



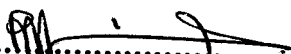
International Trade Administration Commission of South Africa

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## Report No. 41

# Application for an increase in the rate of duty on certain footwear

**The International Trade Administration Commission of South Africa herewith presents its Report No. 41: APPLICATION FOR AN INCREASE IN THE RATE OF DUTY ON CERTAIN FOOTWEAR , with recommendations**



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**CHIEF COMMISSIONER**

**PRETORIA**

.....10./02...../2004

## **REPUBLIC OF SOUTH AFRICA**

### **INTERNATIONAL TRADE ADMINISTRATION COMMISSION**

#### **REPORT NO. 41**

#### **APPLICATION FOR AN INCREASE IN THE RATE OF DUTY ON CERTAIN FOOTWEAR.**

##### **SYNOPSIS**

The Board on Tariffs and Trade considered an application from the Southern African Footwear and Leather Industries Forum (Cluster), for an increase in the rate of duty on certain footwear.

As reason for the application the applicant stated that since the introduction of the specific duty of R5 per pair, its effect was eroded by inflation and the depreciation of the Rand and that additional protection is needed in respect of products which are part of the “bottom end” of the market in order to give the industry more opportunity to become internationally competitive.

The application for an increase in the rate of specific duty was published in Government Gazette no. 21587, Notice 3411 of 2000. Numerous comments from various firms were forwarded opposing the application. Most claimed that the application affects the infants and children’s shoes that are not manufactured in South Africa. These firms also pointed out that the application affects the bottom end of the footwear industry (cheap footwear) where there are no SACU manufacturers. Therefore, the duty applied for would serve to increase the cost of shoes needed by the majority of poor SACU consumers. Lastly, it was argued and indicated that the duty applied for, namely 30 percent **ad valorem** or R12,60 per pair will, in respect of all the products with a free on board value that is less than R42 per pair, exceed the 30 percent binding rate, in contradiction with South Africa’s WTO obligations.

In the light of the fact that the application is not compatible with South Africa's WTO obligations and due to the nature of the competition experienced by the SACU industry from imported products, and that a mere increase in the rate of duty will not resolve the problems experienced, the Commission concluded that there is no justification for an increase in the rate of duty. The Commission therefore, recommends that the application be rejected.

## **INTRODUCTION**

- 1 The South African Footwear and Leather Industries Forum (Cluster), applied for an increase in the rate of duty on certain types of footwear.
- 2 As reason for the application, the applicant stated that since the introduction of the specific duty of R5 per pair, its effect was eroded by inflation and the depreciation of the Rand and that additional protection is needed in respect of products which are part of the “bottom end” of the market in order to give the industry more opportunity to become internationally competitive.
- 3 The application was submitted against the background of various initiatives and actions to assist and encourage the industry to become internationally competitive and to achieve sustainable development. These initiatives mainly comprised the following:
  - (a) The reinstatement, as a temporary measure, of the existing specific duty of R5 per pair in 1996.
  - (b) Quantitative import restrictions on footwear originating in non- World Trade Organization (WTO) member countries, from 20 June 1997 to 20 March 2000.
  - (c) The formation and functioning of the Footwear and Leather Cluster from 1996, which included research into the formulation of an export marketing strategy, with the assistance of funds from the Sector Partnership Fund (SPF) and from the Funds Into Industrial Development, Growth & Equity (FRIDGE).

## **THE APPLICATION AND THE TARIFF POSITION**

4. The applicant applied for an increase in the rate of duty on certain footwear (non-leather footwear) from 30 percent **ad valorem** or R5 per pair to 30 percent **ad valorem** or R12,60 per pair. The products that are the subject of the application are as follows:
  - (a) Footwear with outer soles of and uppers of rubber or plastics classifiable under tariff subheading 6402.19, 6402.20, 6402.91 and 6402.99;
  - (b) Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials classifiable under tariff subheadings 6404.11.90, 6404.19.90 and 6404.20.90;
  - (c) Footwear classifiable under tariff subheadings 6405.20.90 and 6405.90.90.

5. The tariff position of the products concerned is as follows

Tariff subheading	Description	Rates of duty		
		General	EU	SADC
64.02	Other footwear with outer soles and uppers of rubber or plastic			
6402.19	Other	30% or 500c/2u	30%	26%
6402.20	Footwear with upper straps or thongs assembled to the sole by means of plugs	30% or 500c/2u	30%	26%
6402.9	Other footwear	30% or 500c/2u	30%	26%
6402.91	Covering the ankle	30% or 500c/2u	30%	26%
6402.99	Other	30% or 500c/2u	30%	26%
64.04	Footwear with outer soles of rubber, plastics, leather and uppers of textile materials			
6404.11.90	Other	30% or 500c/2u	30%	26%
6404.19.90	Other	30% or 500c/2u	30%	26%
6404.20.90	Other	30% or 500c/2u	30%	26%
64.05	Other footwear			
6405.20.90	Other	30% or 500c/2u	30%	26%
6405.90.90	Other	30% or 500c/2u	30%	26%

6. The WTO binding rate of the products under consideration is 30 percent **ad valorem**.

#### **INDUSTRY AND MARKET**

7. The applicant submitted statistical information regarding the industry as a whole and not the specific information in respect of only the products that are the subject of the application.
8. Sales by the SACU industry during the period 1992 to 2002 are reflected in the following graph:



9. The volume of imports, size of the SACU market and the market share of imports are indicated in the following table:

Year	Sales by SACU manufacturers million pair	Footwear imports in million pairs	Total footwear market	Imports as % market
1996	48,437	48,811	97,248	50
	48,334	35,286	83,620	42
				48
				49
				62

#### COMMENTS ON THE APPLICATION

10. The application was published in the Government Gazette no. 21587, Notice 3411 of 2000.
11. Numerous comments from various firms were forwarded opposing the application. Most claimed that the application affects the infants and children's shoes that are not manufactured in SACU. These firms also pointed out that the application affects the bottom end of the footwear industry (cheap footwear) where there are no SACU manufacturers. Therefore, the duty applied for would serve to increase the cost of shoes needed by the majority of poor SACU consumers. Lastly, it was argued and indicated that the duty

applied for, namely 30 percent **ad valorem** or R12,60 per pair will, in respect of all the products with a free on board value that is less than R42 per pair, exceed the 30 percent binding rate, in contradiction with South Africa's WTO obligations.

#### **CONSIDERATION**

12. The available information indicates that the SACU industry is experiencing severe competition from imported products and that the competition is not only in respect of price but also in respect of other aspects. In this regard it should be noted that the products covered by the application vary from expensive high-quality branded products at the one extreme to low-priced non-branded products at the other extreme.
13. The Commission considered the available information and concluded that the rate of duty applied for will exceed the WTO bound level and that due to the nature of the competition experienced by the SACU industry, a mere increase in the rate of duty will not solve the problems experienced. As a result the Commission concluded that the increase in the duty as applied for, is not justified.

#### **RECOMMENDATION**

14. The Commission recommends that the application be rejected.

[T5/2/12/2/1 (000062)]