

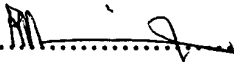


International Trade Administration Commission of South Africa

Report No. 77

Application for rebate of the duty on carpet backing used in the manufacture of tufted carpets

**The International Trade Administration Commission herewith presents its
Report No 77: APPLICATION FOR REBATE OF THE DUTY ON CARPET
BACKING USED IN THE MANUFACTURE OF TUFTED CARPETS.**


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**Ms. N P Maimela
CHIEF COMMISSIONER**

PRETORIA

08 September.....2004

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION

REPORT NO. 77

**APPLICATION FOR REBATE OF THE DUTY ON CARPET BACKING
USED IN THE MANUFACTURE OF TUFTED CARPETS.**

Synopsis

Belgotex Floorcoverings (Pty) Ltd applied for rebate of the full duty on woven fabrics of synthetic filament yarn, including woven fabrics obtained from strip or the like of polyethylene or polypropylene with a width of 3 metres or more, classifiable under tariff subheading 5407.20, used in the manufacture of tufted carpets.

The reason for the application is the unavailability of primary and secondary carpet backings in the South African Customs Union (SACU), which are used in the manufacture of tufted carpets of a width of 366 cm and 400 cm. The only manufacturer of carpet backing in SACU, Spilo (Pty) Ltd, supports the application because it can only supply limited quantities of carpet backing for the manufacture of tufted carpets of a width 366 cm. Spilo has indicated that it is unable to manufacture carpet backing for carpets of a width of 420 cm. Other carpet dealers and some textile manufacturers support the application. Spilo requested, however, that the rebate provision, Belgotex is applying for, be structured in such a way that it is not misused.

The rebate of the duty will enable the applicant to become more competitive in respect of similar tufted carpets being imported especially from the Middle East.

The Commission decided to recommend the creation of a rebate provision in the third schedule of the Customs and Excise Act for woven fabrics of a width exceeding 370 cm, obtained from strip or the like, of polymers of propylene, unprinted, for use as backing material in the manufacture of tufted carpeting in the length, having an ex-loom width exceeding 360 cm.

The application and the tariff position

1. Belgotex Floorcoverings (Pty) Ltd applied for a rebate of the full duty on woven fabrics of synthetic filament yarn, including woven fabrics obtained from strip or the like of polyethylene or polypropylene with a width of 3 metres or more, classifiable under tariff subheading 5407.20, used in the manufacture of tufted carpets.
2. The reasons for the application are as follows:
 - 1.2.1 there is currently one SACU manufacturer of the required materials, being Spilo (Pty) Ltd.
 - 1.2.2 Spilo's supply is limited in quantity and does not meet Belgotex's needs of secondary carpet backing. Belgotex is currently manufacturing carpet with a width of 3.66 m (which requires carpet backing of a width of 3.93 m) and carpets with a width of 4 metres (which requires carpet backing of a width of 4.20 metres).
 - 1.2.3 Belgotex has also done new product developments with regard to 3.66 and 4.00 m widths. The 4.00 m carpet width is also more popular locally as there is less wastage when fitting these types of carpets in larger installations.
3. The Commission had, in the past, rejected similar applications by the applicant. One of the reasons for rejection is that Spilo (Pty) Ltd, the only manufacturer of carpet backing in SACU, did not support the application. The rebate of the duty would therefore have eroded the encouragement and protection afforded to the SACU industry.
4. An application for a temporary rebate of the duty on carpet backing was also rejected by the Commission in view of the fact that the duty will not result in the meaningful development of the carpet industry and the fact that it is not the policy to grant temporary rebates.

5. The applicant appealed against the Commission's decision to reject the application for temporary rebate arguing that 85 % of the carpet backing for floorcoverings needs to be imported due to shortage of capacity of local manufacturers. The applicant argued that Spilo (Pty) Ltd could supply only 15 % of the needs of carpet backing in SACU

Consideration

6. The applicant's total investment in the manufacture of carpets amounts to R1 180 000 000 while the investment in the manufacture of tufted carpets specifically amounts to R 780 000 000.
7. The company employs a total of 537 people of which 294 are directly employed in the manufacture of tufted carpets.
8. The total market for tufted carpets in SACU is estimated at 12 000 000 m².
9. The application was published in the Government Gazette of 4 June 2004.
10. The carpet backing requirements suitable for the manufacture of tufted carpets of a width of 3.66m and 4.2m are not available in SACU in terms of volume, quality and length. Carpet backing, for the manufacture of tufted carpets of a length of 4.2m, requires a single beam method in order to eliminate tension difference in the fabric. This technology is not available in SACU.
11. The other carpet manufacturers, Domo (Van Dyk Carpets) and Nouwens Carpets, did not respond to the application. They only manufacture carpets with a width of 3,6 and 3,7 m. Most of their carpet backing needs are sourced internationally.
12. The application is also supported by other carpet dealers such as Carpet Purchasers (Pty) Ltd, Kleen-Tex South Africa and Pioneer Wholesalers Limited.
13. Texfed supports the application provided that the rebate provision will not be abused.

14. The rebate of the duty on the fabrics for carpet backing will enable the applicant to be more competitive in respect of similar end products imported especially from the Middle East.
15. SARS provided the Commission with the following description, which it claimed it could administer.

“Woven fabrics of a width exceeding 370cm, obtained from strip or the like, of polymers of propylene, unprinted, for use as backing material in the manufacture of tufted carpeting in the length, having an ex-loom width exceeding 360cm”

Recommendation

16. The Commission decided to recommend that the creation of a rebate provision in the third schedule of the Customs and Excise Act for woven fabrics of a width exceeding 370 cm, obtained from strip or the like, of polymers of propylene, unprinted, for use as backing material in the manufacture of tufted carpeting in the length, having an ex-loom width exceeding 360 cm.

[T/5/2/2/1 (7/2004)]