

REPORT NO. 367

INCREASE IN THE RATE OF DUTY ON SEWING THREAD OF MAN-MADE FILAMENTS

The International Trade Administration Commission (ITAC) of South Africa herewith presents its Report No.367: **Increase in the rate of duty on sewing thread of man-made filaments**



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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. 367

**INCREASE IN THE RATE OF DUTY ON SEWING THREAD OF MAN-MADE
FILAMENTS**

Synopsis

Southern Sewing Thread (Pty) Ltd, applied for an increase in the rate of duty on sewing thread of man-made filaments classifiable under tariff subheading 5401.10, from free of duty to 15 per cent ad valorem.

The application flowed from the recent review of the tariff structure of textiles in the wake of the closure of SANS Fibres, previously the major domestic manufacturer of man-made filaments. These products were included in the submission by Textfed for a reduction in duty on products not available domestically. As no comments were received on the published application contrary to the information submitted by Textfed, the Commission recommended a reduction in the duty on sewing thread of man-made filaments, from 15% to free of duty.

Against this background, the Commission considered the application, in the light of its adjudication criteria, as a request for the reinstatement of the duty.

The Commission found that the domestic industry manufacturing sewing thread is experiencing appreciable price disadvantages against foreign producers of sewing thread that export their products to SACU.

The Commission concluded that an increase in the general rate of duty to 15 per cent ad valorem would afford the industry adequate support in its efforts to meet the challenges of foreign price competition, and enable it to fully utilise its production capacity and significantly increase its market share; and achieve increased economies of scale with a reduction in marginal cost of production.

The Commission further concluded that the reinstatement of the duty on the sewing thread in question would not place an onerous burden and would not have an undue cost-raising impact on downstream industries.

The Commission recommended that the general rate of customs duty on sewing thread of man-made filament, classifiable under tariff subheading 5401.10 be increased from free of duty to 15 per cent ad valorem.

THE APPLICATION AND TARIFF POSITION

Southern Sewing Thread (Pty) Ltd, applied for an increase in the rate of customs duty on sewing thread of man-made filaments classifiable under tariff subheading 5401.10, from free of duty to 15 per cent *ad valorem*.

The reasons for the application, as submitted by the applicant, are that:

- The duty has been at the level of 15% *ad valorem* before its removal consequent upon the textile duty structure review of 2008;
- Sewing thread of man-made filaments is manufactured in the SACU and the existing free of duty dispensation is a disadvantage to the domestic industry manufacturing these threads in the face of stiff price competition experienced from foreign producers; and
- The reinstatement in the rate of duty on sewing thread of man-made filaments to the same level as the duty on sewing thread of man-made staple fibres would serve to close a potential loophole for possible abuse of the customs tariff provisions.

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Against this background, the Commission considered the application, in the light of its adjudication criteria, as a request for the reinstatement of the duty.

The application was published in the Government Gazette of 18 January 2011, for interested parties to comment.

The table below reflects the current tariff structure of sewing thread of man-made filaments.

Table 1: Tariff position for sewing thread of man-made filaments

Heading	Sub-heading	Article Description	Rate of Duty			
			General	EU	EFTA	SADC
54.01		Sewing thread of man-made filaments, whether or not put up for retail sale:				
	5401.10	Of synthetic filaments	Free	Free	Free	Free

INDUSTRY AND MARKET

Southern Sewing Thread (Pty) Ltd and H W Textiles Industries are SACU manufacturers of sewing thread of man-made filaments.

The sewing thread concerned is used mainly in the furniture, luggage, automotive upholstery, footwear and industrial products sector that require high-tenacity sewing threads in a wide variety of strengths, make-up and colour. These threads are not suitable for the manufacture of fabrics used for apparel and home textiles that are categorized under tariff heading 55.08: Sewing thread of man-made staple fibres, whether or not put up for retail sale, attracting a duty of 15 per cent.

The applicant, employing 52 workers in the manufacture of the product in question, made a substantial investment in plant and machinery, and through acquisitions expanded its capacity to service the small to medium textile sectors to replace capacity lost due to the closure of a number of textile mills.

The applicant experienced erosion in its market share and its current share is approximately 56%, due to the competition experienced from low-priced imports. The applicant's normal production capacity is not fully utilised. Once utilised, the applicant will be able to meet the SACU market requirements.

Imports as well as the total SACU market for these products also declined since 2007 due to the lingering effects of the depressed economic situation that prevailed during 2008 and 2009.

COMPETITIVE POSITION

According to information at the Commission's disposal the domestic industry is experiencing appreciable price disadvantages against foreign producers of sewing threads that export their products to SACU.

COMMENTS ON THE APPLICATION

The Textile Federation of South Africa, Romatex Textiles and H W Textile Industries supported the application.

A number of firms objected to the application citing that the price of the locally manufactured thread, albeit of good quality, is considerably higher than that of similar imported products and that local manufacturers are not always in a position to meet the domestic demand.

FINDINGS

The Commission found that the domestic industry manufacturing sewing thread is experiencing appreciable price disadvantages against foreign producers of sewing threads, and concluded that an increase in the general rate of duty to 15 per cent *ad valorem* would afford the industry adequate support in its efforts to meet the challenges of foreign price competition; enable it to fully utilise its production capacity and significantly increase its market share; and achieve increased economies scale, with a reduction in marginal cost of production.

The Commission concluded that the reinstatement of the duty on the sewing thread in question would not place an onerous burden and would not have an

undue cost-raising impact on downstream industries.

RECOMMENDATION

The Commission recommends that the general rate of customs duty on sewing thread of man-made filament, classifiable under tariff subheading 5401.10 be increased from free of duty to 15 per cent ad valorem.

[31/2010]