

REPORT NO. 625

**CREATION OF A REBATE PROVISION ON CUSTOMS DUTY APPLICABLE TO
SYNTHETIC RUBBER CLASSIFIABLE UNDER TARIFF SUBHEADING
4002.19.90 USED IN THE MANUFACTURE OF TYRES**

The International Trade Administration Commission herewith presents its **Report No. 625: CREATION OF A REBATE PROVISION ON CUSTOMS DUTY APPLICABLE TO SYNTHETIC RUBBER CLASSIFIABLE UNDER TARIFF SUBHEADING 4002.19.90, USED IN THE MANUFACTURE OF TYRES**, with recommendations.


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MELULEKI NZIMANDE
CHIEF COMMISSIONER

PRETORIA

08/05/.....2020

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 625

CREATION OF A REBATE PROVISION ON CUSTOMS DUTY APPLICABLE TO SYNTHETIC RUBBER CLASSIFIABLE UNDER TARIFF SUBHEADING 4002.19.90 USED IN THE MANUFACTURE OF TYRES

Synopsis

ITAC received an application from Sumitomo Rubber South Africa (Pty) Ltd for the creation of a rebate provision on customs duty applicable to synthetic rubber classifiable under tariff subheading 4002.19.90, used in the manufacture of tyres classifiable under tariff heading 40.11.

The Commission considered the application in light of the information at its disposal. The Commission found that there are currently no manufacturers of synthetic rubber used in the manufacture of tyres in the SACU region.

The Commission concluded that, tariff relief, through the creation of a rebate provision, will contribute to a reduction in the cost of production and improvement in the competitive position of the domestic industry manufacturing tyres.

In light of the foregoing, the Commission recommended the creation of a rebate provision on customs duty applicable to synthetic rubber classifiable under tariff subheading 4002.19.90, used in the manufacture of tyres classifiable under tariff heading 40.11.

THE APPLICATION AND TARIFF POSITION

1. Sumitomo Rubber South Africa (Pty) Ltd (“Sumitomo Rubber” or “the applicant”) applied for the creation of a rebate provision on customs duty applicable to synthetic rubber classifiable under tariff subheading 4002.19.90, used in the manufacture of tyres classifiable under tariff heading 40.11.
2. Sumitomo Rubber, a subsidiary of Sumitomo Rubber Industries, is a manufacturer and distributor of passenger tyres and heavy commercial vehicle tyres. It has two manufacturing facilities located in Ladysmith and Durban. The tyres are manufactured according to the customer’s specifications, applicable statutory, regulatory and procedural requirements.
3. As motivation for the application, the applicant cited the following:
 - There are currently no known manufacturers of the subject product or close substitutes in the SACU region. As such, the applicable customs duty on the subject product has an unnecessary cost-raising effect on the production of tyres; and
 - The creation of a rebate provision will contribute to a reduction in the cost of production and improvement in the global competitive position of the domestic industry manufacturing tyres.

4. The existing ordinary customs duty structure for the subject product is as follows:

Table 1: Current tariff structure for the subject product

Heading/ Sub heading	Description	Statistical Unit	Rate of Duty				
			General	EU	EFTA	SADC	MERCOSUR
40.02	Synthetic rubber and factice derived from oils, in primary forms or in plates, sheets or strip; mixtures of any product of heading 40.01 with any product of this heading, in primary forms or in plates, sheets or strip:						
4002.11	- Latex::						
4002.11.90	- Other	Kg	10%	Free	Free	Free	10%

5. The subject product attracts a general rate of customs duty of 10% *ad valorem* duty. The World Trade organisation (“WTO”) bound rate is 15% *ad valorem*.

6. The application was published in the Government Gazette No. 42967 under Notice No.18 of 24 January 2020 for interested parties to comment, as follows:

CREATION OF A REBATE PROVISION ON:

“Styrene-butadiene rubber (SBR) (synthetic rubber) classifiable in tariff subheading 4002.19.90, for the manufacture of tyres classifiable in tariff heading 40.11”.

INDUSTRY AND MARKET

7. The subject product, styrene-butadiene rubber, is an artificial elastomer and is synthesized from petroleum by-products. It is an essential input in the manufacture of tyres.
8. Tyres are manufactured according to relatively standardized processes. The first stage involves preparation of various grades of natural and synthetic rubber with carbon black, sulphur and chemical products in an internal mixer to meet specific compound requirements.
9. Heat is then applied to the rubber to make it more elastic and put through extruder machines where the tread and sidewalls are formed into the required shapes. The extruders produce a continuous sheet of tread rubber, which is then cooled and cut to specific tyre lengths.
10. The cord components comprising of the tread, plies and sidewall and the bead wire are then assembled before being cured or placed under extreme heat for the components to bond.
11. The tyre is placed in a curing press for a certain period of time at a specific pressure and temperature. It is then removed from the mould having achieved its final size, shape and tread pattern. Excess rubber from the curing process is removed, and the tyre is trimmed to order. Finally, each tyre is visually and electronically inspected for balance, quality and uniformity.

12. New pneumatic tyres come in different sizes and specifications which are informed by the intended application of the particular tyres. The performance characteristics of tyres include balance, contact patch, dry traction, force variation, load sensitivity, rolling resistance, stopping distance, work load, tread wear, noise and fuel efficiency.
13. Currently, there are no local manufacturers of synthetic rubber used in the manufacture of tyres in the SACU region. Historically, the local tyre manufacturers depended on Karbochem (Pty) Ltd (Karbochem) for supply of synthetic rubber until it ceased the manufacture of the subject product. The subject product is mainly imported from Taiwan, Thailand and Europe.
14. The known local manufacturers of the final products (i.e. tyres) are Goodyear (Pty) Ltd, Continental Tyres (Pty) Ltd and Bridgestone (Pty) Ltd and Sumitomo Rubber. The tyres are supplied to various Original Equipment Manufacturers such as Volkswagen South Africa (Pty) Ltd, Ford Motor Company of Southern Africa (Pty) Ltd and to the automotive aftermarket for replacement.

COMPETITIVE POSITION

15. Tariff relief, through the creation of a rebate provision on the subject product will contribute to a reduction in the cost of production and improvement in the competitive position of the domestic industry manufacturing tyres.

COMMENTS RECIEVED

16. Comments in support of a creation of rebate provision on the subject products were received from the South African Tyre Manufacturer Conference (Pty) Ltd (SATMC) and Department of Trade, Industry and Competition's Automotive Sector Desk, Bandag South Africa (Pty) Ltd and the Republic of Botswana's Ministry of Investment, Trade and Industry.
17. No objections were received.

FINDINGS

18. The Commission considered the application in light of the information at its disposal. The Commission found that there are currently no manufacturers of synthetic rubber used in the manufacture of tyres in the SACU region.
19. The Commission concluded that tariff relief through the creation of a rebate provision on synthetic rubber will contribute to a reduction in the cost of production and improvement in the global competitive position of the domestic industry manufacturing tyres.

RECOMMENDATION

20. In light of the foregoing, the Commission recommended the creation of a rebate provision on customs duty applicable to synthetic rubber classifiable under tariff subheading 4002.19.90, used in the manufacture of tyres classifiable under tariff heading 40.11.