

**REPORT NO. 634**

**APPLICATION FOR THE CREATION OF REBATE PROVISIONS ON WOVEN FABRICS CLASSIFIABLE UNDER TARIFF SUBHEADINGS 5513.11, 5210.31, 5209.32, 5208.33 AND 5407.82, FOR THE USE IN THE MANUFACTURE OF MEN'S OR BOYS' AND WOMEN'S OR GIRLS' TROUSERS AND SHIRTS, CLASSIFIABLE IN 6203.4, 6203.42.10, 6204.6, 6204.49.10, 6204.62.10, 6204.69.10, 6205.20, 6205.90, 6206.30 AND 6206.90, RESPECTIVELY.**

The International Trade Administration Commission of South Africa herewith presents its Report No. 634: **APPLICATION FOR THE CREATION OF REBATE PROVISIONS ON WOVEN FABRICS CLASSIFIABLE UNDER TARIFF SUBHEADINGS 5513.11, 5210.31, 5209.32, 5208.33 AND 5407.82, FOR THE USE IN THE MANUFACTURE OF MEN'S OR BOYS' AND WOMEN'S OR GIRLS' TROUSERS AND SHIRTS, CLASSIFIABLE IN 6203.4, 6203.42.10, 6204.6, 6204.49.10, 6204.62.10, 6204.69.10, 6205.20, 6205.90, 6206.30 AND 6206.90, RESPECTIVELY.**



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**Meluleki Nzimande**  
**CHIEF COMMISSIONER**

**PRETORIA**

**25 / 08 / 2020**  
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# REPUBLIC OF SOUTH AFRICA

## INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

### REPORT NO. 634

**APPLICATION FOR THE CREATION OF REBATE PROVISIONS ON WOVEN FABRICS CLASSIFIABLE UNDER TARIFF SUBHEADINGS 5513.11, 5210.31, 5209.32, 5208.33 AND 5407.82, FOR THE USE IN THE MANUFACTURE OF MEN'S OR BOYS' AND WOMEN'S OR GIRLS' TROUSERS AND SHIRTS, CLASSIFIABLE IN 6203.4, 6203.42.10, 6204.6, 6204.49.10, 6204.62.10, 6204.69.10, 6205.20, 6205.90, 6206.30 AND 6206.90, RESPECTIVELY.**

#### **Synopsis**

Luomo Atlantis Manufacturing (Pty) Ltd ("Luomo or "the Applicant"), applied for the creation of rebate facilities on woven fabrics classifiable under tariff subheadings 5513.11, 5210.31, 5209.32, 5208.33 and 5407.82, for the use in the manufacture of men's or boys' and women's or girls' trousers and shirts, classifiable in 6203.4, 6203.42.10, 6204.6, 6204.49.10, 6204.62.10, 6204.69.10, 6205.20, 6205.90, 6206.30 and 6206.90, respectively.

The Commission evaluated the merits of the application in light of the information at its disposal and found that there is a local manufacturer of the subject fabric, namely Svenmill and other local manufacturers of similar substitute fabrics, such as Imraan Textiles, Gelvenor, Helmtex, and Da Gama Textiles.

The Commission concluded that the current level of customs duty on the subject products serves as protection and encouragement for increased domestic production, employment and investment. Therefore, any duty relief in the form of a rebate provision would erode the support and encouragement

afforded to the Southern African Customs Union (“SACU”) textile manufacturing industry.

The Commission took into account the on-going Retail-Clothing, Textile, Footwear, Leather (“R-CTFL”) policy discussions on rebates for fabrics, particularly with regards to modalities and reciprocal commitments. The Commission concluded that this application may be premature and against the spirit of the R-CTFL Masterplan, which endeavours to find a balance between rebating duties on fabrics used for apparel and implementing reciprocal commitments that would off-set risks faced by the local textile manufacturing industry while increasing gains within the clothing manufacturing industry.

In light of the foregoing, the Commission decided that the application for the creation of rebate facilities on woven fabrics classifiable under tariff subheadings 5513.11, 5210.31, 5209.32, 5208.33 and 5407.82, for the use in the manufacture of men’s or boys’ and women’s or girls’ trousers and shirts, classifiable in 6203.4, 6203.42.10, 6204.6, 6204.49.10, 6204.62.10, 6204.69.10, 6205.20, 6205.90, 6206.30 and 6206.90, respectively; be rejected.

## **1. THE APPLICATION AND TARIFF POSITION**

- 1.1. Luomo Atlantis Manufacturing (Pty) Ltd (“Luomo” or “the Applicant”) applied for the creation of rebate facilities on woven fabrics classifiable under tariff subheadings 5513.11, 5210.31, 5209.32, 5208.33 and 5407.82, for the use in the manufacture of men’s or boys’ and women’s or girls’ trousers and shirts, classifiable in 6203.4, 6203.42.10, 6204.6, 6204.49.10, 6204.62.10, 6204.69.10, 6205.20, 6205.90, 6206.30 and 6206.90, respectively.
- 1.2. The Applicant is a Cape Town based textile manufacturing company that manufactures trouser and shirts. It was established by Rex Trueform and manufacturing commenced on its premises around 1982. The LA Group of companies acquired Luomo in September 2014 when it was on the verge of closure.

- 1.3. The factory has been manufacturing Brentwood brand trousers to a leading distributor for over 35 years and is the sole supplier of this high quality tailored trouser. According to Luomo, this is one of the most technical trousers on the market to produce, and the skill set to produce this garment cannot easily be replicated. The factory is currently one of the largest bottom wear and shirt plants in South Africa.
- 1.4. As reasons for the application, the Applicant stated the following:
  - 1.4.1. The fabrics used for the manufacture of the subject trousers and shirts are not available locally and the 22% *ad valorem* customs duty renders the end-products uncompetitive.
  - 1.4.2. In order for the company to be price competitive and secure orders in the domestic market, it requires a duty waiver on the imported subject fabrics.
  - 1.4.3. Despite the significant investment in lean production techniques and the fabric price, very weak exchange rates are going to result in losses on these end-products, and pose a risk to this production line.
  - 1.4.4. The Applicant indicated that this duty waiver would further assist it to retain 57 jobs and further create 50 jobs in order to meet consumer demand.
- 1.5. The subject products currently attract a customs duty of 22 per cent *ad valorem* under "General"; 13.2 per cent *ad valorem* when imported from the European Union ("EU"); 10 per cent *ad valorem* when imported from the European Free Trade Agreement ("EFTA"); 22 per cent *ad valorem* when imported from Mercosur and currently free of duty when imported from the Southern African Development Community ("SADC") (see Table 1 below).

**Table 1: Tariff structure of the subject products– input material**

Tariff heading	Tariff sub heading	Description	Statistical unit	General	EU	EFTA	SADC	Mercosur
55.13	5513.11	Woven fabrics of synthetic staple fibres, containing less than 85 per cent by mass of such fibres, mixed mainly or solely with cotton, of a mass not exceeding 170 g/m <sup>2</sup> : Unbleached or bleached: Of polyester staple fibres, plain weave.	Kg	22%	13.2%	10%	free	22%
52.10	5210.31	Woven fabrics of cotton, containing less than 85 per cent by mass of cotton, mixed mainly or solely with man-made fibres, of a mass not exceeding 200 g/m <sup>2</sup> : dyed: plain weave.	Kg	22%	13.2%	10%	free	22%
54.07	5407.82	Other woven fabrics, containing less than 85 per cent by mass of synthetic filaments, mixed mainly or solely with cotton: dyed.	Kg	22%	13.2%	10%	free	22%
52.09	5209.32	Woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass exceeding 200 g/m <sup>2</sup> : dyed: 3-thread or 4-thread twill, including cross twill.	Kg	22%	13.2%	10%	free	22%
52.08	5208.33	Woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 200 g/m <sup>2</sup> : 3-thread or 4-thread twill, including cross twill	kg	22%	13.2%	10%	free	22%

(Source: SARS)

1.6. Table 2 below indicates the tariff structure of the finished products. The Applicant's finished products namely: men's or boys' and women's or girls' trousers and shirts, classifiable in 6203.4, 6203.42.10, 6204.6, 6204.49.10, 6204.62.10, 6204.69.10, 6205.20, 6205.90, 6206.30 and 6206.90, respectively, currently attracts a 45 per cent *ad valorem* (or General) rate of duty, 27 per cent *ad valorem* from the EU; 20 per cent *ad valorem* from EFTA; 45 per cent *ad valorem* from Mercosur and is free of duty from the SADC. The tariff structure for the end products is as shown in Table 2 below:

**Table 2: Tariff structure of the end-products**

Tariff heading	Tariff sub-heading	Description	Statistical unit	Rate of Duty				
				General	EU	EFTA	SADC	Mercosur
<b>62.03</b>	6203.4	Trousers, bib and brace overalls, breeches and shorts: of cotton						
	6203.42.10	Other, trousers	u	45%	27%	20%	free	45%
	6203.49.10	Of other textile materials: trousers	u	45%	27%	20%	free	45%
<b>62.04</b>	6204.6	Trousers, bib and brace overalls, breeches and shorts: Of cotton:	u	45%	27%	20%	free	45%
	6204.62.10	Other, trousers	u	45%	27%	20%	free	45%
	6204.69.10	Trousers	u	45%	27%	20%	free	45%
<b>62.05</b>	6205.20	Men's or boys' shirts: Of cotton	u	45%	27%	20%	free	45%
	6205.90	Men's or boys' shirts: Of other textile materials	u	45%	27%	20%	free	45%
<b>62.06</b>		Women's or girls' blouses, shirts and shirt-blouses:	u	45%	27%	20%	free	45%
	6206.30	Women's or girls' blouses, shirts and shirt-blouses: Of cotton	u	45%	27%	20%	free	45%
	6206.90	Women's or girls' blouses, shirts and shirt-blouses: Of other textile materials	u	45%	27%	20%	free	45%

(Source: SARS)

- 1.7. The application was published in the Government Gazette Notice No. 181 of 2020 on 20 March 2020 for comments by interested parties, regarding the requested rebate position, as follows:

**Table 3: Description of the requested rebate facilities**

Rebate Item	Tariff sub heading	Description	Extent of Rebate
	5513.11	Woven fabrics of polyester fibres, containing 80 per cent by mass of such fibres, mixed mainly or solely with cotton, of a mass of 90 g/m <sup>2</sup> or more but not exceeding 110 g/m <sup>2</sup> , plain weave, classifiable in tariff subheading 5513.11, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, for use in the manufacture of men's or boys' and women's or girls' trousers, classifiable in tariff heading 6203.4 and 6204.6, respectively.	Full duty
	5210.31 (a)	Woven fabrics of cotton, containing 65 per cent by mass of cotton, mixed mainly or solely with polyester, of a mass of 105 g/m <sup>2</sup> or more but not exceeding 125g/m <sup>2</sup> , dyed, plain weave, classifiable in tariff subheading 5210.31, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, for use in the manufacture of men's or boys' and women's or girls' trousers, classifiable in tariff subheading 6203.42.10 and 6204.62.10, respectively.	Full duty
	5210.31 (b)	Woven fabrics of cotton, containing 65 per cent by mass of cotton, mixed mainly or solely with polyester, of a mass of 105 g/m <sup>2</sup> or more but not exceeding 125g/m <sup>2</sup> , dyed, plain weave, classifiable in tariff subheading 5210.31, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, for use in the manufacture of men's or boys' and women's or girls' shirts, classifiable in tariff subheading 6205.20 and 6206.30, respectively.	Full duty
	5407.82	Other woven fabrics, containing 65 per cent of polyester by mass, mixed mainly or solely with 35 per cent of cotton by mass, dyed, of a mass of 230 g/m <sup>2</sup> or more but not exceeding 285 g/m <sup>2</sup> , classifiable in tariff subheading 5407.82, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, for the manufacture of men's or boy's and women's or girls' trousers and shirts, classifiable in tariff subheadings 6204.69.10, 6204.49.10, 6205.90 and 6206.90, respectively.	Full duty
	5209.32	Woven fabrics of cotton, containing 97 per cent of cotton, of a mass of 235 g/m <sup>2</sup> or more but not exceeding 255 g/m <sup>2</sup> , dyed, with a 3-thread twill, classifiable in tariff 5209.32, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, for the use in the manufacture of men's or boys' and women's or girls' trousers and shirts, classifiable in 6203.42.10, 6204.62.10, 6205.20 and 6206.30, respectively.	Full duty
	5208.33	Woven fabric of 100% cotton, of a mass of 100 g/m <sup>2</sup> or more but not exceeding 120 g/m <sup>2</sup> , dyed, with 3-thread or 4-thread twill, including cross twill, classifiable in tariff subheading 5208.33, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, for the use in the manufacture of men's or boys' and women's or girls' shirts, classifiable in 6205.20 and 6206.30, respectively.	Full duty

## 2. INDUSTRY AND MARKET

- 2.1. The subject products are woven fabrics of cotton containing 65 per cent or more by mass of cotton and woven fabrics of polyester fibres containing 80 per



cent by mass of such fibres for use in the manufacture of different types of branded trousers and shirts.

- 2.2. Information at the Commission's disposal indicates that there are several textile mills in SACU that manufacture textile fabrics for the manufacture of wearing apparel, including but not limited to: Da Gama Textiles, Imraan Textile Mills, Svenmill, Gelvenor Consolidated Fabrics (Pty) Ltd ("Gelvenor"), and Helm Textile Mills (Pty) Ltd ("Helmtex").
- 2.3. Svenmill is a Cape Town based manufacturer and exporter of woven and warp knitted fabrics used across various applications such as upholstery, home textiles and apparel. Svenmill has weaving and manufacturing techniques present in its factory.

### **3. COMPETITIVE POSITION**

- 3.1. The current level of customs duty on the subject products serves as protection and encouragement for maintaining competitiveness against low priced imports, mainly from the East and increasing domestic production in the upstream textile industry, employment and investment.

### **4. COMMENTS ON THE APPLICATION**

- 4.1. Comments were received from the Textile Federation of South Africa (TEXFED), the Apparel Manufacturers of South Africa (AMSA), the Southern African Clothing and Textile Workers Union (SACTWU), Kenasco (Pty) Ltd and local textile mills such as Da Gama Textiles, Svenmill, Helmtex, Gelvenor and Imraan Textiles. In summary, comments were as follows:

- a) AMSA supported the application, on the basis that the fabrics in question and others not listed have been unavailable, or available only in insufficient quantities, at uncompetitive prices, and with challenges with regard to delivery schedules from local manufacturers.

- b) Kenasco (Pty) Ltd, supported the application on the basis that if the 22% duty applicable on the required fabrics could be waived, their ability to service the local retail market would be greatly enhanced thereby positively impacting the local labour market in the industry.
  
- c) TEXTFED objected to the application, indicating that the manufacture of boys', men's, girls' and women's trousers and shirts will have a serious negative impact on the viability of the industry in South Africa that manufactures such fabrics. They further indicated this would lead to manufacturing job losses at the upstream part of the value chain within the fabric, yarn and agricultural sectors. It will additionally push the economy further down the path of de-industrialisation, which has persisted for over a decade.
  
- d) Comments received from Da Gama Textiles, Svenmill, Helmtex, Gelvenor, and Imraan Textiles, indicate that the subject fabrics are manufactured locally and substitute fabrics are classifiable under the same tariff subheadings as that of the subject fabrics. In particular, Svenmill currently manufactures the subject products.
  
- e) Da Gama argued that it manufactures work wear fabrics, which is classifiable under some of the tariff subheadings concerned, and as such, the approval of this application may have a negative impact on local manufacturers.
  
- f) SACTWU argued that the scope of the application was wide and appeared to infringe on products made by local textiles (both directly and indirectly). SACTWU alluded to the on-going Retail-Clothing, Textile, Footwear, Leather ("R-CTFL") policy discussions on rebates for fabrics. It submitted that these discussions intend to navigate whether and how duties levied on imported textiles could possibly be rebated.

## **5. FINDINGS**

- 5.1. The Commission evaluated the merits of the application in light of the information at its disposal and found that there is a local manufacturer of the subject fabric, namely Svenmill and other local manufacturers of similar substitute fabrics, such as Imraan Textiles, Gelvenor, Helmtex and Da Gama.
- 5.2. The Commission concluded that the current level of customs duty on the subject products serves as protection and encouragement for increasing domestic production, employment and investment. Therefore, any duty relief in the form of a rebate provision would erode the support and encouragement afforded to the SACU textile manufacturing industry.
- 5.3. The Commission took into account the on-going Retail-Clothing, Textile, Footwear, Leather ("R-CTFL") policy discussions on rebates for fabrics, particularly with regards to modalities and reciprocal commitments. The Commission concluded that this application may be premature and against the spirit of the R-CTFL Masterplan, which endeavours to find a balance between rebating duties on fabrics used for apparel and implementing reciprocal commitments that would off-set risks faced by the local textile manufacturing industry while increasing gains within the clothing manufacturing industry.

## **6. RECOMMENDATION**

- 6.1. In light of the foregoing, the Commission decided that the application for the creation of rebate facilities on woven fabrics classifiable under tariff subheadings 5513.11, 5210.31, 5209.32, 5208.33 and 5407.82, for the use in the manufacture of men's or boys' and women's or girls' trousers and shirts, classifiable in 6203.4, 6203.42.10, 6204.6, 6204.49.10, 6204.62.10, 6204.69.10, 6205.20, 6205.90, 6206.30 and 6206.90, respectively; be rejected.