

**REPORT NO. 471**

**AMENDMENT TO SCHEDULE 3 OF THE CUSTOMS AND EXCISE ACT, TO  
ALLOW MANUFACTURERS IN A CUSTOMS CONTROLLED AREA TO USE  
SCHEDULE 3 REBATES**

The International Trade Administration Commission of South Africa herewith presents its Report No. 471: **AMENDMENTS TO SCHEDULE 3 OF THE CUSTOMS AND EXCISE ACT, TO ALLOW MANUFACTURERS IN A CUSTOMS CONTROLLED AREA TO USE SCHEDULE 3 REBATES**, 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. 471

AMENDMENT TO SCHEDULE 3 OF THE CUSTOMS AND EXCISE ACT, TO  
ALLOW MANUFACTURERS IN A CUSTOMS CONTROLLED AREA TO USE  
SCHEDULE 3 REBATES

**Synopsis**

The **dti** requested ITAC to amend Schedule 3 of the Customs and Excise Act, to allow Customs Controlled Area (CCA) enterprises to utilise the rebate provisions under Schedule No. 3 of the Customs and Excise Act on imported inputs used to manufacture products for the domestic market.

The Commission considered the application in the light of the information at its disposal. It found that the amendments recommended below would assist the IDZs in their efforts of attracting additional investment with employment opportunities and linkages to the domestic market, by placing IDZ investors in a CCA on a similar competitive footing in the SACU market as firms outside the CCA in the SACU, manufacturing similar products.

In light of the foregoing, the Commission recommends that Schedule No. 3 be amended to allow enterprises located in a CCA of an IDZ to utilise the existing rebate provisions under Schedule 3 of the Customs and Excise Act.

## THE APPLICATION AND THE TARIFF POSITION

1. The **dti** requested ITAC to amend Schedule 3 rebate provisions, to allow Customs Controlled Area (CCA) enterprises to utilise the rebate provisions under Schedule No. 3 of the Customs and Excise Act on imported inputs used to manufacture products for the domestic market.
2. In terms of rebate item 498.00, CCA enterprises enjoy customs duty rebates and VAT exemption on intermediate input materials used to manufacture products for the export market. However, if the finished goods are destined for the domestic market, the CCA manufacturer is liable for payment of both the applicable customs duties and VAT. Industries situated in the SACU, outside the CCA in IDZs, can utilise the Schedule No. 3 rebate provisions to manufacture products for the domestic market. However, they are liable for payment of VAT.
3. Manufacturers located in SACU outside the CCA can utilize the export-promoting rebate item 470.03 and drawback item 521.00 of Schedule Nos. 4 and 5 of the Customs and Excise Act.
4. In terms of rebate item 470.03 and drawback item 521.00, users enjoy a rebate or drawback of duty and VAT exemption on imported materials and components used in the manufacture of products destined for the export market.
5. As motivation the **dti** stated the following:
  - Companies located in a CCA, intending to import intermediate inputs are currently at a disadvantage because they are required to pay customs duties and VAT on the imported content if the manufactured goods are declared for domestic use;
  - In terms of the existing Schedule 3 rebate provisions for firms located in SACU outside the CCA, manufacturers qualify for a rebate of customs duty but pay VAT should they choose to supply their finished products into the domestic market; and



- The current tariff dispensation makes the CCA concept unattractive and less competitive, as the investors that find the IDZ concept attractive, would want to access both the domestic and export markets.

6. The application was published on 22 November 2013 in the Government Gazette for comments by interested parties.

### TARIFF STRUCTURE

7. The table below shows the existing rebate item 498.00 used by enterprises within the CCA of an IDZ.

Rebate Item	Tariff Heading	Rebate Code	CD	Description	Extent of Rebate	
498.00	<b>IMPORTED GOODS ADMITTED UNDER REBATE OF DUTY FOR USE IN SPECIFIED ACTIVITIES IN THE CUSTOMS CONTROLLED AREA ("CCA") CONTEMPLATED IN SECTION 21A</b> <b>NOTES:</b> For the purposes of this item and the application of any provisions of Schedule No. 4 - 1. Goods may only be entered under item 498.01 by a registered CCA enterprise as contemplated in section 21A. 2. Goods may only be entered under item 498.02 by a registered IDZ operator as contemplated in rule 21A, 04. 3. Goods imported under item 498.00 must be entered thereunder whether or not the goods are liable to any duty. However, any goods imported for storage in a CCA enterprise may not be entered under 498.00. 4. Goods imported under item 498.00 or goods produced or manufactured there from may not be removed from a CCA for consumption in the common customs area except if the goods have been entered at the office of the Controller and the duty due thereon has been paid. 5. The expression "infrastructure" shall be limited to the basic structural elements permanently installed in a CCA (including e.g. sanitation, electricity, roads, bridges, buildings and the like). 6. The movement of any goods to or from a CCA enterprise including the movement of goods to another enterprise, any other rebate user outside the CCA or partly manufactured goods to any rebate user shall be subject to the rules for section 21A.					
498.01	00.00	01.00	00	Goods of any description imported by a registered CCA enterprise into the CCA	Full duty	
498.02	00.00	01.00	02	Goods of any description imported by a registered IDZ operator for use in the construction and maintenance of the infrastructure of a CCA in an IDZ	Full duty	

8. Section 21A of the Customs and Excise Act providing for the administration of Customs Controlled Areas within Industrial Development Zones is attached.

## THE IDZ PROGRAMME

9. The **dti** introduced the Industrial Development Zone (IDZ) programme in 2000. IDZs can be described as purpose-built industrial estates that are linked to an international harbour or airport in an area in South Africa designated by the Minister of Trade and Industry.
10. IDZs that are fully operational in South Africa include the Coega Industrial Development Zone (CIDZ) in Port Elizabeth, the East London Industrial Development Zone (ELIDZ), and the Richards Bay Industrial Development Zone (RBIDZ).
11. According to the **dti**, the CIDZ is the largest in value terms, with about 20 investors on site, and employing approximately four thousand people. There are 21 investors located in the ELIDZ, with a combined employment of about one thousand people. The RBIDZ currently has only 1 investor, employing just over hundred people.
12. The overall objective of the IDZ programme is to attract export-oriented manufacturers and increase the competitiveness of the South African manufacturing industry.
13. In particular, the objectives of the programme are:
  - To position the South African based manufacturing industries to meet the challenges posed by globalisation;
  - To attract FDI, through linkages with global networks by adopting of advanced production and technology methods;
  - To promote forward and backward linkages between the domestic and international markets and;
  - To provide investors with a hassle-free business environment and world class infrastructure.

## COMMENTS RECEIVED

14. The National Association of Automobile Manufacturers in South Africa (NAAMSA) supported the application for the amendment of rebate item 498.00 pertaining to enterprises located in a CCA, stating that the amendment would not have a negative effect on the Automotive Production and Development Programme (APDP) with respect to components supplied to the Original Equipment Manufacturers (OEMs).
15. South African Revenue Services (SARS) indicated that it foresees no difficulties with administering the amended provision.

## FINDINGS AND RECOMMENDATION

16. The Commission considered the application in the light of the information at its disposal. It found that the amendments recommended below would assist the IDZs in their efforts of attracting additional investment with employment opportunities and linkages to the domestic market, by placing IDZ investors in a CCA on a similar competitive footing in the SACU market as firms outside the CCA in the SACU, manufacturing similar products.
17. In light of the foregoing, the Commission recommends that the following notes be added to Schedule 3 of the Customs and Excise Act:

	<p>NOTES:</p> <p>9. Goods may be entered under any rebate item of this Schedule by a CCA enterprise as contemplated in rule 21A.01 and registered in terms of such item, provided-</p> <p>(a) the CCA enterprise complies with any notes to that item and this Schedule, and section 75; and</p> <p>(b) The VAT is paid on goods imported by the CCA enterprise under any item in this Schedule.</p>
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