

REPORT NO. 376

INCREASE IN THE RATE OF CUSTOMS DUTY ON ARTIFICIAL TURF

The International Trade Administration Commission of South Africa herewith presents its Report No 376: **INCREASE IN THE RATE OF CUSTOMS DUTY ON ARTIFICIAL TURF**, with recommendations.



.....
SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

26/07/2011

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA
REPORT NO.376

INCREASE IN THE RATE OF CUSTOMS DUTY ON ARTIFICIAL TURF

Synopsis

Belgotex Floorcoverings (Pty) Ltd applied for an increase in the general rate of customs duty on artificial turf classifiable under tariff subheading 9506.99.90 from free of duty to 30% *ad valorem*.

The Commission found that tariff support for this industry, given the production possibilities, would substantively improve the price competitive position of the domestic industry in the face of stiff foreign competition. The support will enable the domestic industry to fully utilise production capacity and achieve increased economies of scale with a reduction in marginal cost of production.

An anomaly also exists in that certain intermediate input materials not obtainable domestically, such as yarn, primary and secondary backings, and latex, are dutiable, while the complete end product of artificial turf is currently classifiable at free of duty under the newly determined tariff subheading 9506.99.90. The Commission's recommendation below is also aimed at rectifying this anomaly.

The Commission recommends that the general rate of customs duty on artificial turf, classifiable under tariff subheading 9506.99.90 be increased from free of duty to the WTO-bound rate of 10% *ad valorem*.

THE APPLICATION

1. Belgotex Floorcoverings (Pty) Ltd applied for an increase in the general rate of customs duty on artificial turf classifiable under tariff subheading 9506.99.90 from free of duty to 30% *ad valorem*.
2. As reason for the application, the applicant stated the following:
 - i. The application is a direct response to a recent High Court judgment in the matter between an importer [Durban North Turf Club (Pty) Limited] and the Commissioner for South African Revenue Service (SARS).
 - ii. The artificial turf was previously determined by SARS to be classifiable at 30% *ad valorem* under tariff heading 57.03 reading: "Carpets and other textile floor coverings, tufted, whether or not made up".

- iii. The Court ruled that the classification under tariff heading 57.03 was incorrect and that the product should be classifiable specifically as “other” under tariff subheading 9506.99.90. Tariff heading 95.06 makes provision for “Articles and equipment used for general physical exercise, gymnastics, athletics, other sports (including table-tennis) or outdoor games; swimming pools and paddling pools.
 - iv. The existing rate of duty under tariff subheading 9506.99.90 is “free of duty”.
 - v. The Court decision has had negative financial implications for local manufacturers of artificial turf as it implied a substantial reduction in the customs duty from 30% to zero. Since the artificial turf was reclassified, major projects estimated at millions of Rands were lost. Exacerbating the matter is that currently an anomaly exists in that the final product can be imported at free of duty while certain input materials used in the manufacture of artificial turf are dutiable at rates ranging between 15% to 22% *ad valorem*.
3. The application was published in the Government Gazette of 06 May 2011 for comments by interested parties as follows:

“Artificial turf, classifiable under tariff subheading 9506.99.90 from free of duty to the GATT bound rate of 10% ad valorem by the creation of an additional 8-digit subheading under tariff subheading 9506.99 for “artificial turf”.

THE TARIFF POSITION

4. The existing tariff position of artificial turf classifiable under 9506.99.90 is as follows:

Table1: Tariff structure- Artificial turf

Heading	Article description	Statistical unit	Rate of duty			
			General	EU	EFTA	SADC
	Articles and equipment for general physical exercise, gymnastics, athletics, other sports (incl table tennis) or outdoor games, not specified or included elsewhere in this Chapter; swimming pools and paddling pools					
9506.99.90	Other	U	Free	Free	Free	Free

5. The WTO bound rate for tariff subheading 9506.99.90 is 10%.

INDUSTRY AND MARKET

6. There are currently two local manufacturers of artificial turf in SACU namely the applicant, and Van Dyck Carpets (Pty) Ltd. Van Dyck Carpets (Pty) Ltd is also an importer.
7. Prior to the Court decision, Belgotex's market share was in excess of 80%. The value of production was approximately R42 million in 2010. It has since fallen sharply. Annual production capacity at Belgotex is 600 000m² at a value of approximately R113 million.
8. The applicant employs 94 people devoted to the manufacturing of artificial turf and has invested approximately R90 million.
9. A number of firms are involved in the business of importing artificial turf.
10. As the product was previously classifiable under a tariff subheading comprising products other than artificial turf, the official import statistics do not reflect information for artificial turf alone. However, the annualised value of imports currently is estimated at over R50 million.

COMPETITIVE POSITION

11. According to price information at the Commission's disposal, the applicant suffers significant price disadvantages against foreign manufacturers when the landed cost of imported products is compared to the ex-factory selling price of the applicant.

COMMENTS ON THE APPLICATION

12. Importers such as Fintrex cc, Van Dyck Carpets (Pty) Ltd, Lofty Quip cc, African Sports Construction cc, Easygrasse cc, Sports fields for Africa cc, Artificial Grass Africa, Synthetic Putting Greens CC and African Sports Surfaces objected to the application for an increase in customs duty on artificial turf. Objections were also received from installers Everturf (Pty) Ltd and Synthetic Turf cc.
13. The main reason for the objections is that an increase in duty would have a significant cost-raising effect on their operations.

FINDINGS

14. The Commission found that tariff support for this industry, given the production possibilities, would substantively improve the price competitive position of the domestic industry in the face of stiff foreign competition. The support will enable the domestic industry to fully utilise production capacity

and achieve increased economies of scale with a reduction in marginal cost of production.

15. An anomaly also exists in that certain intermediate input materials not obtainable domestically, such as yarn, primary and secondary backings, and latex, are dutiable, while the complete end product of artificial turf is currently classifiable at free of duty under the newly determined tariff subheading 9506.99.90. The Commission's recommendation below is also aimed at rectifying this anomaly.

RECOMMENDATION

16. In light of the foregoing, the Commission recommends that the general rate of customs duty on artificial turf, classifiable under tariff subheading 9506.99.90 be increased from free of duty to the WTO-bound rate of 10% *ad valorem*.

**NOTES REGARDING AMENDMENTS TO THE SCHEDULES
TO THE CUSTOMS AND EXCISE ACT, 1964**

14 OCTOBER 2011

These notes are issued merely as a guide and both the old and new provisions should be studied in order to determine what the amendment actually entails.
These notes have no legal status.

<i>Provision</i>	<i>Note</i>
9506.99.20	The effect of this amendment is that a new provision is created for artificial turf in subheading 9506.99.20 at a rate of duty of 10%, in accordance with ITAC Report No. 376.

**Government Gazette No. 34671
No. R.844**

**CUSTOMS AND EXCISE ACT, 1964.
AMENDMENT OF SCHEDULE NO. 1 (NO. 1/1/1429)**

2011-10-14

In terms of section 48 of the Customs and Excise Act, 1964, Part 1 of Schedule No. 1 to the said Act is hereby amended to the extent set out in the Schedule hereto.

**N NENE
DEPUTY MINISTER OF FINANCE**

SCHEDULE

By the insertion after subheading 9506.99.10 of the following:

Heading	Sub-Heading	C D	Article Description	Statistical Unit	Rate of Duty			
					General	EU	EFTA SADC	
95.06	9506.99.20	8	- - - Artificial turf	u	10%	free	free	free