

REPORT NO. 388

Insertion of an additional provision under rebate item 470.03 for goods used in the construction of yachts exclusively for export

The International Trade Administration Commission of South Africa herewith presents its Report No.388 **Insertion of an additional provision under rebate item 470.03 for goods used in the construction of yachts exclusively for export, with recommendations.**



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CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

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Synopsis

ITAC conducted a pro-active investigation of the creation of an additional rebate provision for material and components for the manufacture of yachts exclusively for export. This followed numerous complaints by the boatbuilding industry regarding penalties and fines imposed by the customs authorities, as a result of the non-compliance with the prescribed export period of 12 months in terms of the existing rebate item 470.03.

The Commission recommended that Schedule No.4 of the Customs and Excise Act be amended to make provision for the duty-free importation of "Goods cleared in terms of a permit issued by the International Trade Administration Commission, for use in the manufacture, processing, finishing or equipping of yachts classifiable under tariff heading 89.03 exclusively for export, within three (3) years from the date of entry thereof".

INTRODUCTION

1. ITAC conducted a pro-active investigation of the creation of an additional rebate provision for material and components for the manufacture of yachts exclusively for export. This followed numerous complaints by the boatbuilding industry regarding penalties and fines imposed by the customs authorities, as a result of the non-compliance with the prescribed export period of 12 months in terms of the existing rebate item 470.03.
2. The export-promoting rebate provision 470.03 reads as follows: "Goods cleared in terms of a permit issued by the International Trade Administration Commission, or goods free of duty for use in the manufacture, processing, finishing, equipping or packing of goods exclusively for export".
3. An important customs-administrative condition of rebate 470.03 is that final goods processed or manufactured using the goods admitted under this rebate provision shall be exported within 12 months from the date of entry into the Republic. Failure to comply with this condition can result in payment of customs duty, VAT, penalties, prosecution and seizure of the goods or withdrawal of registration for participation.
4. The boat-building manufacturing industry alleged that the prescribed 12 months timeframe requirement for exporting the final product in terms of rebate item 470.03 is unrealistically short in comparison with the period it takes for constructing especially the bigger yachts, which are only completed more than 2 years following the importation of the necessary materials and components.
5. The proposed insertion of a new provision under rebate item 470.03 for goods used in the construction of yachts exclusively for export, was published in the Government Gazette on 21 October 2011 for comments by interested parties as follows:

“Goods cleared in terms of a permit issued by the International Trade Administration Commission, for use in the manufacture, processing, finishing or equipping of yachts classifiable under tariff heading 89.03 exclusively for export, within 3 years from date of entry thereof.”

THE INDUSTRY AND MARKET

6. The total South African boat-building and support industry employs 4 500 people and produces goods and services valued at R1.2 billion with 85% of the industry based in the Western Cape. The sector is heavily export-oriented, with over 80% of the industry involved directly or indirectly with exports. The multi-hulls (catamarans) are built almost exclusively for export.
7. The sector is globally competitive and has major growth potential. It shares many skill sets with the renewable energy, aeronautical and automotive sectors. The development by the boat-building industry of a broad base of skills in composite manufacturing could translate to and be of benefit to other sectors.
8. **Thedti** in its Industrial Policy Action Plan 2 (IPAP 2) has recognised that the excessive duties on input materials not specifically manufactured in South Africa and the heavy fines imposed by the customs authorities associated with vessels that exceed the rebate periods, adversely impact on the competitiveness of the industry. The IPAP 2 advocates a review of the applicability of the tariff structure for the boat-building industry, including rebate provisions and new measures where applicable; a reduction in customs duties on imported intermediate inputs; and an extension of the rebate periods to cater for the lengthy manufacturing time of larger catamarans and other yachts.

COMMENTS RECEIVED

9. The proposed amendments attracted no objections from interested parties. The boat-building industry as well as the Republic of Botswana supported the

application.

FINDINGS

10. The Commission found that the existing rebate item 470.03 with the onerous condition that the completed yachts be exported within 12 months from the date of entry of the imported components, does not meet the requirements of the boat-building industry, and thus adversely affects the competitive position of this highly export-oriented and labour-intensive industry.
11. The construction of yachts takes significantly longer than the currently allowed one year export period. The Commission therefore recommends that a special rebate provision be introduced specifically for yachts, as outlined below.

RECOMMENDATION

12. In light of the foregoing, the Commission recommends that Schedule No.4 of the Customs and Excise Act be amended to make provision for the duty-free importation of "Goods cleared in terms of a permit issued by the International Trade Administration Commission, for use in the manufacture, processing, finishing or equipping of yachts classifiable under tariff heading 89.03 exclusively for export, within three (3) years from the date of entry thereof".