

## **Report No. 173**

# **Reduction in the rate of customs duty on diesel engines**

**The International Trade Administration Commission of South Africa  
(ITAC) herewith presents its Report No. 173: APPLICATION FOR A  
REDUCTION IN THE RATE OF CUSTOMS DUTY ON DIESEL ENGINES**



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**Mr Itumeleng Masege**  
**ACTING CHIEF COMMISSIONER**

**PRETORIA**

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## **REPUBLIC OF SOUTH AFRICA**

### **INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA**

#### **REPORT NO. 173**

#### **APPLICATION FOR A REDUCTION IN THE RATE OF CUSTOMS DUTY ON DIESEL ENGINES**

##### **Synopsis**

The Commission considered an application for a reduction in the rate of customs duty on diesel engines. The reasons for the application were two-fold – firstly an anomaly existed in that the specific diesel engine carries a duty whilst the end-product does not and secondly the particular type of diesel engine is not manufactured in SACU.

No comments or objections were received.

The Commission decided that the anomaly should be corrected by reducing the duty to zero. The decision is further supported by the fact that there are no manufacturers of the particular type of diesel engine in SACU. The reduction of the rate of duty will furthermore result in the simplification of the tariff structure involved and the withdrawal of three existing rebate items.

##### **Introduction**

Bell Equipment Co SA (Pty) Ltd, hereon referred to as the applicant, applied for a reduction in the rate of duty on diesel engines, classifiable under tariff sub-heading 8408.90.90 from 15% ad valorem to free of duty.

Diesel engines are used in a number of Bell products to drive/power these products. The diesel engines can be imported, full duty rebated, for tractors (87.01), scrapers, road-graders and front-end loaders (84.29), fork-lifts (84.27) and crane trucks (84.26).

The applicant will be manufacturing side-shift Tractor Loader Backhoe's (TLB's) in South Africa and needs to import diesel engines for these vehicles. The TLB is classifiable under tariff subheading 8429.59 and as such does not qualify for any of the existing rebate facilities for the importation of diesel engines. The TLB carries no customs duty whilst the diesel engine, which is fitted into the vehicle, does carry a duty. This represents a tariff anomaly.

The applicant imports diesel engines from Daimler Chrysler (Germany) for trucks, from Deere Engines (US and France) for tractors and loaders and from Deutz (Germany) for the smaller vehicles.

There are no manufacturers of these diesel engines in SACU. The current duty therefore has a cost-raising effect in terms of the end-product.

It will be noted from Table 1 below that the only category which carries a rate of duty other than 8408.90.90, is 8408.90.65, which are stationary engines of a cylinder capacity of between 300cm<sup>3</sup> and 4000cm<sup>3</sup>. The only manufacturer of engines in Southern Africa is African Heritage Investments trading as Salister Diesel. They are situated in Vereeniging and manufacture stationary diesel engines of various capacities.

### **Tariff Position**

The tariff structure of the imported diesel engine is as shown in Table 1 below:

**Table 1: Tariff Position – Imported Input**

CHP	TARIFF SUB-HEADING	ARTICLE DESCRIPTION	Rate of Duty		
			Gen	EU	SADC
84		Nuclear Reactors, Boilers, Machinery and Mechanical Appliances; Parts thereof			
	84.08	Compression-ignition internal combustion piston engines (diesel or semi-diesel engines)			
	8408.10	Marine propulsion engines	Free	Free	Free
	8408.20	Engines of a kind used for the propulsion of vehicles of Chapter 87	Free	Free	Free
	8408.90	Other engines:			
	8408.90.10	Aircraft engines	Free	Free	Free
	8408.90.20	Identifiable for use solely or principally with railway locomotives	Free	Free	Free
	8408.90.30	Identifiable for use solely or principally with road rollers	Free	Free	Free
	8408.90.65	Stationary engines, four-stroke, normally aspirated, of a cylinder capacity of 300cm <sup>3</sup> or more, but less than 4000cm <sup>3</sup>	15%	13.2%	Free
	8408.90.70	Other stationary engines	Free	Free	Free
	<b>8408.90.90</b>	<b>Other</b>	<b>15%</b>	<b>13.2%</b>	<b>Free</b>

(Source: Jacobsen's)

The SACU's WTO bound rate commitment for "other diesel engines" is 15 % *ad valorem*.

There are three rebate items applicable to diesel engines, namely:

- Rebate item 316.01/84.08/01.00 for scrapers and road graders.
- Rebate item 316.01/84.08/03.00 for front-end loaders.
- Rebate item 317.10/84.08/01.00 for forklifts and crane trucks.

A reduction in the rate of customs duty on diesel engines of tariff subheading 8408.90.90 from 15% *ad valorem* to free of duty will result in the simplification of the tariff structure of tariff subheading 8408 to the effect that only those engines which are being manufactured locally will be specified as a separate tariff heading (currently 8408.90.65). The rebate items as mentioned in 3.3 above will become redundant and will subsequently be withdrawn. This is in line with ITAC's objective to simplify the duty structures.

## **Comments**

The application was published in the Government Gazette No. 28301, on 9 December 2005. No comments or objections were received.

## **Findings**

The Commission found that a tariff anomaly existed in that the end product is free of duty whilst the input component attracts a duty of 15% *ad valorem*.

No diesel engines of the type being imported by the applicant are being manufactured in SACU. The stationary diesel engines, which are being manufactured locally are specified separately under tariff subheading 8408.90.65.

A reduction in the rate of duty on diesel engines will allow manufacturers of machinery to be more competitive.

A reduction in the rate of duty on diesel engines of tariff subheading 8408.90.90 will have the effect of a complete simplification of tariff subheading 8408 and will furthermore result in the withdrawal of three existing rebate items, i.e. 316.01/84.08/01.00 (Internal combustion piston engines for the manufacture of scrapers and road graders), 316.01/84.08/03.00 (Internal combustion piston engines for the manufacture of front-end loaders) and 317.10/84.08/01.00 (Internal combustion piston engines for the manufacture of fork-lifts and crane trucks).

## **Recommendation**

The Commission recommends a reduction in the rate of customs duty on diesel engines classifiable under tariff subheading 8408.90.90 from 15% *ad valorem* to free of duty and the withdrawal of rebate items 316.01/84.08/01.00, 316.01/84.08/03.00 and 317.10/84.08/01.00.