

REPORT NO. 547

**REVIEW OF THE GENERAL RATE OF CUSTOMS DUTY ON
CERTAIN WHITE GOODS**

The International Trade Administration Commission herewith presents its Report No. 547:
**REVIEW OF THE GENERAL RATE OF CUSTOMS DUTY ON CERTAIN WHITE
GOODS**, with recommendations.



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA
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REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 547

REVIEW OF THE GENERAL RATE OF CUSTOMS DUTY ON CERTAIN WHITE GOODS

Synopsis

On 22 July 2016, the Commission initiated a review of customs duty on a number of downstream steel industry products that included white goods classifiable under tariff headings 73.21, 84.18, 84.50, and 84.51.

Defy Appliances (Pty) Ltd ("Defy"), Southern Africa's largest manufacturer and distributor of major domestic appliances and Whirlpool SA (Pty) Ltd ("Whirlpool"), a manufacturer of freezers and refrigerators, submitted their information in support of an increase in customs duty on white goods.

Specifically, Defy and Whirlpool requested customs duty increases on refrigerators and freezers, classifiable under tariff subheadings, 8418.10, 8418.21, 8418.29, 8418.30.90, and 8418.40.90

Defy also requested customs duty increases on washing machines and drying machines, classifiable under tariff subheadings 8450.11, 8450.20.90, 8451.21.10, 8451.21.20, and 8451.21.90.

The Commission found that Defy does not currently manufacture washing machines classifiable under tariff subheading 8450.11 and is only planning to do so in the future. In addition, the WTO bound rate on TH 8450.20.90 for larger washing machines is currently "free of duty", meaning that there is no policy space to increase the customs duty on this tariff line.

The Commission considered the application in light of the application at its disposal. In particular, the Commission took the following factors into account:

- The declining levels of imports of the subject products and the increase in the local market share of the domestic industry;
- The increase in the production and sales figures of the domestic industry;
- The price advantages enjoyed by the domestic industry manufacturing the subject products; and
- The profitability of the domestic manufacturing industry over the three year period.

The Commission found that the creation of a rebate provision on flat coated steel, as was recommended by the Commission in its recent Report No.532, would assist the domestic industry manufacturing white goods in reducing the cost of its material inputs. The cost advantage arising from increased output should further reduce both fixed and variable cost per unit because of operational efficiencies.

The Commission found no justification for an increase in duty to the requested level of 30% *ad valorem* in the case of refrigerators and freezers and 20% *ad valorem* in the case of drying machines. Such an increase would have an undue cost-raising impact on final consumers of such products.

In light of the foregoing, the Commission recommends that the general rate of customs duty on refrigerators and freezers, classifiable under tariff subheadings 8418.10, 8418.21, 8418.29, 8418.30.90, and 8418.40.90 be maintained at the current level of 25% *ad valorem*. The Commission further recommends that the general rate of customs duty on drying machines, classifiable under tariff subheadings 8451.21.20 and 8451.21.90, be maintained at the current free of duty level.

BACKGROUND AND TARIFF POSITION

1. On 22 July 2016, the Commission initiated a review of customs duty on a number of downstream steel industry products that included white goods, classifiable under tariff headings 73.21, 84.18, 84.50, and 84.51.
2. The Notice was published in the Government Gazette on 22 July 2016 as follows:

Review of the general rate of customs duty on various downstream steel products:

"Steel products classifiable under tariff headings; 72.17, 73.07, 73.08, 73.12, 73.18, **73.21**, 83.02, **84.18**, 84.26, **84.50**, **84.51**, 85.04, 86.01, 86.07, 86.09 and 94.06"
3. Following the publication of the review in the Government Gazette, two domestic manufacturers of white goods submitted their information to the Commission to motivate an increase in customs duty on refrigerators, chest freezers, washing machines, and drying machines.
4. Defy Appliances (Pty) Ltd ("Defy"), Southern Africa's largest manufacturer and distributor of major domestic appliances and Whirlpool SA (Pty) Ltd ("Whirlpool"), a manufacturer of freezers and refrigerators, submitted their information in support of an increase in customs duty on white goods.
5. Specifically, Defy and Whirlpool requested customs duty increases on refrigerators and freezers, classifiable under tariff subheadings, 8418.10, 8418.21, 8418.29, 8418.30.90, and 8418.40.90
6. Defy also requested customs duty increases on washing machines and drying machines, classifiable under tariff subheadings 8450.11, 8450.20.90, 8451.21.10, 8451.21.20, and 8451.21.90.
7. The Commission found that Defy does not currently manufacture washing machines classifiable under tariff subheading 8450.11 and is only planning to do so in the future. Furthermore, the WTO bound rate on TH 8450.20.90, for larger washing machines, is

“free of duty.” This means that there is no policy space to increase the customs duty on this tariff line. The Commission therefore decided to exclude washing machines from its recommendation.

8. As motivation for the application, the applicants stated, *inter alia*, the following:

- The existing level of imports of the products concerned into the SACU is impacting negatively on the viability of the domestic industry;
- The domestic industry is not competitive against imports of the subject products into SACU; and
- An increase in tariffs will assist the domestic industry in retaining jobs and in gaining additional market share domestically.

9. The existing tariff structure of the subject products is as follows:

Table 1: Current tariff position (Refrigerators)

Tariff heading/ subheading	Description	Unit	Rate of duty				MERCOSUR
			General	EU	EFTA	SADC	
84.18	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps (excluding air conditioning machines of excluding 84.15):						
8418.10	Combined refrigerator-freezers, fitted with separate external doors	u	25%	free	free	free	25%
8418.2	Refrigerators, household type:						
8418.21	Compression – type	u	25%	free	free	free	25%
8418.29	Other	u	25%	free	free	free	25%
8418.30	Freezers of the chest type, not exceeding 800 li capacity:						
8418.30.90	Other	u	25%	free	free	free	25%
8418.40	Freezers of the upright type, not exceeding 900 li capacity:						
8418.40.90	Other	u	25%	free	free	free	25%

Source: SARS, 2016

Table 2: Current tariff position (Drying Machines)

Tariff heading/ subheading	Description	Unit	Rate of duty				MERCOSUR
			General	EU	EFTA	SADC	
84.51	Machinery (excluding machines of heading 84.50) for washing, cleaning, wringing, drying, ironing, pressing (including fusing presses), bleaching, dyeing, dressing, finishing, coating or impregnating textile yarns, fabrics or made up textile articles and machines for applying the paste to the base fabric or other support used in the manufacture of floor coverings such as linoleum; machines for reeling, unreeling, folding, cutting or pinking textile fabrics:						
8451.2	Drying machines:						
8451.21	Each of a dry linen capacity not exceeding 10 kg:						
8451.21.20	Other laundry drying machines of a dry linen capacity not exceeding 7,5 kg (excluding coin-operated machines)	u	free	free	free	free	free
8451.21.90	Other	u	free	free	free	free	free

Source: SARS, 2016

10. The requested tariff structure is as follows:

Table 3: Requested tariff position (Refrigerators)

Tariff heading/ subheading	Description	Unit	Rate of duty				MERCOSUR
			General	EU	EFTA	SADC	
84.18	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps (excluding air conditioning machines of excluding 84.15):						
8418.10	Combined refrigerator-freezers, fitted with separate external doors	u	30%	free	free	free	25%
8418.2	Refrigerators, household type:						
8418.21	Compression – type	u	30%	free	free	free	25%
8418.29	Other	u	30%	free	free	free	25%
8418.30	Freezers of the chest type, not exceeding 800 li capacity:						
8418.30.90	Other	u	30%	free	free	free	25%
8418.40	Freezers of the upright type, not exceeding 900 li capacity:						
8418.40.90	Other	u	30%	free	free	free	25%

Table 4: Requested tariff position (Drying Machines)

Tariff heading/ subheading	Description	Unit	Rate of duty				MERCOSUR
			General	EU	EFTA	SADC	
84.51	Machinery (excluding machines of heading 84.50) for washing, cleaning, wringing, drying, ironing, pressing (including fusing presses), bleaching, dyeing, dressing, finishing, coating or impregnating textile yarns, fabrics or made up textile articles and machines for applying the paste to the base fabric or other support used in the manufacture of floor coverings such as linoleum; machines for reeling, unreeling, folding, cutting or pinking textile fabrics:						
8451.2	Drying machines:						
8451.21	Each of a dry linen capacity not exceeding 10 kg:						
8451.21.20	Other laundry drying machines of a dry linen capacity not exceeding 7,5 kg (excluding coin-operated machines)	u	20%	free	free	free	free
8451.21.90	Other	u	20%	free	free	free	free

11. The WTO bound rate for the refrigerators and freezers under investigation is 30% *ad valorem* while the WTO bound rate for drying machines is 20% *ad valorem*.

INDUSTRY AND MARKET

12. The subject products are refrigerators, freezers and drying machines.

13. Flat coated steel forms an integral part in the manufacture of the subject products as it is used to manufacture the outside and door panels of the products and is imported in an already pre-painted form.

14. The production process for refrigerators and freezers consists of the following steps:

- The shape of the door and side panel metal are changed by the application of pressure;
- The main cabinet and door liners are formed;
- Wires are welded together to form refrigerator cabinet shelves;
- The side and door panels are painted;
- Door panel and liner are assembled and filled with foam using an injection process;
- The refrigerator cabinet is filled with foam using an injection process;

- All the components are mounted and assembled on the foamed cabinets and tanks to form the final product; and
- Final assembled products are tested for performance, quality and safety.

15. There are four known manufacturers of the subject products in the SACU region and these are:

- Defy Appliances (Pty) Ltd;
- Whirlpool South Africa (Pty) Ltd;
- Hisense SA Manufacturing (Pty) Ltd; and
- Zero Appliances (Pty) Ltd.

16. The main importers of the subject products include SMEG South Africa (Pty) Ltd and BSH Home Appliances (Pty) Ltd. It should be noted that some of the domestic manufacturers of the subject products also import significant volumes of the products.

17. The SARS official statistics show that imports of the subject products have declined over the period 2013 to 2015. With regards to refrigerators, aggregate import volumes declined from approximately 1.3 million units to approximately 825 000 units over the three years.

18. Aggregate import volumes for drying machines declined from 39 539 units to 24 220 units over the period 2013 to 2015.

COMPETITIVE POSITION

19. According to the information at the Commission's disposal, the local industry manufacturing refrigerators, freezers, and drying machines is price competitive vis-à-vis similar imported products. This is shown by the price advantage enjoyed by the industry over the period under investigation.

COMMENTS RECEIVED

20. Comments objecting to a possible increase in customs duty on the subject products were received from BSH Home Appliances t/a Bosch and SMEG South Africa (Pty) Ltd, a home appliance retailer, wholesaler and importer. Samsung Electronics South Africa (Pty) Ltd, another importer of various appliance products, also objected to a possible increase in customs duty on the subject products.

21. The objections centred on the following factors: The vast majority of home appliances in South Africa, including white goods, are imported: the domestic manufacturing industry does not have the requisite manufacturing capacity to meet the demand; and an increase in the customs duties on these products will be detrimental to final consumers of such products.

FINDINGS

22. The Commission found that Defy does not currently manufacture washing machines, classifiable under tariff subheading 8450.11 and is only planning to do so in the future. In addition, the WTO bound rate on TH 8450.20.90 for larger washing machines is currently “free of duty”, meaning that there is no policy space to increase the customs duty on this tariff line.

23. The Commission considered the application in light of the application at its disposal. In particular, the Commission took the following factors into account:

- The declining levels of imports of the subject products and the increase in the local market share of the domestic industry;
- The increase in the production and sales figures of the domestic industry;
- The price advantages enjoyed by the domestic industry manufacturing the subject products; and
- The profitability of the domestic manufacturing industry over the three year period.

24. The Commission found that the creation of a rebate provision on flat coated steel, as was recommended by the Commission in its recent Report No.532, would assist the domestic industry manufacturing white goods in reducing the cost of its material inputs. The cost advantage arising from increased output should further reduce both fixed and variable cost per unit because of operational efficiencies.

25. The Commission found no justification for an increase in duty to the requested level of 30% *ad valorem* in the case of refrigerators and freezers and 20% *ad valorem* in the case of drying machines. Such an increase would have an undue cost-raising impact on final consumers of such products.

RECOMMENDATION

26. In light of the foregoing, the Commission recommends that the general rate of customs duty on refrigerators and freezers, classifiable under tariff subheadings 8418.10, 8418.21, 8418.29, 8418.30.90, and 8418.40.90 be maintained at the current level of 25% *ad valorem*. The Commission further recommends that the general rate of customs duty on drying machines, classifiable under tariff subheadings 8451.21.20 and 8451.21.90, be maintained at the current free of duty level.