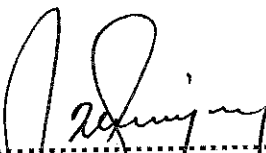


## **REPORT NO: 281**

# **REVIEW OF THE TARIFF DISPENSATION ON PRODUCTS CLASSIFIABLE UNDER CHAPTERS 51, 52, 53, 54, 55, 56, 58 & 60, USED FOR THE MANUFACTURE OF CLOTHING**

The International Trade Administration Commission of South Africa herewith presents its **Report No. 281: Review of the tariff dispensation on products classifiable under chapters 51, 52, 53, 54, 55, 56, 58 and 60, used for the manufacture of clothing**



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**SIYABULELA TSENGIWE**  
**CHIEF COMMISSIONER**

**PRETORIA**

.....*08 / 09 /*.....**2008**

# REPUBLIC OF SOUTH AFRICA

## INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

### REPORT NO.281

#### **Review of the tariff dispensation on products classifiable under chapters 51, 52, 53, 54, 55, 56, 58 and 60, used for the manufacture of clothing**

#### **Synopsis**

The Commission reviewed the tariff dispensation on textile products classifiable under chapters 51, 52, 53, 54, 55, 56, 58 and 60, which are used for the manufacture of clothing.

The main objective of the review is to reduce the cost of inputs into the clothing sector to improve competitiveness through the downward adjustments of duties on selected textiles and fibres.

The sector is faced with a range of challenges, including difficulty in competing against low-cost imports; low levels of investment in upgrading of skills and production processes to become more competitive; associated low levels of product design and innovation; and a marked decline in exports.

The clothing sector suffers from significant price disadvantages on imported finished garments due to duties on imported fabric. Proposals submitted by the clothing sector were in favour of the review of import duties on fabrics that are not available in sufficient quantities in the SACU.

ITAC formed a Task Team, comprising industry stakeholders relevant to the clothing and textiles sector. The aim of the Task Team was to specifically discuss comments received during the publication period and to provide technical advice on issues pertaining to the review.

The Textile Federation and the Southern African Clothing and Textile Worker's Union objected to the reduction of customs duties through a reduction in duty or creation of separate tariff lines in Schedule No.1 of the customs tariff as a reduction in duty would adversely affect the textiles industry, also in the light of the high levels of substitutability between products produced in the textiles sector.

The Commission found that the duty-free importation of certain fabrics, not manufactured domestically, would contribute to a reduction in input costs over the full value chain of the clothing sector and therefore recommended that a number of rebate provisions be created.

The Commission also recommended a reduction in the rate of customs duties of 5% or lower to free of duty, as the duties have led to

unnecessary cost implications for the downstream manufacturing industry.

The Commission also considered a request to reduce duties on cotton, cotton lint and wool, and to increase customs duties on flax yarn. In both instances the Commission has recommended the maintenance of the existing tariff position.

## **Introduction**

The Commission reviewed the tariff dispensation on products classifiable under chapters 51, 52, 53, 54, 55, 56, 58 and 60, which are used for the manufacture of clothing.

The sector is faced with a range of challenges, including difficulty in competing against low-cost imports; low levels of investment in upgrading of skills and production processes to become more competitive; associated low levels of product design and innovation; and a marked decline in exporting.

The clothing sector suffers from significant price disadvantages on imported finished garments due to duties on imported fabrics which are not available in the SACU.

The main objective of the review is to reduce the cost of inputs into the clothing sector to improve competitiveness through the downward adjustments of duties on selected textiles and fibres, which are not available in sufficient quantities in the SACU.

The National Industrial Policy Framework alludes to the following measures to be undertaken during the 2007/8 financial year:

- A redesigned support scheme for the sector aimed at recapturing domestic market share;
- A review of input costs into the clothing sector; and
- Full implementation of country of origin labelling and support for productivity upgrading and skills development.

## The Tariff Position

The average rate of duty in respect of the tariff headings of the chapters under review is as set out in Table 1 below:

**Table 1: Average duty structure**

Chapter	Description	Average rate of duty (%)
51	Wool & Animal Hair	8,11
52	Cotton	18,33
53	Other vegetable textile fibres	3,83
54	Man-made filaments; strip and the like of man-made textile materials	15,2
55	Man-made staple fibres	16,6
56	Wadding, felt, and non-wovens: special yarns; twine, cordage, ropes and cables and articles thereof	14,3
58	Special woven fabric	17,6
60	Knitted or crocheted fabrics	22

(Source: Sars)

The number of tariff lines attracting duties between 0% and 5% are set out in Table 2 below:

**Table 2: Tariff lines between 0% and 5%**

Tariff Heading	Description	Number of lines
51.09	Yarn of wool or of fine animal hair, put up for retail sale	2
52.01	Cotton, not carded or combed	1
54.01	Sewing thread of man-made filaments, whether or not put up for retail sale	1
54.05	Artificial monofilament of 67 dtex or more and of which nocross-sectional dimension exceeds 1mm; strip and the like (for example, artificial straw) of artificial textile materials of an apparent width not exceeding 5mm	1
54.06	Man-made filament yarn (excluding sewing thread), put up for retail sale	1
58.10	Embroidery in the piece, in strips or in motifs	4
60.05	Warp knit fabrics	8
60.06	Other knitted or crocheted fabrics	8

(Source: Sars)

The duties on yarns are 15% *ad valorem*, and on imported fabrics 22% *ad valorem*.

## Comments Received

During the publication period comments were received from the Textile Federation, Clotrade and the Southern African Clothing and Textiles Worker's Union.

The following proposals were submitted:

- Creation of rebate provisions on yarns not manufactured in the SACU;
- Duty reduction on fabrics not manufactured in sufficient quantities, used for the manufacture of clothing;
- Creation of rebate provisions on chemicals and auxiliaries used by the textiles sector to manufacture fabrics;
- Elimination of duties of 5% and lower due to cost implications for the downstream manufacturing industry;
- Duty reduction on natural fibers (cotton, cotton lint and wool); and
- A 15% increase in duty on flax yarn (single and multiple).

These comments were discussed during meetings of the tariff review task team formed by ITAC to discuss comments received during the publication period and to provide technical advice on issues pertaining to the review.

The Textile Federation and the Southern African Clothing and Textile Worker's Union objected to the reduction of customs duties through a reduction in duty or creation of separate tariff lines in Schedule No.1 of the customs tariff as a reduction in duty would adversely affect the textiles industry, also in the light of the high levels of substitutability between products produced in the textiles sector.

## Commission's Findings

1. After considering all comments and information at its disposal, the Commission found that the duty-free importation of certain fabrics not manufactured domestically would contribute to a lowering of the input cost over the full value chain of clothing and therefore recommended that the following rebate provisions be created in Schedule No.3 of the customs tariff.

### **REBATE 311.40 INDUSTRY: CLOTHING (GENERAL)**

58.01 Woven pile fabrics and chenille fabrics (excluding those of wool or fine animal hair) for the manufacture of woven articles of apparel classifiable in Chapter 62.

5407.5 Other woven fabrics, containing 85 per cent or more by mass of textured polyester filaments, with a mass of 55

g/m<sup>2</sup> or more but not exceeding 135g/m<sup>2</sup> for the manufacture of woven articles of apparel classifiable in Chapter 62.

5407.61 Other woven fabrics, containing 85 per cent or more by mass of non-textured polyester filaments, with a mass of 55 g/m<sup>2</sup> or more but not exceeding 155g/m<sup>2</sup> for the manufacture of woven articles of apparel classifiable in Chapter 62.

5208.4 Woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 200 g/m<sup>2</sup>, of yarns of different colours for the manufacture of men's or boys' shirts classifiable in tariff subheading 62.05 and women's or girls' blouses, shirts and shirt-blouses classifiable in tariff subheading 62.06.

5210.4 Woven fabrics of cotton, containing less than 85 per cent of cotton, mixed mainly or solely with man-made fibres, of a mass not exceeding 200g/m<sup>2</sup>, of yarns of different colours for the manufacture of men's or boys' shirts classifiable in tariff subheading 62.05 and women's or girls' blouses, shirts and shirt-blouses classifiable in tariff subheading 62.06.

54.08.1 Woven fabrics of artificial filament yarn, including woven fabrics obtained from materials of heading 54.05 for use as linings in the manufacture of outer garments classifiable in Chapter 61 and 62.

58.10 Embroidery in the piece or in strips, with a width of 30 cm or more for the manufacture of apparel classifiable in Chapter 61 and Chapter 62.

2. The Commission considered the matter of duties which are 5% or lower and that have led to unnecessary cost implications for the downstream manufacturing industry.

In view of the cost-increasing impact of these duties that have no protective purpose, the Commission recommends a reduction in the rate of duty to free on the following products:

Tariff Heading	Description	Current Duty
5109.10.90	Other yarn of wool	5%
5109.90.90	Other yarn of wool	5%
5401.20.10	Filament yarn sewing thread	5%
5405.00.00	Artificial mono filament	5%
5607.90.10	Braided catgut	5%
5903.10.20	Elec insulating tape	5%
5903.20.20	Elec insulating tape	5%
5903.90.20	Elec insulating tape	5%
5906.10.10	Elec insulating tape	5%
5907.00.50	Elec insulating tape	5%
5911.90.40	Filter bags	5%
5911.90.50	Vacuum cleaner bags	5%
5911.90.60	Filter bags	5%
6005.31.05	Tulle	5%
6005.32.05	Tulle	5%
6005.33.05	Tulle	5%
6005.34.05	Tulle	5%
6005.41.10	Tulle	5%
6005.42.10	Tulle	5%
6005.43.10	Tulle	5%
6005.44.10	Tulle	5%

3. The Textile Federation submitted a proposal to the Commission to consider duty reduction on natural fibers (cotton, cotton lint and wool).

#### Wool and Cotton

Over the years cotton and wool production has grown significantly. Furthermore, exports by these sectors have grown dramatically during the marketing season of 2006/7 by 53% and 58% respectively.

A national strategy for the South African Cotton Industry has been put in place under the auspices of the National Department of Agriculture. This strategy includes the following:

- Growing farm output;
- Broadening participation to enable emerging farmers to contribute an average of 35% to the national crop by 2014; and
- Raising productivity.



The application to the Commission by the Textile Federation was rejected as the requested duty reduction or rebate would hamper the development especially of cotton growers in South Africa.

However, during the publication period, the Cotton Farmers were informed of the cotton rebate proposal by the textile sector, and have since recommended further discussion and investigation of the proposal.

#### Cotton Lint

In addition, for cotton lint imported from the EU, there exists a duty phase down schedule. The duty currently is 100c/kg. Import statistics from 2005 to 2007, indicate that major imports to South Africa are from the SADC region, which are already at free of duty.

The Commission found no justification for an immediate reduction in duty, especially given the existing phase-down in terms of the SA-EU Agreement.

4. The Textile Federation has requested a 15% increase in customs duties on flax yarn (single & multiple), which currently attracts no duty.

The Commission recommends the maintenance of the current level, as an increase of the customs duty could not be justified and would have an adverse impact on downstream textile and apparel manufacturers.

5. Chemicals and other auxiliary inputs are of utmost importance during the textile manufacturing process. A request for a rebate provision on specific chemicals and auxiliaries was made. However, these chemicals form part of the review on chemicals and plastics, that is currently also under consideration by the Commission.

The Commission considered the creation of rebate provisions specifically for the benefit of the textile industry and has decided to publish the proposed provisions in the Government Gazette for interested parties to comment. A separate report with recommendations on this particular aspect will be submitted to the Minister for approval at a later stage.

6. In its request for the creation of rebates, the Textile Federation also submitted a list of filament yarn rebates for the Commission's consideration.

The Commission considered this request and recommended the creation of rebate provisions on certain continuous filament yarns of nylon and polyester under rebate item 311.41 for the benefit of the textiles sector. These recommendations are

contained in Report No. 276, that has already been submitted to the Minister for approval on 21 August 2008.

The Commission also considered the request for the creation of a rebate provision on staple fibres of polyester, not carded, combed or otherwise processed for spinning for the benefit of the textiles sector, and has decided to publish the proposed provision in the Government Gazette for interested parties to comment. A separate report with recommendations on this particular aspect will be submitted to the Minister for approval at a later stage.

## **Recommendations**

In view of the above, the Commission recommends that:

1. Duties on products contained in the table below be reduced from 5% to free of duty:

<b>Tariff Heading</b>	<b>Description</b>	<b>Current Duty</b>
5109.10.90	Other yarn of wool	5%
5109.90.90	Other yarn of wool	5%
5401.20.10	Filament yarn sewing thread	5%
5405.00.00	Artificial mono filament	5%
5607.90.10	Braided catgut	5%
5903.10.20	Elec insulating tape	5%
5903.20.20	Elec insulating tape	5%
5903.90.20	Elec insulating tape	5%
5906.10.10	Elec insulating tape	5%
5907.00.50	Elec insulating tape	5%
5911.90.40	Filter bags	5%
5911.90.50	Vacuum cleaner bags	5%
5911.90.60	Filter bags	5%
6005.31.05	Tulle	5%
6005.32.05	Tulle	5%
6005.33.05	Tulle	5%
6005.34.05	Tulle	5%
6005.41.10	Tulle	5%
6005.42.10	Tulle	5%
6005.43.10	Tulle	5%
6005.44.10	Tulle	5%

2. The following rebate provisions be created:

### **Rebate Item 311.40 Industry: Clothing**

- 58.01 Woven pile fabrics and chenille fabrics (excluding those of wool or fine animal hair) for the manufacture of woven articles of apparel classifiable in Chapter 62.

- 5407.5 Other woven fabrics, containing 85 per cent or more by mass of textured polyester filaments, with a mass of 55g/m<sup>2</sup> or more but not exceeding 135g/m<sup>2</sup> for the manufacture of woven articles of apparel classifiable in Chapter 62.
- 5407.61 Other woven fabrics, containing 85 per cent or more by mass of non-textured polyester filaments, with a mass of 55g/m<sup>2</sup> or more but not exceeding 135g/m<sup>2</sup> for the manufacture of woven articles of apparel classifiable in Chapter 62.
- 5208.4 Woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 200g/m<sup>2</sup>, of yarns of different colours for the manufacture of men's or boys' shirts classifiable in tariff subheading 62.05 and women's or girls' blouses, shirts and shirt-blouses classifiable in tariff subheading 62.06.
- 5210.4 Woven fabrics of cotton, containing less than 85 per cent of cotton, mixed mainly or solely with man-made fibres, of a mass not exceeding 200g/m<sup>2</sup>, of yarns of different colours for the manufacture of men's or boys' shirts classifiable in tariff subheading 62.05 and women's or girls' blouses, shirts and shirt-blouses classifiable in tariff subheading 62.06.
- 54.08.1 Woven fabrics of artificial filament yarn, including woven fabrics obtained from materials of heading 54.05 for use as linings in the manufacture of outer garments classifiable in Chapter 61 and 62.
- 58.10 Embroidery in the piece or in strips, with a width of 30 cm or more for the manufacture of apparel classifiable in Chapter 61 and Chapter 62.
3. The current duties on flax yarn single and flax yarn multiple classifiable under tariff subheadings 5306.10 and 5306.20 be maintained at the current level, as an increase in duty as requested would increase overall input costs for the apparel industry.
4. Import duties on wool and cotton fibres be maintained as the industry manufacturing these products is still at the developmental stage and also of strategic importance to the National Department of Agriculture.