

## **REPORT NO. 379**

**APPLICATION FOR THE CREATION OF A REBATE PROVISION FOR GOODS FOR  
USE IN THE CONSTRUCTION OF THE MULTI – PRODUCTS PIPELINE FOR THE  
TRANSPORTATION OF PETROLEUM PRODUCTS**

The International Trade Administration Commission of South Africa herewith presents its Report No. 379 **APPLICATION FOR THE CREATION OF A REBATE PROVISION FOR GOODS FOR USE IN THE CONSTRUCTION OF THE MULTI – PRODUCTS PIPELINE FOR THE TRANSPORTATION OF PETROLEUM PRODUCTS, with recommendations.**



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**SIYABULELA TSENGIWE**  
**CHIEF COMMISSIONER**

**PRETORIA**

*14 / 09 /* ..... 2011

## REPUBLIC OF SOUTH AFRICA

### INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

#### REPORT NO. 379

### APPLICATION FOR THE CREATION OF A REBATE PROVISION FOR GOODS FOR USE IN THE CONSTRUCTION OF THE MULTI – PRODUCTS PIPELINE FOR THE TRANSPORTATION OF PETROLEUM PRODUCTS

#### Synopsis

Transnet Limited (“Transnet”) applied for an extension of the expired rebate item 460.27/00.00/01.01 under Schedule 4 of the Customs and Exercise Act, 1964, for various products used in the construction of the multi-products petroleum pipeline. The provision expired on 31 December 2010 and the request was for an extension to 31 December 2012.

As enunciated in the Industrial Policy Action Plan (IPAP 2), the public sector infrastructure programme presents an ideal opportunity to stimulate the domestic manufacturing sector.

The Commission noted the concerns raised in IPAP 2 that a lack of long-term procurement planning often results in unrealistically short delivery times demanded by state-owned enterprises, thus undermining domestic manufacturing and associated investments. The Commission concurs and found that the application by Transnet for a rebate of duty provision undermines the localisation goals of IPAP 2 and the essence of the Competitive Supplier Development Programme for increasing the competitiveness, capacity, and capabilities of the domestic supplier base.

The Commission found that the capabilities exist domestically to manufacture products

such as valves and actuators, cables and a range of other equipment required for the construction of the pipeline.

The Commission recommended that the application for the creation of a rebate provision for goods for use in the construction of the multi-products pipeline for the transportation of petroleum products, be rejected.

### **The application**

1. Transnet Limited (“Transnet”) applied for an extension of the expired rebate item 460.27/00.00/01.01 under Schedule 4 of the Customs and Exercise Act, 1964, for various products used in the construction of the multi-products petroleum pipeline. The provision expired on 31 December 2010 and the request was for an extension to 31 December 2012.
2. As reasons for the application, the applicant stated the following:
  - i) Transnet revised the schedule for the construction of the pipeline’s 24-inch trunk line. The trunk will be completed during the third quarter of 2011 and will be operational by the last quarter of the same year.
  - ii) The revised schedule has effectively moved the completion date for the construction of the pipeline to 31 December 2012 for most of the assets in the total pipeline system.
  - iii) The delivery dates for the equipment and materials have now been amended to match the revised construction schedule and activities. As such, the revised schedule has resulted in goods being imported beyond 31 December 2010.
  - iv) The pipeline project is a complex project extending over long distances and subject to a number of legislative and regulatory requirements. These have had a significant impact on Transnet’s schedule and delivery.

v) Other factors which have had an impact include:

- a) Substantial delays in the acquisition of land and in obtaining the required statutory approvals such as environmental impact assessments;
- b) Change of location for the coastal terminal and pump stations due to conditions imposed by environmental authorisations;
- c) Complex and protracted coastal terminal land lease negotiations; and
- d) National Key Points Act and security of supply requirements.

3. The tariff structure of the relevant dutiable products under the rebate provision is as follows:

<b>Tariff subheading</b>	<b>Description</b>	<b>Rate of duty</b>
7307.1	Flanges and butt-welded fittings of iron or steel	10%
84.81	Valves	10-15%
8501.51	Other electric AC motors, multi-phase, of an output not exceeding 750W.	20%
8502.01	Electric generating sets with compression-ignition internal combustion engines (diesel or semi-diesel)	20%
8504.32	Other transformers, having a power handling capacity exceeding 1kVA but exceeding 16kVA	10%
8506.50	Primary cells and primary batteries, lithium	10-20%
8536.20.15	Automatic circuit breakers and switches, with moulded casings of plastic or insulating material, with a current rating not exceeding 800A	15%
8537.10	Control boards for a voltage not exceeding 1000V equipped with apparatus of subheading 8536.20.15 or 8536.50.50	15%
8544.49	Other electrical conductors, for a voltage not exceeding 1000V, not fitted with connectors (excluding those of a voltage not exceeding 80V)	15%

4. The application for the creation of the extended rebate provision for the

construction of the multi-products petroleum pipeline was published in the Government Gazette on 11 March 2011.

### **Comments received**

5. Objections to the current application for the rebate provision to be extended were received from the South African Valve and Actuator Manufacturers Association (SAVAMA), the South African Capital Equipment Export Council (SACEEC) and the Association of Electric Cable Manufacturers of South Africa (AECMSA). These organisations stated that the products required for the construction of the pipeline can be manufactured domestically.

### **Findings**

6. As enunciated in the Industrial Policy Action Plan (IPAP 2), the public sector infrastructure programme presents an ideal opportunity to stimulate the domestic manufacturing sector.
7. The Commission noted the concerns raised in IPAP 2 that a lack of long-term procurement planning often results in unrealistically short delivery times demanded by state-owned enterprises, thus undermining domestic manufacturing and associated investments.
8. The Commission concurs and found that the application by Transnet for a rebate of duty provision undermines the localisation goals of IPAP 2 and the essence of the Competitive Supplier Development Programme for increasing the competitiveness, capacity, and capabilities of the domestic supplier base.
9. The Commission found that the capabilities exist domestically to manufacture products such as valves and actuators, cables and a range of other equipment required for the construction of the pipeline.

## **Recommendation**

In light of the foregoing, the Commission recommends that the application for the creation of a rebate provision for goods for use in the construction of the multi-products pipeline for the transportation of petroleum products, be rejected.

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