

## REPORT NO.369

# AMENDMENT OF THE REBATE PROVISIONS FOR THE INDUSTRY MANUFACTURING DISPOSABLE NAPKINS FOR BABIES

The International Trade Administration Commission (ITAC) of South Africa herewith presents Report No 369: **Amendment of the rebate provisions for the industry manufacturing disposable napkins for babies.**



.....  
**Siyabulela Tsengiwe**  
**CHIEF COMMISSIONER**

**PRETORIA**

.....14.....07...../2011

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

**REPORT NO. 369**

**AMENDMENT OF THE REBATE PROVISIONS FOR THE  
INDUSTRY MANUFACTURING DISPOSABLE NAPKINS FOR  
BABIES**

**Synopsis**

Cordustex Manufacturing (Pty) Ltd, applied for an amendment to the description of rebate items 310.09/5603.1/01.05, 310.09/5603.9/01.05, 311.33/5603.1/01.05 and 311.33/5603.9/01.05 to exclude nonwoven spunbond fabrics with a mass of less than 25g/m<sup>2</sup>.

As reason for the application, the applicant submitted that it has the capacity to meet a significant portion of the domestic market requirements for nonwoven spunbond fabrics.

The Commission found that:

- Nonwoven spunbond fabric, with a basis weight of 10 gsm-250 gsm, is manufactured in the SACU;
- Melt blown nonwoven fabric is not manufactured in the SACU; and
- Melt blown nonwoven fabric and nonwoven spunbond fabric are classifiable under the same tariff subheadings and cannot be differentiated by SARS. A distinction can only be made when evaluated microscopically. The CSIR will be able to conduct independent verification testing on a commercial basis.

The Commission found that the narrowing of the existing rebate provision and, hence, an effective increase in the duty on certain nonwoven fabrics would, in the light of the price disadvantages experienced, afford the applicant adequate support in its efforts to meet the challenges of foreign competition, and enable the applicant to fully utilise its production capacity and achieve increased economies of scale.

The Commission decided to recommend that the existing rebate provision be amended and be made subject to a permit issued by ITAC.

Permits will be issued in instances where the applicant is not in a position to meet the domestic demand for spunbond fabric.

Permits for melt blown fabric will be issued by ITAC based on an independent technical evaluation by the CSIR of the imported material.

## THE APPLICATION AND TARIFF POSITION

Cordustex Manufacturing (Pty) Ltd, applied for an amendment to the description of rebate items 310.09/5603.1/01.05, 310.09/5603.9/01.05, 311.33/5608.1/01.05 and 311.33/5603.9/01.05 to exclude nonwoven fabrics of a mass of less than 25g/m<sup>2</sup>, as follows (proposed amendments in bold):

- |                            |   |
|----------------------------|---|
| <b>310.09/5603.1/01.05</b> | Nonwovens of man-made filaments, whether or not impregnated, coated, covered or laminated, of a mass <b>exceeding 25g/m<sup>2</sup> but</b> not exceeding 150g/m <sup>2</sup> , for the manufacture of disposable napkins for babies.                   |
| <b>310.09/5603.9/01.05</b> | Nonwovens (excluding those of man-made filaments), whether or not impregnated, coated, covered or laminated, of a mass <b>exceeding 25g/m<sup>2</sup> but</b> not exceeding 150g/m <sup>2</sup> , for the manufacture of disposable napkins for babies. |
| <b>311.33/5603.1/01.05</b> | Nonwovens of man-made filaments, whether or not impregnated, coated, covered or laminated, of a mass <b>exceeding 25g/m<sup>2</sup> but</b> not exceeding 150g/m <sup>2</sup> , for the manufacture of disposable napkins for babies.                   |
| <b>311.33/5603.9/01.05</b> | Nonwovens (excluding those of man-made filaments), whether or not impregnated, coated, covered or laminated, of a mass <b>exceeding 25g/m<sup>2</sup> but</b> not exceeding 150g/m <sup>2</sup> , for the manufacture of disposable napkins for babies. |

As reason for the application, the applicant submitted that it has the capacity to meet a significant portion of the domestic market requirements for nonwoven spunbond fabrics.

The application for the amendment of the rebate provisions was published in the Government Gazette for comment by interested parties.

The product in question is classified as follows:

**Table 1: Current tariff position**

Tariff Heading	Tariff Sub-heading	Description	Statistical Unit	Rate of Duty			
				General	EU	EFTA	SADC
56.03		Nonwovens, whether or not impregnated, coated, covered or laminated					
	5603.1	Of man-made filaments					
	5603.11	Of a mass not exceeding 25g/m <sup>2</sup>					
	5603.11.90	Other	kg	10%	1.3%	5%	free
	5603.9	Other					
	5603.91	Of a mass not exceeding 25g/m <sup>2</sup>					
	5603.91.90	Other	kg	10%	1.3%	5%	free

The current rebate structure was introduced at the recommendation of ITAC on 24 October 2008 in its Report No 284: ***Rebate of the duty on tape of polymers of polypropylene, film of polymers of ethylene, nonwoven fabric of man made filaments whether or not impregnated, and fabric impregnated, coated, covered or laminated, for the manufacture of disposable napkins for babies.***

The end products in question are disposable napkins for babies and are classified as follows under subheading 5601.10:

**Table 1: Current tariff position**

Tariff Heading	Tariff Sub-heading	Description	Statistical Unit	Rate of Duty			
				General	EU	EFTA	SADC
56.01		<b>Wadding of textile materials and articles thereof; textile fibers, not exceeding 5 mm in length (flock), textile dust and mill neps:</b>					
	5601.10	Sanitary towels and tampons, napkins and napkin liners for babies and similar sanitary articles of wadding.	kg	15%	1,95%	7,5%	free

## **INDUSTRY AND MARKET**

Spunbond nonwoven fabrics are used mainly in two broadly defined markets, namely:

- The hygiene market, including medical applications, and sanitary products; and
- The industrial market, including agro processing, construction, automotive, bedding and upholstery.

The applicant is one of two local manufacturers of spunbond nonwovens, the other being Spunchem Africa (Pty) Ltd. The latter company's target markets are in the sphere of industrial applications.

The applicant traditionally has been supplying the hygiene industry, providing an estimated 50-60% of the market, with the balance being imported. Spunchem Africa (Pty) Ltd does not have the technological capabilities to produce nonwovens for the hygiene market.

Manufacturers of disposable napkins for babies in SACU using nonwoven spunbond fabric are: A & C Products, Tandy Industries CC, Cleopatra Tissue Products (Pty) Ltd, Pro-Slit CC, National Pride Trading 4 (Pty) Ltd, Notefull 1134 CC, Validus Medical (Pty) Ltd, Hartmann-Vitamed (Pty) Ltd, Nampak Tissue, Procter and Gamble (P & G) Manufacturing S.A (Pty) Ltd and Kimberley Clark of South Africa (Pty) Ltd.

The applicant, with its current assets, does not have the capacity, firstly, to produce the required volumes of spunbond fabric, and secondly to meet the technical specifications of some disposable napkins for babies manufacturers whose requirements are typically materials containing melt blown layers. The melt blown process requires precisely fabricated specialised equipment.

The disposable napkins for babies market can be divided into the following categories:

- **The premium market:** This market is dominated by P&G Manufacturing S.A (Pty) Ltd and Kimberley Clark of South Africa (Pty) Ltd. The majority of these napkins are imported due to the low volumes required;
- **The upper/middle income market:** The main manufacturers in this market are Kimberley Clark of South Africa (Pty) Ltd, P&G Manufacturing S.A. (Pty) Ltd, Nampak Tissue and National Pride Trading 4 (Pty) Ltd. This is the less-expensive napkins aimed at the growing middle class market and the majority of the napkins are locally manufactured by the manufacturers mentioned; and
- **Lower income market:** These napkins are the least expensive, not of a high technical design and mostly imported from China. These napkins are mainly supplied to government hospitals through state tenders. This market has the highest growth potential.

The current production of the product under consideration (excluding melt blown), is estimated at 2 000 ton per annum while the SACU market requirement is estimated at 7 000 ton per annum.

The applicant indicated that it has the capacity to manufacture 6 000 tons per annum.

The applicant does not possess the technology to manufacture the finer melt blown nonwoven fabric. The melt-blown process requires precisely fabricated specialised equipment.

A number of 68 people are employed in the manufacture of nonwoven spunbond fabric for the hygiene industry at a capital investment of R 75 million.

## **COMMENTS ON THE APPLICATION**

During the publication period comments were received from Nampak Tissue, Kimberly-Clark of South Africa (Pty) Limited), Procter and Gamble (P &G) Manufacturing S. A. (Pty) Ltd and Cleopatra Tissue Products (Pty) Ltd.

These manufacturers of disposable napkins for babies strongly objected to the proposed amendment of the rebate provisions as follows:

- The proposed amendments would come at an additional cost to the consumer;
- The current technology available domestically is insufficient to produce material compatible with the high-speed machines manufacturing napkins for babies;
- The proposed amendments would lead to a dispensation where other nonwoven fabrics which are not manufactured in the SACU are subject to payment of customs duty; and
- It would detrimentally affect the competitive position of the disposable napkin manufacturers and would discourage further investment in napkin manufacturing plants.

The Industrial Development Corporation (IDC), in their response, confirmed that a number of manufacturers of disposable napkins for babies are currently sourcing nonwoven spunbond fabric from the applicant but that the applicant does not have the technology to manufacture melt blown nonwoven fabric.

The Nonwoven Association of SA, a subsidiary of the CSIR, gave their support for the proposed amendment of the rebate provisions and also confirmed that melt blown technology is not available locally.

Should the Commission, for customs tariff administration purposes, require that melt blown nonwoven fabric be distinguished from nonwoven spunbond fabric, the CSIR indicated that they have the equipment to do so.

## COMPETITIVE POSITION

According to price information at the Commission's disposal, the applicant experiences appreciable price disadvantages against foreign competitors of nonwoven spunbond fabric.

## FINDINGS

The Commission considered that:

- Nonwoven spunbond fabric, with a basis weight of 10 gsm - 250 gsm is manufactured in the SACU;
- Melt blown nonwoven fabric is not manufactured in the SACU; and
- Melt blown nonwoven fabric and nonwoven spunbond fabric are classifiable under the same tariff subheadings and cannot be differentiated by SARS. A distinction can only be made when evaluated microscopically. The CSIR will be able to conduct independent verification testing on a commercial basis.

The Commission found that the narrowing of the existing rebate provision and, hence, an effective increase in the duty on certain nonwoven fabrics would, in the light of the price disadvantages experienced, afford the applicant adequate support in its efforts to meet the challenges of foreign competition, and enable the applicant to fully utilise its production capacity and achieve increased economies of scale.

The Commission decided to recommend that the existing rebate provision be amended and be made subject to a permit issued by ITAC.

Rebate permits will be issued according to the conditions set out in the Commission's guidelines governing the specific rebate provisions. Rebate permits will be issued for melt blown nonwoven fabric (which is not manufactured domestically) and for nonwoven spunbond fabric (in instances where Cordustex is not in a position to meet the SACU market requirements.)

The rebate permit system will be administered by SARS which will clear consignments against the rebate permit issued. Should a dispute arise in relation to the products imported, a sample will be drawn and referred to CSIR for testing of the tensile properties of the material and a microscopic examination.



## RECOMMENDATION

In the light of the foregoing the Commission recommends that rebate items 310.09/5603.1/01.05; 310.09/5603.9/01.05; 311.33/5603.1/01.05; 311.33/5603.9/01.05 be amended follows:

- 310.09/5603.1/01.05** Nonwovens of man-made filaments, whether or not impregnated, coated, covered or laminated, of a mass not exceeding 150g/m<sup>2</sup>, for the manufacture of disposable napkins for babies at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit.
- 310.09/5603.9/01.05** Nonwovens (excluding those of man-made filaments), whether or not impregnated, coated, covered or laminated, of a mass not exceeding 150g/m<sup>2</sup>, for the manufacture of disposable napkins for babies at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit
- 311.33/5603.1/01.05** Nonwovens of man-made filaments, whether or not impregnated, coated, covered or laminated, of a mass not exceeding 150g/m<sup>2</sup>, for the manufacture of disposable napkins for babies at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit
- 311.33/5603.9/01.05** Nonwovens (excluding those of man-made filaments), whether or not impregnated, coated, covered or laminated, of a mass not exceeding 150g/m<sup>2</sup>, for the manufacture of disposable napkins for babies at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit.

[369/2011]