

REPORT NO. 628

AMENDMENT OF REBATE ITEM 306.02/5208.21/01.06 FOR WOVEN FABRICS OF COTTON, CONTAINING 85 PER CENT OR MORE BY MASS OF COTTON, OF A MASS NOT EXCEEDING 100 G/M² BLEACHED, IN A PLAIN WEAVE, FOR THE MANUFACTURE OF WADDING, GAUZE, BANDAGES AND SIMILAR ARTICLES (FOR EXAMPLE, DRESSINGS, ADHESIVE PLASTERS, POULTICES), IMPREGNATED OR COATED WITH PHARMACEUTICAL SUBSTANCES OR PUT UP IN FORMS OR PACKING FOR RETAIL SALE, FOR MEDICAL, SURGICAL, DENTAL OR VETERINARY PURPOSES FROM FULL DUTY LESS 11% TO REBATE OF THE FULL DUTY.

The International Trade Administration Commission of South Africa ("ITAC or the "Commission") herewith presents its Report No. 628: **Amendment of rebate item 306.02/5208.21/01.06 for woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 100 g/m² bleached, in a plain weave, used in the manufacture of wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packing for retail sale, for medical, surgical, dental or veterinary purposes from full duty less 11% to full duty.**



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CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 628

Amendment of rebate item 306.02/5208.21/01.06 for woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 100 g/m² bleached, in a plain weave, for the manufacture of wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packing for retail sale, for medical, surgical, dental or veterinary purposes from full duty less 11% to full duty.

Synopsis

The Commission considered an application by BSN Medical (Pty) Ltd (the "Applicant" or "BSN Medical"), for an amendment of rebate item 306.02/5208.21/01.06 for woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 100 g/m² bleached, in a plain weave, used in manufacture of wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packing for retail sale, for medical, surgical, dental or veterinary purposes from full duty less 11% to rebate of the full duty.

During its deliberations and in arriving at its recommendation, the Commission considered the information at its disposal, including comments received during the publication period.

The Commission found that:

- The Applicant is the sole manufacturer of the subject product (i.e gauze swab products). However, the major input material used in the manufacturing process is imported from international markets.

- the market and trade data submitted reflected an increase in imports of the subject product, on average, by 9.7% during the 2016 to 2018 period. Whilst the Applicant's capacity utilisation during the same period declined.
- the Applicant's ex-factory selling prices have been consistently higher when compared to similar imported products.
- Applicant's SACU market share and sales volumes declined during 2016, 2017 and 2018.
- despite the duty protection on the raw material (22% general, 13.2% EU, 10% EFTA and 22% MERCOSUR), the final product is also protected at a general rate of duty of 20% *ad valorem* whilst imports from the rest of the other regions are free of duty.
- if the rebate provision concerned is amended and made subject to an ITAC permit with specific Guidelines, Rules and Conditions, it will be possible for the Commission to stop issuing permits as soon as domestic manufacturing commences.

The Commission recommended the amendment of rebate item 306.02/5208.21/01.06 to enable the domestic industry manufacturing gauze swabs to fully utilise existing under-utilised production capacity thereby achieving cost advantages arising *inter alia* from increased output.

In the light of the foregoing, Commission decided to approve the application to amend rebate item 306.02/5208.21/01.06 for woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 100 g/m² bleached, in a plain weave, used in the manufacture of wadding, gauze, bandages and similar articles by increasing the extent of rebate from full duty less 11% to full duty. It was further decided that the rebate provision concerned be made subject to an ITAC permit.

1. APPLICATION AND TARIFF POSITION

- 1.1. BSN Medical (Pty) Ltd applied for the amendment of rebate item 306.02/5208.21/01.06 for woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 100 g/m² bleached, in a plain weave, used in the manufacture of

wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packing for retail sale, for medical, surgical, dental or veterinary purposes from full duty less 11% to rebate of the full duty.

- 1.2. The Applicant was established in 2001 through a joint venture agreement of two multinationals, namely, Smith & Nephew ("S&N") and Beiersdorf, who each owned 50% of the joint venture. Subsequent to selling the company in 2005, the Applicant became a totally independent entity. In April 2017, the Applicant was acquired by a Swedish company called Essity AB, a global hygiene and health company that develops, produces and sells personal care (baby care, feminine care, incontinence products and medical solutions), consumer tissues and professional hygiene products and solutions.
- 1.3 The Applicant is situated in Westmead, Pinetown. It is involved in the healthcare market specialising in compression therapy, wound care and orthopaedics.
- 1.4 As reasons for the application, BSN Medical stated, *inter alia*, that:
 - *"Currently, the bulk of rolls of gauze swabs are imported under tariff subheading 5208.21 with full duty less 11%. The rise in manufacturing costs has escalated, hence it has to apply for rebate of the full duty.*
 - *The company employs 397 people, and the closure of the production facility would result in 197 direct employees losing their jobs.*
 - *The impact will be compounded upstream as the company sources material and services from various local suppliers".*
- 1.5 The application was published in the Government Gazette on 24 January 2020, for interested parties to comment. Furthermore, ITAC facilitated a stakeholder engagement between BSN Medical, relevant industry players as well as government departments to explore the issues related to the application; amongst others, determining the availability, substitutability and potential to manufacture the fabrics concerned within the Southern African Customs Union ("SACU").

- 1.6 The stakeholder engagement was convened on 05 July 2019 at ITAC offices. The stakeholders present at the meeting were the Applicant, Standerton Mills (Pty) Ltd, Amana Medicals (Pty) Ltd, Quality Safety (Pty) Ltd, Beier Group (Pty) Ltd, Textile Federation and Department of Trade, Industry and Competition.
- 1.7 BSN Medical confirmed that it imports the subject product from India, in bulk fabric (126 cm width 26g per square metre), which is used in the manufacturing of gauze swabs. The specifications and samples of the subject product were shared amongst the stakeholders. The Applicant also stated that the company is willing to source the required fabrics locally provided that SACU has companies that can produce according to required specification.
- 1.8 The Applicant indicated that due to long lead times and the inconvenience associated with purchasing the subject product from international markets, it will offer to pay domestic manufacturers 15% more than what is currently being paid for the imported fabric.
- 1.9 The tariff structures for woven fabrics concerned are shown in Table 1, Table 2 and Table 3 below. According to the Applicant, these are similar products used for the same purpose.

Table 1: Current tariff position for the subject products (Woven fabrics)

Tariff Heading	Sub-heading	Article Description	Stat. Unit	Rate of Duty				
				General	EU	EFTA	SADC	MERCOSUR
52.08		Woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 200 g/m ² :						
	5208.2	Bleached:						
	5208.21	Plain weave, of a mass not exceeding 100 g/m ²	Kg	22%	13.2%	10%	Free	22%

Source: SARS

- 1.10 Table 1 above illustrates that the woven fabrics concerned are currently imported at various rates of duty from different regions. Under the current rebate provision, the Applicant imports the subject product from India at full duty (22% *ad valorem*) less 11%.

1.11 The final product, gauze swabs, classifiable under tariff subheading 3005.90.10, attracts a general rate of duty of 20% *ad valorem*, and the rest of the other regions, i.e. EU, EFTA, SADC and MERCOSUR, are free of duty.

1.12 Table 2 below shows the current structure of rebate item 306.02/5208.21/01.06:

Table 2: Current structure of rebate item concerned

Rebate Item	Tariff Sub-heading	Rebate Code	Description	Extent of Rebate
306.02	5208.21	01.06	Woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 100 g/m ² bleached, in a plain weave, for the manufacture of wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packings for retail sale, for medical, surgical, dental or veterinary purposes.	Full duty less 11%

Source: SARS

1.13 Table 3 below shows the requested structure for rebate item 306.02/5208.21/01.06:

Table 3: Requested rebate structure

Rebate Item	Tariff Sub-heading	Rebate Code	Description	Extent of Rebate
306.02	5208.21	01.06	Woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 100 g/m ² bleached, in a plain weave, for the manufacture of wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packings for retail sale, for medical, surgical, dental or veterinary purposes.	Full duty

Source: Applicant

1.14 SARS has confirmed that should the Commission support the application, the current rebate item 306.02/5208.21/01.01 providing for "full duty less 11%" will be deleted and a new rebate item will be created with the same description and new extent of rebate, which will reflect: "Full duty".

2. DISCUSSION

2.1. The subject product is woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 100 g/m² bleached, in a plain weave, that is

used for the manufacture of wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packings for retail sale, for medical, surgical, dental or veterinary purposes.

2.2. Woven and bleached cotton gauze fabrics are used for the manufacturing of various abdominal gauze swabs for hospital and private medical use. Woven gauze are used in hospitals or homes with the primary purpose of absorbing blood and other fluids from the anatomy, e.g. post orthopaedic, general surgery or over a wound.

2.3. Figure 1 below shows the position of the woven fabrics concerned in the value chain of manufacturing of gauze swabs:

Figure 1: Value chain for the manufacturing of gauze swabs



Source: Applicant

2.4 According to information at the Commission's disposal, the Applicant is the sole manufacturer of the aforementioned gauze swab products in the SACU market. However, the major input material used in the manufacturing process is being imported from international markets.

2.5 Although the Applicant is the only manufacturer of the subject product in SACU, there are a number of importers of the finished product. The following companies, amongst others, were identified as importers of the subject product:

- Multisurge CC;
- SA Healthcare (Pty) Ltd; and
- Be Safe Paramedical.

- 2.6 The Applicant submitted that should the application be supported by the Commission, it will increase its production as well as increasing its employee base over a 3 years period.
- 2.7 Although a number of stakeholders objected to the application during the preliminary stage, subsequent to the stakeholder engagement, all stakeholders present agreed that the subject product was not being manufactured in the SACU market.
- 2.8 The information at the Commission's disposal indicates that the subject product is still not manufactured in the domestic market, pending the Beier Group completing its weaving project. (Beier Group indicated that it is currently not in a position to produce the fabric concerned as it is still awaiting the delivery of the capital equipment by end of February 2020).

3. FINDINGS

3.1. The Commission found that:

- The Applicant is the sole manufacturer of the subject product (i.e gauze swab products). However, the major input material used in the manufacturing process is imported from international markets.
- the market and trade data submitted reflected an increase in imports of the subject product, on average, by 9.7% during the 2016 to 2018 period. Whilst the Applicant's capacity utilisation during the same period declined.
- the Applicant's ex-factory selling prices have been consistently higher when compared to similar imported products.
- Applicant's SACU market share and sales volumes declined during 2016, 2017 and 2018.
- despite the duty protection on the raw material (22% general, 13.2% EU, 10% EFTA and 22% MERCOSUR), the final product is also protected at a general rate of duty of 20% *ad valorem* whilst imports from the rest of the other regions are free of duty.

- if the rebate provision concerned is amended and made subject to an ITAC permit with specific Guidelines, Rules and Conditions, it will be possible for the Commission to stop issuing permits as soon as domestic manufacturing commences.

3.2 The Commission recommended for amendment of rebate item 306.02/5208.21/01.06 to enable the domestic industry manufacturing gauze swabs to fully utilise existing under-utilised production capacity thereby achieving cost advantages arising *inter alia* from increased output.

4. RECOMMENDATION

4.1 In the light of the foregoing, Commission decided to approve the application to amend rebate item 306.02/5208.21/01.06 for woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 100 g/m² bleached, in a plain weave, used for the manufacture of wadding, gauze, bandages and similar articles by increasing the extent of rebate from full duty less 11% to rebate of the full duty as follows:

Rebate Item	Tariff Sub-heading	Rebate Code	Description	Extent of Rebate
306.02	5208.21	01.06	Woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 100 g/m ² bleached, in a plain weave, for the manufacture of wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packings for retail sale, for medical, surgical, dental or veterinary purposes	Full duty

4.2 It was further decided that the rebate provision concerned be made subject to an ITAC permit.