

## **REPORT NO. 409**

**REVIEW OF THE GENERAL RATE OF CUSTOMS DUTY ON RECEPTION APPARATUS FOR TELEVISION NOT DESIGNED TO INCORPORATE A VIDEO DISPLAY OR SCREEN (SET TOP BOXES) WITH A VALUE FOR DUTY PURPOSES NOT EXCEEDING R5 000**

The International Trade Administration Commission of South Africa herewith presents its Report No. 409: **REVIEW OF THE GENERAL RATE OF CUSTOMS DUTY ON RECEPTION APPARATUS FOR TELEVISION NOT DESIGNED TO INCORPORATE A VIDEO DISPLAY OR SCREEN (SET TOP BOXES) WITH A VALUE FOR DUTY PURPOSES NOT EXCEEDING R5 000**, with recommendations.



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**SIYABULELA TSENGIWE**  
**CHIEF COMMISSIONER**

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

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**Synopsis**

ITAC conducted a review of the tariff structure for reception apparatus for television not designed to incorporate a video display or screen, known as set top boxes (STBs).

On balance, the Commission, after careful consideration of the application and the comments received, found adequate justification for an increase in the general rate of customs duty on STBs.

The Commission concluded that an increase in the rate of duty on STBs to 15% ad valorem, would improve the price-competitive position of a developing domestic industry in the face of stiff foreign competition. The support would enable the domestic industry to increase the domestic demand for its products; to fully utilise its production capacity; and achieve economies of scale.

The Commission found that the relatively sophisticated STBs for technical uses within broadcasting operations and signal distributors such as Sentech, are not manufactured domestically. The Commission therefore recommended that STBs with a value exceeding R5 000 per unit, should be excluded from the duty provision.

The Commission recommended an increase in the general rate of customs duty on reception apparatus for television not designed to incorporate a video display or screen, classifiable under tariff subheading 8528.71, with a value for duty purposes not

exceeding R5 000, from free of duty to 15% ad valorem. The Commission also recommended that the duty be reviewed after 3 years effective from the date of implementation to determine its impact on the industry value chain.

## **THE REVIEW**

1. ITAC conducted a review of the tariff structure for reception apparatus for television not designed to incorporate a video display or screen, known as set top boxes (STBs).
2. To ensure on-going coordination and protection from signal interference, the migration from analogue to digital terrestrial broadcasting is taking place worldwide, in line with timelines contained in the International Telecommunications Union (ITU) treaty. The analogue platform requires a large amount of bandwidth to transmit picture and sound information, limiting the amount of signals that can get through at any time. Digital signals require much less bandwidth, allowing more channels to be broadcast at the same time, with brighter, sharper pictures and better sound. STBs will be required to convert the free-to-air digital to analogue signal for television sets which do not have digital satellite television (“Dstv”) reception or a built-in digital converter.
3. Digital decoders STBs for satellite reception are already domestically designed, manufactured and exported by Altech UEC (Pty) Ltd. This review covers both STBs for satellite and terrestrial signal transmission.
4. The objectives of the Industrial Policy Action Plan 2012/13 – 2014/15 and the Set-Top-Box Manufacturing Sector Development Strategy for South Africa are to create a favourable environment for the development of a STB manufacturing industry in South Africa that will supply both domestic and foreign markets. The main concern is that the domestic electronics industry has been under strain over the last decade and has been shrinking significantly. A key intervention is to diversify the industry by promoting the domestic manufacture of STBs to stimulate the electronics sector.

5. The review was published on 23 March 2012 in the Government Gazette for comments by interested parties as follows:

**REVIEW OF THE CUSTOMS DUTY ON:**

*“Reception apparatus for television not designed to incorporate a video display or screen (i.e. set top boxes) classifiable under tariff subheading 8528.71 at free of duty”.*

**THE TARIFF POSITION**

6. The existing tariff position for reception apparatus for television not designed to incorporate a video display or screen, classifiable under tariff subheading 8528.71, is as follows:

Tariff heading	Description	Rate of Duty			
		General	EU	EFTA	SADC
85.28	Monitors and projectors, not incorporating television reception apparatus; reception apparatus for television, whether or not incorporating radio-broad-cast receivers or sound or video recording or reproducing apparatus:				
8528.7	Reception apparatus for television, whether or not incorporating radio-broadcast receivers or sound or video recording or reproducing apparatus:				
8528.71	Not designed to incorporate a video display or screen	free	free	free	free

7. The relevant WTO bound ceiling rate is 30% *ad valorem*.

**THE INDUSTRY AND MARKET**

8. There are currently two companies in SACU that manufacture STBs, namely: Altech UEC (Pty) Ltd and Divitech - a joint venture between Reunert Limited and Nozala Investments (Pty) Ltd.
9. There are a number of other domestic manufacturers that have the potential to manufacture the subject products, namely: RC&C Manufacturing (Pty) Ltd,

Sabertec (Pty) Ltd, Tellumat (Pty) Ltd, Vektronix (Pty) Ltd and Arion-Bomema (Pty) Ltd. In addition, there are a number of contract manufacturers and system integrators that exist in SACU who have high technology equipment that can populate printed circuit boards (PCBs) and manufacture STBs.

10. MultiChoice provides a commercial subscription television broadcast service in South Africa. An STB or decoder is a critical component and key input into MultiChoice's operations. The supply of these decoders is largely provided by Altech UEC. In addition, MultiChoice also purchases from Altech UEC, the majority of STBs for its African operations. A recent entrant and competitor to MultiChoice in the Dstv market is TopTV.
11. The manufacture of STBs requires continuous research and development to influence the STB design and its incorporated features. The value chain includes manufacturers of television sets, plastic and metal components, such the enclosures, remote controls, paper manuals, electronic cables, packaging articles, and the distribution channels. There is also after-sales support to users of STBs, such as installation, call centre support, and repairs.
12. The domestic STB manufacturers have invested in highly automated capital-intensive production lines for the placement or population of electronic components on printed circuit boards. The final assembly of the STB remains labour-intensive. Total investment by the two existing STB manufacturers currently stands at approximately R210 million.
13. Altech UEC has demonstrated global competitiveness in STB design and manufacture which has put it in a position to export to other markets and move up the value chain in terms of more complex STBs, such as personal video recorders (PVRs).
14. Currently, the South African terrestrial STB demand is estimated at approximately nine (9) million units over the two to three year analogue to digital migration period. The South African government is expected to subsidize a

designated 5 million STBs, for supply to indigent households, during the analogue to digital migration process. The estimated current annual domestic demand for satellite television decoders is 1.5 to 2 million units. The domestic industry, not producing at full capacity, is in a position to meet the full SACU market requirement.

15. During the period 2009 to 2011, the import and export volumes increased by 386% and 144% respectively as shown in the table below.

**Imports and exports of STBs (TH 8528.71.00)**

Year	Rand value		Volume units	
	Imports	Exports	Imports	Exports
2009	230 770 648	188 847 381	165 951	251 360
2010	380 855 012	66 144 030	469 306	194 271
2011	650 087 289	193 738 425	806 754	613 382
% Growth 2009-2011	181.70	2.59	386.14	144.03

16. As can be gleaned from the trade statistics above, the average price of set top boxes decreased sharply in a highly competitive industry and imports have gained market share.

**COMPETITIVE POSITION**

17. International competition is fierce as evidenced by the price information at the Commission's disposal. The domestic STB manufacturing industry experiences price disadvantages against East Asian manufacturers when the landed cost of imported STBs is compared to the ex-factory selling price of the domestic manufacturers of similar STBs.

## COMMENTS RECEIVED

18. A possible increase in the rate of customs duties on STBs was supported by a number of TV manufacturers and prospective STB manufacturers, namely: Anyview Technologies (Pty) Ltd, Tellumat (Pty) Ltd and Vektronix (Pty) Ltd.
19. These manufacturers commented that the imposition of import duties would provide the protection needed to build a sustainable, diversified electronics industry.
20. Objections to a possible increase in the level of customs duty on STBs were received from the National Association of Broadcasters and MultiChoice South Africa (Pty) Ltd.
21. The objections to the imposition of import duties centred on the cost-raising impact of such measures; the view that the domestic STB industry is globally competitive; the fact that the STB industry is a designated industry in terms of the Preferential Procurement Policy Framework; and that the South African minimum specifications standards for STBs already advantages domestic producers.

## FINDINGS

22. On balance, the Commission, after careful consideration of the application and the comments received, found adequate justification for an increase in the general rate of customs duty on STBs.
23. The Commission concluded that an increase in the rate of duty on STBs to 15% *ad valorem*, would improve the price-competitive position of a developing domestic industry in the face of stiff foreign competition. The support would enable the domestic industry to increase the domestic demand for its products; to fully utilise its production capacity; and achieve economies of scale.



24. Although the WTO bound rate is 30% ad valorem, the Commission sought to balance the need for the development of the domestic STB industry on the one hand, and the possible price-raising effects downstream on the other. It therefore decided on a duty of 15% ad valorem to offset the price disadvantage experienced by the domestic STB manufacturing industry.
25. The Commission found that the relatively sophisticated STBs for technical uses within broadcasting operations and signal distributors such as Sentech, are not manufactured domestically. The Commission therefore recommends below that STBs with a value exceeding R5 000 per unit, should be excluded from the duty provision.

## **RECOMMENDATION**

26. In light of the foregoing, the Commission recommends an increase in the general rate of customs duty on reception apparatus for television not designed to incorporate a video display or screen, classifiable under tariff subheading 8528.71, with a value for duty purposes not exceeding R5 000, from free of duty to 15% *ad valorem*. The Commission also recommended that the duty be reviewed after 3 years effective from the date of implementation to determine its impact on the industry value chain.