the SACU and that the duty is an unnecessary cost-item. A rebate of the duty would increase its competitive position in the face of low-priced imports.

Castor oil is a natural oil extracted from the crushing and refining of castor seeds. The applicant uses dehydrated castor oil as an input material for the manufacture of alkyd resins. Alkyd resins are used in the manufacture of paints, varnishes and ink products.

The tariff position for dehydrated castor oil is as follows:

Tariff heading	Tariff sub-heading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
15.18	15.18.00	Animal or vegetable fats and oils and their fractions, boiled, oxidized, dehydrated, sulphurised, blown, polymerized by heat in vacuum or in inert gas or otherwise chemically modified (excluding those of heading 15.16); inedible mixtures or preparations of animal or vegetable fats or oils of fractions of different fats or oils of this chapter, not elsewhere specified or included:					
	1518.00.90	Other	kg	10%	free	10%	free

The tariff position for alkyd resins is as follows:

Tariff heading	Tariff sub-heading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
39.07		Polyacetals, other polyethers and epoxide resins, in primary forms; polycarbonates, alkyd resins, polyallyl esters and other polyesters, in primary forms:					
	3907.50	Alkyd resins	kg	free	free	free	free

The application was published in the Government Gazette as follows:

Rebate of the duty on:

*“Dehydrated castor oil, classifiable in tariff subheading 1518.00.90, in such quantities, at such times and under such conditions as the International Trade Administration Commission may allow by specific permit for the manufacture of alkyd resins, in primary form, classifiable in tariff subheading 3907.50”*

## **INDUSTRY AND MARKET**

The vast majority of the world's castor crop is grown in India, China and Brazil, and the crushers and refiners are also based in these countries.

Castor seeds currently are not grown in the SACU nor is dehydrated castor oil produced in the SACU. The applicant is the largest manufacturer of alkyd resins in the SACU. There are a number of other smaller manufacturers of alkyd resins in the SACU.

According to the National Agricultural Marketing Council (NAMC) and the Department of Agriculture, Forestry, and Fisheries (DAFF) the potential exists for the development of a castor seed industry in the SACU.

The applicant employs a total of 34 employees, of which 20 are directly involved in the manufacturing and processing of alkyd resins, using imported dehydrated castor oil.

The applicant's investment in plant and equipment amounts to R 18 million.

## **COMMENTS ON THE APPLICATION**

The application was published in the Government Gazette for comment by interested parties. No objections were received during the publication period.

The South African Oil Processors Association (SAOPA) supported the application.

The creation of a rebate facility based on a rebate permit issued by ITAC, with guidelines, was supported by NAMC, DAFF and the Republic of Botswana, on the basis of providing access to inputs at internationally competitive prices without compromising the potential for developing a castor seed industry in the SACU.

## **FINDINGS**

The Commission found that dehydrated castor oil is not manufactured in the SACU, and that payment of the duty is an undue burden on the SACU alkyd resins manufacturers in the face of low-priced competition from abroad. The rebate of the duty provision recommended below would also eliminate the negative rate of effective protection for the industry manufacturing alkyd resins.

The Commission found that the potential exists for the development of a castor seed industry in the SACU.

In terms of the guidelines governing the recommended creation of the rebate facility, the alkyd resins producers utilising this rebate provision would be required, among others, to first consult with NAMC and SAOPA for confirmation of the ability to supply the required volumes of dehydrated castor oil. If such confirmation is not forthcoming, a permit will be issued for the quantity needed by the SACU alkyd resins producers.

## **RECOMMENDATION**

In light of the foregoing, the Commission recommends the creation of a rebate facility for the duty-free importation of dehydrated castor oil classifiable under tariff subheading 1518.00.90, for use in the manufacture of alkyd resins in primary form, classifiable under tariff subheadings 3907.50, in such quantities, at such times and under such conditions as the International Trade Administration Commission may allow by specific permit.

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