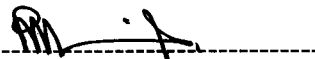


Report No. 106

Rebate of the duty on components for the manufacture of heaters

The Commission herewith presents Report No. 106: REBATE OF THE DUTY ON COMPONENTS FOR THE MANUFACTURE OF HEATERS, with a recommendation.



Ms Nomonde Maimela
CHIEF COMMISSIONER

PRETORIA

14/05 2005

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION
COMMISSION

REPORT NO. 106

**REBATE OF THE DUTY ON COMPONENTS FOR THE
MANUFACTURE OF HEATERS**

Synopsis

Nu-World Industries (Pty) Ltd applied for a rebate of the duty on certain components for the manufacture of gas heaters. The components that the applicant intends to import are not manufactured in the Southern African Customs Union (SACU). A rebate of the duty on the imported components will assist the applicant to become more competitive against imported gas heaters especially from China. The Commission therefore recommended that a rebate of the duty on components for the manufacture of heaters be introduced.

Introduction

1. Nu-World Industries (Pty) Ltd applied for a rebate of duty on certain components for the manufacture of gas heaters. The application was published in the Gazette of 14 January 2005 for comment.

Reason for the application

2. As reason for the application, the applicant stated that the components used in the manufacture of gas heaters are not manufactured in SACU. A rebate of the duty on the imported components will assist the applicant to become more price competitive with gas heaters imported especially from China.

The application and tariff position

3. The applicant requested that certain components, namely ceramic gas burner complete (6914.90), grid chrome plated wire (7321.90), motor driven gas burner complete (7321.90), enameled reflectors (7321.90), aluminium pipes, in lengths not bend (7608.10), gas valve complete (8481.80.01), gas regulator complete (8481.80.01), electric fan motor with electric heating elements (8516.90.90), appliance switch (8536.50.50), and ignition wire (8544.49) be imported under rebate of the duty for the manufacture of gas heaters.
4. The components imported are currently classifiable under Schedule 1 as follows:

Heading	Sub-heading	Article description	General	EU	SADC
69.14		Other ceramic articles			
	6914.90	Other	20%	20%	Free
73.21		Stoves, Ranges, Grates, Cookers (including those with subsidiary boilers for central heating), Barbecues, Braziers, Gas-rings, Plate Warmers and similar Non-Electric Domestic Appliances, and parts thereof, of iron and steel:			
	7321.90	Parts	15%	15%	Free
76.08		Aluminium Tubes and Pipes:			
	7608.10	Of aluminium, not alloyed	5%	5%	Free
84.81		Taps, Cocks, Valves and similar Appliances for Pipes, Boiler Shells, Tanks, Vats or the like, including Pressure-reducing Valves and Thermostatically controlled Valves:			
	8481.80	Other appliances:			
	8481.80.01	Pressure or flow control valves (excluding valves of aluminium, of a mass of 150 g or more, but not exceeding 200 g, and of a	15%	15%	Free

		capacity of 5.3 kW or more but not exceeding 8.4 kW used in automotive airconditioning units), for use with pipes or piping of an outside diameter not exceeding 32 mm			
85.16		Electric Instantaneous or Storage Water Heaters and Immersion Heaters; Electric Space Heating Apparatus and Soil Heating Apparatus; Electro-thermic Hair-dressing Apparatus (for example, Hair Dryers; Hair Curlers, Curling Tong Heaters) and Hand Dryers; Electric Smoothing Irons; Other Electric-thermic Appliances of a kind used for Domestic Purposes; Electric heating Resistors (excluding those of Heading No. 85.45):			
	8516.90	Parts:			
	8516.90.90	Other	20%	20%	Free
85.36		Electrical Apparatus for Switching or Protecting Electrical Circuits, or for making Connections to or in Electrical Circuits (For example, Switches, Relays, Fuses, Surge Suppressors, Plugs, Sockets, Lampholders, Junction Boxes), for a Voltage not exceeding 1 000 V:			
	8536.50	Other switches:			
	8536.50.50	Other, with moulded casings of plastics or other insulating material, with a current rating not exceeding 800 A	15%	15%	Free
85.44		Insulated (Including			

		Enamelled or Anodised) Wire, Cable (Including Co-axial Cable) and Other Insulated Electric Conductors, Whether or not Fitted with Connectors; Optical Fibre Cables, Made up of Individually Sheathed Fibres, Whether or Not Assembled with Electric Conductors or Fitted with Connectors:			
	8544.49	Other	15%	11%	Free

- The end products, namely gas heaters, together with other fuel heaters and electric space heating apparatus are classifiable under tariff subheading 7321.81 at 15 % ad valorem and tariff subheading 8516.29.90 at 20% ad valorem respectively.

The industry, market, and competitive position

- The firm is situated in Wynberg near Alexandra in Gauteng. The applicant is a leading low-cost, high-volume manufacturer, importer and exporter, of small electrical appliances and one of South Africa's leading distributors of consumer electronics. The applicant manufactures wiring accessories, heaters, steam irons and dry irons, kettles, hotplates and stoves, electric fry pans, vacuum cleaners and other appliances. Other manufacturers of small electric appliances in the SACU are Amalgamated Appliances (Pty) Ltd and Estia (Pty) Ltd.
- The estimated total amount invested in the gas heater project is approximately R10, 5 million. The cost price of the property, plant and equipment is estimated at approximately R113 million. The applicant employs 800 hourly paid workers. Nu-World plans to create 60 to 80 factory floor jobs plus a further 15 warehouse jobs to facilitate the gas heater manufacturing endeavour.
- Imports of gas and fuel heaters and other appliances classifiable under tariff subheading 7321.81 amounted to R11, 3 million in 2004.
- The duties paid on the imported components for 2004 amounted to approximately R345 000.
- In the production process, the imported sub-assembled components will be mounted onto the body-cover that consist of other components

like top panel, front panel, side panel, rear panel, base, inner heat shields, gas valve bracket etc. that is manufactured domestically by the applicant.

11. The production capacity of the firm is estimated by the applicant at 30 000 units for the year 2006, with an average ex-factory sales value of approximately R15 million. However, the applicant plans to manufacture 15 000 units of gas heaters in the winter of 2005.
12. The size of the market is estimated at approximately 40 000 units for 2004 and 65 000 units for 2005.
13. According to the applicant, different types of heaters form part of different market segments that can be distinguished as follows:

Description	Estimated Retail Pricing
Top End Portable Air Conditioning with Heating	R 3 000 – R 15 000
Upper Segment 3-Panel Infrared Gas Heaters	R 999 – R 1 500
Middle Segment Oil Filled Radiators	R 200 – R 750
Lower Middle Panel Heaters	R 150 – R 275
Price Entry Fan Heaters	R 89 – R 299
Bar Heaters	R 69 – R 199

14. The applicant experiences significant price disadvantages *vis-à-vis* producers in China.
15. The applicant plans to export to SADC countries and Sub-Saharan Africa. As the gas heaters are designed to European specifications, there is a possibility that Nu-World will be able to export to Europe and specifically to their subsidiary company in the UK.

Comments on the Publication

16. The Association of Electric Cable Manufacturers of South Africa objected to the application as a rebate of the duty on the imports of cables and wire classifiable under tariff subheading 8544.49 would allow for an increase in imports of these products and cause injury to the domestic industry.

17. According to the applicant, the wire would not be imported separately. It forms part of a subassembly that cannot be manufactured nor sourced locally.

Findings

18. The Commission found that the applicant is experiencing substantial price disadvantages against Chinese producers. The applicant's initiative to manufacture gas heaters is an import replacement initiative to decrease South Africa's reliance on China and other foreign countries for these products.
19. A rebate of the duty on these components imported for the manufacture of gas heaters would assist the applicant in overcoming low-priced competition experienced.
20. The Commission is of the view that gas heaters do not fall in the same market segment as electrical bar heaters and fan heaters and the former can therefore not be seen as a substitute product competing against the latter. Only electric bar heaters and some fan heaters are manufactured domestically and the price differences between the gas heaters, oil heaters at the top end of the market and the bar heaters and fan heaters at the lower end of the market are too far apart to be regarded as substitute products. However, the Commission recommends that the rebate provision be made applicable to all heaters, as the customs authorities would have difficulty in differentiating between components for different types of heaters.
21. The Commission is further of the view that although some of the components imported can be manufactured locally and are protected with a customs duty, the process of assembly these components into a functional unit for the gas heaters is too expensive to manufacture domestically and are therefore imported in a sub assembled form.
22. The Commission does not see its way clear to recommending that the rebate provision be made retrospective to 1 February 2005, as was requested by the applicant.

Recommendation

23. In light of the foregoing, the Commission recommends that a provision be created in Schedule 3 to the Customs and Excise Act, 1964, for "Goods of any description, excluding heaters (space heating apparatus) of tariff subheadings 7321.8 and 8516.2, for the manufacture of gas heaters of tariff subheading 7321.81 and electric space heating apparatus of subheading 8516.29.90."