

REPORT NO.581

**CREATION OF A TEMPORARY REBATE PROVISION FOR DIGITAL
SMART CARDS (EXCLUDING PROXIMITY CARDS AND
TAGS), CLASSIFIABLE UNDER TARIFF SUBHEADING 8523.52.10**

The International Trade Administration Commission presents its Report No. 581:
**CREATION OF A TEMPORARY REBATE PROVISION FOR DIGITAL SMART
CARDS (EXCLUDING PROXIMITY CARDS AND TAGS), CLASSIFIABLE UNDER
TARIFF SUBHEADING 8523.52.10, with recommendations.**


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**MELULEKI NZIMANDE
CHIEF COMMISSIONER**

PRETORIA
27/6/2018
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REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 581

**CREATION OF A TEMPORARY REBATE PROVISION ON DIGITAL SMART
CARDS (EXCLUDING PROXIMITY CARDS OR TAGS), CLASSIFIABLE UNDER
TARIFF SUBHEADING 8523.52.10**

Synopsis

On 24 November 2017, the Commission published Notice No. 919 of 2017 in Government Gazette No [41270] initiating an investigation into the creation of a temporary rebate provision for digital smart cards (excluding proximity cards or tags), classifiable under tariff subheading 8523.52.10.

The Commission considered the information at its disposal as gathered during the course of the investigation. The Commission found that there are no local manufacturers of the subject digital smart cards which are used in the banking and mobile communication sectors as well as those which are used as identification smart cards. Thus, the ordinary customs duty on the subject products has an unnecessary cost-raising effect on the users.

The proposed rebate provision will be made subject to an ITAC permit issued in terms of guidelines, rules and conditions.

In light of the above, the Commission recommends the creation of a temporary rebate provision on the subject digital smart cards, as outlined in Paragraph 18 of this report.

BACKGROUND AND TARIFF POSITION

1. In March 2017, Gemalto Southern Africa (Pty) Ltd (Gemalto) applied for a reduction in the rate of customs duty on digital smart cards(excluding proximity cards or tags), classifiable under tariff subheading 8523.52.10, from 5% *ad valorem* to free of duty, through the creation of a separate 8-digit tariff subheading.
2. The Commission considered the application and, as reported in ITAC's Report 570, the Commission found that although there are no local manufacturers of digital smart cards (excluding proximity cards or tags), classifiable under tariff subheading 8523.52.10, the reduction in customs duty in the manner set out in Gemalto's application may result in the circumvention of customs duty on imported proximity cards and tags. This would undermine the purpose of the customs duty on imported proximity cards and tags which is to support SACU producers of like or similar products.
3. Therefore, the Commission recommended that: (i) the investigation into the reduction of the general rate of customs duty on digital smart cards (excluding proximity cards or tags) classifiable under tariff subheading 8523.52.10, from 5% *ad valorem* to free of duty, through the creation of a separate 8-digit tariff subheading, be terminated; and (ii) an investigation on the creation of a rebate provision on the subject products be initiated.
4. In November 2017, ITAC of its own accord, published a notice in the Government Gazette, initiating an investigation into the creation of a temporary rebate provision for digital smart cards (excluding proximity cards or tags), classifiable under tariff subheading 8523.52.10.
5. During the publication period, Gemalto submitted information supporting the creation of a rebate provision for digital smart cards (excluding proximity cards or tags), classifiable under tariff subheading 8523.52.10.

6. As motivation for the creation of the rebate provision, Gemalto, cited *inter alia*, the following:

- a) There are no local manufacturers of smart cards for banking and cellular industries as well as smart ID cards in the SACU region;
- b) The current general rate of customs duty of 5% *ad valorem* has an unnecessary cost raising effect on the ex-factory selling price of the subject products;
- c) The proposed rebate provision should be subject to a permit that can only be issued if the goods are not available in the SACU region. Therefore, there will be no risk of circumvention; and
- d) The proposed rebate provision would allow local manufacturers the space to consider manufacturing the subject products.

7. The current tariff structure of the subject products is as follows:

Table 1: Current tariff position for the subject products

Tariff heading	Tariff subheading	Description	Unit of measurement	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
8523		Discs, tapes, solid-state non-volatile storage devices, "smart cards" and other media for the recording of sound or of other phenomena, whether or not recorded, including matrices and masters for the production of discs (excluding products of Chapter 37)						
	8523.2	-Magnetic media:						
	8523.21	-- Cards incorporating a magnetic stripe		5%	Free	Free	Free	5%
	8523.29	--Other		Free	Free	Free	Free	Free
	8523.4	- Optical Media						
	8523.41	- Unrecorded		Free	Free	Free	Free	Free
	8523.49	--Other		Free	Free	Free	Free	Free
	8523.5	- Semiconductor media						
	8523.52	-- "Smart cards":						
	8523.52.10	--- Digital	U	5%	Free	Free	Free	5%
	8523.52.90	--- Other	U	Free	Free	Free	Free	Free

Source: SARS, 2017

8. The creation of a rebate provision on the subject products was published as Notice No. 919 of 2017 in the Government Gazette on November 2017, as follows:

CREATION OF A REBATE PROVISION ON:

"Digital 'smart cards' (excluding proximity cards or tags), classifiable in tariff subheading 8523.52.10 in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the 'smart cards' are not available in the SACU area.

INDUSTRY AND MARKET

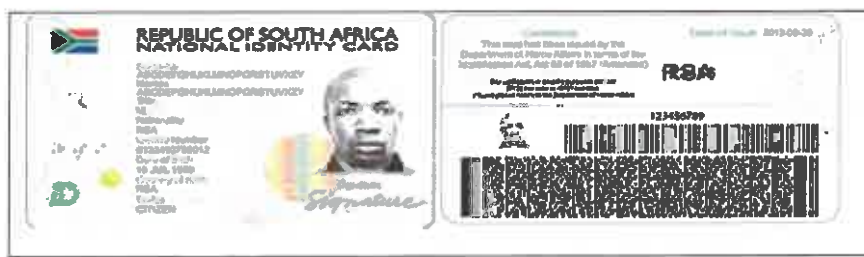
- 9. The subject products are pocket-sized smart cards made of plastic, generally polyvinyl chloride (PVC) with an embedded contact chip. They also contain a magnetic strip and are able to store data contained within the embedded circuit. The subject products may, together with the chip, also contain an antenna which enables the cards to be contactless smart cards (also known as combination cards).

- 10. The subject products are commonly used in the banking and mobile communications sectors. The subject products include smart ID cards used by the South African Department of Home Affairs.

- 11. Figure 1 below shows images of the subject products:

Figure 1: Images of the subject products





12. Currently there are no manufacturers of digital smart cards with a microprocessor (contact chip) which has an on-board cryptographic processing capability in the SACU region. NamITech and Xantium Integrated Solutions ceased manufacturing the subject products in the SACU region. Currently, Card Technology Services (Pty) Ltd manufactures only digital proximity cards and tags.
13. Some of the known importers of the subject products include Gemalto and Oberthur Technologies South Africa (Pty) Ltd.
14. Generally, importers of the subject products import pre-painted and pre-branded cards as per customer's specifications. Thereafter, the cards are personalised according to customer's specifications by embossing the required information onto the cards.

COMMENTS RECEIVED

15. Comments supporting the application were received from Card Technology Services (Pty) Ltd (CTS), a domestic manufacturer of proximity cards and tags. CTS also requested that the rebate item be administered with the necessary circumspection and that prior to the issuing of a permit CTS should be approached by the Commission to confirm if the subject products are not manufactured in SACU.

FINDINGS

16. The Commission considered the information at its disposal. The Commission found that there is no local manufacturer of the subject digital smart cards used as identification cards and those used in the banking and mobile sectors. Thus, the ordinary customs duty on the subject products has an unnecessary cost-raising

effect on the end users.

17. The proposed rebate provision will be made subject to an ITAC permit in terms of guidelines, rules and conditions.

RECOMMENDATION

18. In light of the foregoing, the Commission recommended that the creation of a temporary rebate provision on digital smart cards (excluding proximity cards or tags) classifiable under tariff subheading 8523.52.10, as follows:

"Digital 'smart cards' (excluding proximity cards or tags), classifiable in tariff subheading 8523.52.10 in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the 'smart cards' are not available in the SACU area."

