



International Trade Administration Commission of South Africa

Report No. 34

Reduction in the duty on hand-knotted and woven carpets and hand-woven rugs

The International Trade Administration Commission herewith presents its Report No: 34
**REDUCTION IN THE DUTY ON HAND- KNOTTED AND WOVEN CARPETS
AND HAND-WOVEN RUGS, with recommendations.**


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CHIEF COMMISSIONER

PRETORIA
...7.../...2.../2003

**INTERNATIOAL TRADE ADMINISTRATION COMMISSION OF SOUTH
AFRICA**

REPORT NO 34

**REDUCTION IN THE DUTY ON HAND-KNOTTED AND WOVEN CARPETS
AND HAND-WOVEN RUGS**

SYNOPSIS

The Oriental Rug Dealers and Importers Association of SA, representing importers of hand-knotted and woven carpets and hand-woven rugs applied for a reduction in the duty on hand-knotted and woven carpets and hand-woven rugs classifiable under tariff subheadings 5701.10, 5701.90 and 5702.10 from a level of 30 per cent *ad valorem* to 5 per cent *ad valorem*. A major reason for the application is that the current duty cannot be justified, as these carpets are not manufactured in SACU. It was also stated that the lower duty would discourage under-invoicing and smuggling.

The application was published in the Government Gazette in order to allow interested parties to comment on the application. The Textile Federation did not object to the application. SARS indicated that they would have some difficulty to administer a system where the provision for the importation of hand-knotted and woven carpets and hand-woven rugs are subject to a lower rate of duty than machine-made carpets. However, the Commission is of the opinion that SARS officials should be able to differentiate between hand-knotted and woven carpets, hand-woven rugs and machine-made carpets given the amount of training provided and the fact that hand-knotted and hand-woven carpets are classifiable under well-defined international six-digit tariff headings. The SARS should also be able, given the resources, to deal with under-invoicing.

The Commission therefore decided to recommend that the duty on hand-knotted and woven carpets and hand-woven rugs classifiable under tariff subheadings 5701.10; 5701.90 and 5702.10 be reduced from 30 per cent *ad valorem* to 5 per cent *ad valorem*, as these carpets are not made domestically.

THE APPLICATION AND THE TARIFF POSITION

The Oriental Rug Dealers and Importers Association of SA, representing importers of hand-knotted and woven carpets and hand-woven rugs applied for a reduction in the duty on hand-knotted and woven carpets and hand-woven rugs classifiable under tariff subheadings 5701.10, 5701.90 and 5702.10 from a level of 30 per cent *ad valorem* to 5 per cent *ad valorem*. The reasons for the application were:

Hand-knotted and woven carpets and hand-woven rugs also commonly known as "oriental carpets and rugs" are not manufactured in SACU nor will they be in future due to the high costs involved and the tradition and culture of the people in countries that manufacture these carpets

2. Although a very small number of hand-woven carpets are made in SACU these cannot be compared in cost or otherwise to the oriental rugs.
 3. The current high duty encourages under-invoicing.
2. The Commission decided to publish the application in the Government Gazette to enable machine-made carpet manufacturers an opportunity to comment on the application.
 3. The tariff structure of carpets and other textile floor coverings is as follows:

TABLE 1 : TARIFF POSITION

TARIFF HEADING	DESCRIPTION	RATE OF DUTY		
		GENERAL SADC	EU	
5701.00	Carpets and other textile floor coverings, knotted, whether or not made up			
5701.10	Of wool or fine animal hair	30 %	30 %	18 %
5701.90	Of other textile material	30 %	30 %	18 %
5702.00	Carpets and other textile floor coverings, woven, not tufted or flopped, whether or not made up, including kelem, schumacks, karamanie and similar hand woven rugs			
5702.10	Kelem, schumacks, karamanie and similar handwoven rugs	30 %	30 %	18 %

4. The application was published as follows:

Reduction in the rate of duty on hand-knotted and woven carpets and hand – woven rugs classifiable under tariff subheadings 5701.10, 5701.90 and 5702.10 from 30 per cent *ad valorem* to 5 per cent *ad valorem*”

THE INDUSTRY AND MARKET

5. According to the applicant an extremely small number of hand-woven carpets are made in SACU. These carpets however cannot be compared to the “oriental carpets and rugs” as they are of a unique African design
6. The main imports of hand-knotted and woven carpets and hand-woven rugs are under tariff subheadings 5701.10 and 5702.10. During the year 2002 the total volume of imports under these headings amounted to 110 410 m² and 208 082 m² respectively. However, during the first six months of 2003 the total volume of imports under item 5701.90 increased substantially while imports under the other two items declined by almost 50 per cent over the same period.
7. The main countries of origin are Iran, Pakistan, India and China. During the first 6 months of 2003 the volume of hand-knotted and woven carpets and hand-woven rugs imported under tariff subheadings 5701.90 and 5702.10 from India and Iran increased appreciably.
8. The price per m² of hand-knotted and woven carpets and hand-woven rugs imported were lower during the first six months of 2003 than the price per m² of these carpets during the year 2002, also due to exchange rate movements.

COMMENTS TO THE APPLICATION

9. The Textile Federation commented that none of the carpet manufacturers are members of the Federation. They do not object to the application but wished to draw the Commission’s attention to the fact that the duty on other carpets could possibly be circumvented by clearing other carpets as hand-knotted and woven

manufacturers of machine-made carpets did not comment on the application.

CONSIDERATION

10. The carpets concerned are exclusively hand-knotted and woven carpets and hand-woven rugs and are commonly called “oriental carpets or rugs” These carpets are clearly distinguishable from carpets that are manufactured in the SACU which are mainly of African design.
11. The Oriental Rug Dealers and Importers Association of South Africa (ORDIASA) consists of 19 importers. The Association has raised some concern about under-invoicing and smuggling to avoid the 30 per cent duty.
12. The Commission noted the fact that SARS is reluctant to administer a system where the duty on only hand-knotted and woven carpets and hand-woven rugs is lowered. However, the Commission concluded that enough training is provided to SARS officers that would enable them to differentiate between these carpets and machine-made carpets as well as to deal with the issue of under-invoicing and smuggling.

RECOMMENDATION

13. The Commission decided to recommend that the rate of duty on hand-knotted and woven carpets and hand-woven rugs classifiable under tariff subheadings 5701.10, 5701.90 and 5702.10 be reduced from 30 per cent *ad valorem* to 5 per cent *ad valorem*.