

REPORT NO. 29

**DEEMING THE SACU CONTENT OF RE-
IMPORTED STAINLESS STEEL STRIP,
PROCESSED OUTSIDE THE SACU AS
ORIGINATING FROM SACU**

The International Trade Administration Commission herewith presents its Report No. 29: Deeming the SACU content of re-imported stainless steel strip, processed outside SACU as originating from SACU, with recommendation.

PRETORIA

30/09/2003



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(Ms NP MAIMELA)
CHIEF COMMISSIONER

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION

REPORT NO. 29

**DEEMING THE SACU CONTENT OF RE-IMPORTED STAINLESS STEEL STRIP,
PROCESSED OUTSIDE THE SACU AS ORIGINATING FROM SACU**

1. On the 21st August 2003, Columbus Stainless Steel (Pty) Ltd made an application to ITAC in respect of re-imported stainless steel strip for the purposes of benefiting under the MIDP. Columbus requested that the South African content of the re-imported steel strip qualify as local content for the purposes of benefiting under the MIDP. Any value addition, taking place overseas be declared as 'foreign currency usage' on the DA 190 form.
2. The reason stated by the applicant is that the steel strip of a thickness of 0.15 – 0.30mm, currently supplied by the applicant is below the designed capability of its equipment. It is uneconomic to grow beyond the current usage of the industry, and it has capped the volume at 2400tons/annum. The stainless steel strip is used in the manufacture of flexible couplings, key components of the automotive exhaust and catalytic converters that currently generate in excess of R9bn in exports for South Africa.

The applicant further stated that, in order to ensure the continued growth of this industry, Boeker Wender Stahl (BWS) has proposed investing about 80m Euro in a dedicated precision strip rolling mill plant (in 2 phases). This plant will take an estimated 30 months to construct and will create approximately 170 direct jobs, but will have an initial capacity far in excess of current South African market demand. For the period of construction Columbus wants to benefit from the MIDP in respect of the offshore processed steel strip.

3. The current legislation, Note 18 of Rebate item 317.04 to the Customs and Excise Act, 1964, in respect of foreign currency usage does not allow for re-importation of overseas processed materials and components for purposes of claiming IRCCs under the MIDP. Note 18 reads as follows:

“Foreign currency usage” means the value for customs duty purposes of any imported components and materials (excluding consumables, petrol, distillate fuels, lubricating grease and prepared engine, gearbox, steering case and drive-axle lubricating oils) imported by or received by any person in the common customs area and used in the manufacture or assembly of automotive components of specified motor vehicles and automotive tooling.

4. Consideration

The ITAC in considering the application took into account the following factors:

4. The economic gains for the motor industry including an investment estimated at 80m Euro (R800m) and the 160 direct jobs to be created from this project.
- 4.2 The question of setting precedence that would result in an inflow of similar applications that would dilute the objectives of the MIDP is addressed by the conditions that will be attached to the amended provision.
- 4.2 SARS has already started at looking at the administrative practicalities in implementing the amended provision and has committed itself to look further into the finer details of the administration.

5. Recommendation

On the grounds stated above, under consideration, the ITAC recommends an amendment to the legislation so as to cater for the Columbus project. The ITAC recommends that Note 18 of Rebate item 317.04 to the Customs and Excise Act, 1964 be amended as follows:

18. "Foreign currency usage" means the value for customs duty purposes of any imported components and materials (excluding consumables, petrol, distillate fuels, lubricating grease and prepared engine, gear box, steering case and drive-axle lubricating oils, local content of automotive components and materials processed outside the common customs area and re-imported to the common customs area under specific conditions as prescribed in the MIDP guidelines by the ITAC) imported by or received by any person in the common customs area and used in the manufacture or assembly of automotive components of specified motor vehicles and tooling.

A second amendment should be made in the MIDP guidelines on IRCCs on page 7 under section 2.1.1 Eligible Export Performance ("Local content"). The first paragraph after the 3rd sentence referring to Note 18 to read as follows:

As per the definition of foreign currency usage in Note 18 in the case of an exception with regard to re-imported automotive components and materials in order to qualify for claiming IRCCs under the MIDP, an applicant must meet the following requirements:

- Eligibility to claim IRCCs under the MIDP will only apply from the date of an irreversible commitment to invest. This date will be defined in a contract with the investor.
- Process taking place outside the common customs area is only for a temporary period.

- Limited to a specific amount of investment on industrial assets, defined as plant, machinery and buildings that would make a meaningful contribution to a sustainable growth and development of the motor industry.
- Duration period to cover construction and commissioning of plant for local processing is stated.
- The investment should result in an increase in production and employment.
- The goods should be moved through a singular port of entry to facilitate better control.
- The entity should produce a tax clearance certificate.
- The project must ensure that infallible processes and audit trails and tracking systems will be in place to ensure that it is the same material for the automotive industry which left the common customs area for beneficiation offshore, that comes back into the common customs area.
- MIDP benefits will automatically be withdrawn should the project fail or the entity withdraws from the SACU.