

Five years of existence have paid excellent dividends to ITAC

Five years have passed since the International Trade Administration Commission of South Africa (ITAC) became operational, replacing its predecessor, the Board of Tariffs and Trade (BTT). ITAC was established through an Act of Parliament, the International Trade Administration Act 71 of 2002, which came into force on 1 June 2003.

The aim of ITAC, as stated in the Act, is to foster economic growth and development in order to raise incomes and promote investment and employment in South Africa and within the Common Customs Union Area by establishing an efficient and effective system for the administration of international trade subject to this Act and the Southern African Customs Union (SACU) Agreement. The core functions are: customs tariff investigations; trade remedies; and import and export control.

ITAC 5-year strategy

Economic success in the South African context hinges on growing exports particularly in labour-intensive sectors, competitiveness, investment, productive capacity to meet demand in the domestic market, technological upgrading and knowledge flow. Trade expansion along with the upgrading of the composition of exports and an improvement in ITAC's terms of trade is a key ingredient for economic success. Thus, ITAC has the important challenge of aligning its tariff investigations, investigations of anti-dumping and other trade remedies petitions and applications as well as import and export control to these objectives, in compliance with WTO rules.

ITAC operates in a complex and dynamic global and domestic trade and industrial policy environment characterized by sustained pressure to reduce or eliminate ordinary customs duties through unilateral, bilateral, regional, and multilateral trade processes

and agreements. There are increasing limitations on assessing industry applications for increasing ordinary customs duties.

Although ordinary customs duties for high value added products will remain an important industrial policy instrument in selected instances, the trade policy instruments within the purview of ITAC that are increasingly being used by governments worldwide are trade remedies, in particular anti-dumping protection.

In its new strategy, ITAC identified the following key strategic objectives:

- Ensuring appropriate contribution to economic growth and development through provision of its international trade instruments;
- Ensuring strategic alignment and continued relevance within **thedti** and national agenda; and
- Ensuring organisational efficiency and effectiveness through business support services

In light of the complex and dynamic environment in which ITAC operates, the central theme of TAC's strategy is adaptation, renewal and continued relevance.

Tariff Investigations

The activities of the tariff investigations division are geared towards the lowering of cost structures on industrial inputs through tariff reform, thereby enhancing international competitiveness and promoting downstream value-added industrialisation. Downstream industries are much more labour-intensive than the relatively capital-intensive upstream heavy industries such as steel and petrochemicals. During

the past year, ITAC launched major investigations with a view to a revision of the duty structure for basic chemicals, semi-manufactured aluminium, textiles, and capital equipment.

The tariff amendment adjudication process within ITAC is rigorous, thoroughly evidence-based and is carried out on a case-by-case basis. Consideration is given to the justification for protection in terms of criteria such as an analysis of an industry's rate of effective protection and its economic impact or knock-on effect across the whole value chain of industries and consumers.

In addition, the need for tariff protection through the imposition of duties, as evidenced by a revealed price disadvantage vis-à-vis foreign producers of equivalent products, is rigorously examined in an evaluation of an industry's competitive position. In selected cases, and supported by evidence, the strategic use of tariffs has an important role in the establishment of new industries, or protection of existing industries and jobs.

The tariff-setting process for the agricultural sector has been a salient aspect of the work of ITAC, given the phenomenon of highly elevated global food prices. This has serious implications for tariff setting, in particular when considering applications to increase customs duties on agricultural products. In the tariff-setting process for agricultural products, ITAC also takes the global market distortions into consideration.

In the financial year 2005/2006 and in addition to its ongoing administration of the Motor Industry Development Programme (MIDP) and the Textiles and Clothing Interim Development Programme (TCIDP), the Commission considered 3 applications for an increase in the ordinary customs duty, 36 applications for a reduction or rebate of the duty, and issued 999 rebate or refund of duty permits,

including the export promoting provisions in terms of which the duties on imported materials and components are rebated provided that the final product manufactured domestically is exported.

Trade Remedies

In terms of its mandate, ITAC has the important function of conducting investigations of anti-dumping and other trade remedies petitions and applications in compliance with WTO rules.

ITAC's trade remedies instruments: Anti-dumping duties, Countervailing measures, and Safeguards, but in particular the most often used anti-dumping instrument, will be receiving more attention and prominence relative to ordinary customs duties. Over the past three years, no new countervailing (anti-subsidy) investigation was initiated by ITAC. One safeguard investigation and the first ever, was conducted in 2007 that led to the introduction of a safeguard measure on lysine, which is an animal feed supplement. As mentioned, relative to the other two trade remedies, applications to ITAC are mostly for anti-dumping protection.

ITAC will continue to be rigorous and circumspect in its investigations and recommendations to the Minister of Trade and Industry, given the costs and benefits inherent in these instruments. Actions against unfair injurious dumping remain a critical intervention to protect jobs and sustain investments. It is important that the instruments are used to level the playing field and that our actions do not stifle healthy global competition but foster fair trade, international competitiveness and job creation particularly in downstream industries.

The term "dumping" is often misunderstood by the general public and even within some sections of commerce and industry. Dumping, despite its name, has nothing to do with the importation of inferior, defective, or hazardous goods, which is the ordinary use of the word. Dumping is a term used in international trade for the unloading of sometimes large quantities of a particular product in another country at a low price. The product is sold in foreign markets at prices lower than the selling price in the country of origin. The aim is to penetrate a foreign market and maximize profits. It is not an uncommon business practice. The problem arises when it causes injury (e.g. loss of market share; profits; jobs; etc.) to the domestic manufacturers of the like product, in which case the WTO Agreement allows countries to act. The types of goods that are typically dumped

from time to time are those goods produced by capital-intensive industries due to the particular operation of these industries and the ratio and relationship between fixed and variable costs.

Dumping then is technically defined as a situation where imported goods are being sold at prices lower than in the country of origin, and also causing financial injury to domestic producers of such goods. To remedy such unfair pricing, ITAC may recommend the imposition of, at times, substantial duties on imports, duties that are equivalent to the dumping margin (or to the margin of injury, if this margin is lower). But it should be recognised that in as much as the increased duties can assist domestic companies to compete against low priced imports, they also increase costs for domestic producers that use these imports as intermediate inputs, affecting their competitiveness.

Because of the varied effects that anti-dumping duties can have on economic activity, ITAC has endeavoured to carry out investigations with rigour, but also circumspection, to ensure duties are imposed only where warranted by the facts. To align its investigations with this objective more closely, embed fairness and clarity into its investigative procedures, and mindful of international requirements, ITAC revised its anti-dumping regulations which will be implemented in the next financial year.

The flow of the domestic industry applications for trade remedies fluctuates over time and is influenced, among other things, by global price movements and changes in the exchange rate.

In the financial year 2005/2006, the Commission considered 14 applications for the possible introduction of anti-dumping measures. The figure was 14 and 5 for the financial years 2006/2007 and 2007/2008 respectively.

Compared to a steady increase in initiations over the years up to the beginning of 2006, a marked downward trend in the number of new anti-dumping initiations, specifically new anti-dumping initiations occurred since the high initiation count experienced in 2005/2006. The year 2006/2007 saw a 50% reduction and in 2007/2008 a 60% reduction was evident. This trend is mainly attributed to the introduction of an increased thoroughness and rigour in ITAC's investigative processes that, among others, led to fewer initiations. The fewer initiations are also partly the result of the depreciation of the Rand over the last two years. On a trade-weighted basis, the Rand depreciated by 15 per cent and 9 per cent

in 2006/2007 and 2007/2008 respectively, making imports more expensive and domestic industries less inclined to apply for protection.

Import and Export Control

Import and export control measures or restrictions in a more open global economy are limited to those allowed under the relevant World Trade Organization (WTO) Agreements. Import control measures are essentially for health, safety and environmental reasons as well as the maintenance of technical standards.

Out of a total of 6618 product tariff lines identified in the South African version of the International Harmonised Commodity Description and Coding System, the internationally accepted customs clearing system for traded goods, there are only approximately 276 tariff lines that, in South Africa, are under import control and 177 tariff lines that are under export control. As mentioned, import and export control measures are applied to enforce health, environmental, security and safety, and technical standards that arise from domestic laws and international agreements.

During the year under review, ITAC also played a critical role in the administration of the temporary quota restrictions on clothing and textile imports from China on behalf of **thedti**.

Given the aims of ITAC and the dynamic global and domestic environment in which ITAC operates, ITAC compared to its predecessor, the BTT, is faced with a challenge of adaptation and renewal. In this regard ITAC endeavours to position the institution for continued relevance. ITAC, in light of the institutional information and knowledge accumulated from its trade instruments in the form of product specific investigations and the administration of the MIDP and the TCIDP industrial development programmes, is positioned in its strategy to make meaningful contributions to trade and industrial policy formulation and technical advice in trade negotiations by **thedti**. The National Industrial Policy Framework and the ongoing assessment of South Africa's Trade Policy inform the renewed efforts of ITAC going forward. **BBO**

