

REPORT NO. 350

**REBATE OF THE DUTY ON MATERIALS AND
COMPONENTS USED IN THE MANUFACTURE OF
SET TOP BOXES**

The International Trade Administration Commission herewith presents its Report
No. 350 : **REBATE OF THE DUTY ON MATERIALS AND COMPONENTS USED
IN THE MANUFACTURE OF SET TOP BOXES**, with recommendations.



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CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 350

**REBATE OF THE DUTY ON MATERIALS AND COMPONENTS USED IN THE
MANUFACTURE OF SET TOP BOXES**

Synopsis

Reutech Radar Systems (Pty) Ltd, applied for the creation of a rebate of duty provision for materials and components used in the manufacture of set top boxes (STBs).

The Commission found that:

- i) The migration from analogue to digital broadcasting is taking place world-wide, in accordance with timelines contained in the International Telecommunications Union (ITU) treaty. This move is expected to significantly boost the market for digital terrestrial television STBs;
- ii) Although some materials and components for the manufacture of STBs are duty-free and others are manufactured in-house by Altech UEC (Pty) Ltd and other manufacturers, a number of electronic, electrical, and other components used for the manufacture of STBs are not manufactured domestically;
- iii) A rebate of duty provision would reduce the cost of manufacturing and in the process also benefit the end consumer, and would enhance the competitive position of the industry manufacturing STBs, as fierce competition is experienced, especially from East Asia;

- iv) The design and manufacture of STBs is labour-intensive. STBs for satellite TV reception are already exported to destinations world-wide. The industry is well-placed to significantly contribute to the industrial policy objectives; and
- v) Currently, the rate of effective protection for the industry is negative. The recommendation of the Commission would rectify this anomalous situation by eliminating the negative rate of effective protection for the industry manufacturing STBs.

The Commission therefore recommended that a rebate of the full duty provision for materials and components used in the manufacture of STBs, be introduced.

INTRODUCTION

1. Reutech Radar Systems (Pty) Ltd, applied for the creation of a rebate of duty provision for materials and components, classifiable at various rates of duty, used for the manufacture of STBs, classifiable under tariff subheading 8528.71 at free of duty.
2. As motivation for the application, the applicant stated the following:
 - i) Many materials and components used for the manufacture of STBs are not manufactured domestically and in principle should not be dutiable as the current import duties increase production costs and are a cost burden, also to the end consumer;
 - ii) Government announced a program of terminating the current analogue terrestrial television signal by November 2011. Some 9 million households will need to acquire a decoder/STB to convert to the digital terrestrial signal in order to display an image on analogue television screens. The requested rebate of the duty would assist in achieving this objective;

iii) The experience of manufacturing STBs domestically would accelerate the development of an integrated digital television manufacturing capacity; and

iv) An anomaly exists in the sense that a number of materials and components used in the manufacture of STBs are dutiable while the final product, the STB, is free of duty.

3. The application was published in the Government Gazette of 18 June 2010 for comments by interested parties.

THE TARIFF POSITION

4. Many materials and components for the manufacture of STBs are duty-free and others are manufactured in-house by the set top box and other manufacturers. The existing duty structure of some of the more important dutiable materials and components used in the manufacture of STBs is as follows:

Table 1: Tariff structure of the major dutiable components

Tariff sub-heading	Description	Rate of duty			
		General	EU	EFTA	SADC
8504.31	Electric transformers	10%	3.8%	10%	Free
8504.50	Other electric inductors	5%	Free	Free	Free
8506.80.90	Other primary cells and primary batteries	20%	6%	15%	Free
8536.50.90	Other switches for switching electrical circuits.	5%	Free	Free	Free
8536.90.90	Other apparatus	5%	1.9%	3.8%	Free
8544.42	Other electrical conductors	15%	5.7%	11.3%	Free

5. STBs are classifiable as follows:

Table 2: The duty structure of STBs

Tariff Heading	Sub-Description	Rate of duty			
		General	EU	EFTA	SADC
8528.7	Reception apparatus for television, whether or not incorporating radio-broadcast receivers or sound or video recording or reproducing apparatus:				
8528.71	- Not designed to incorporate a video display or screen	Free	Free	Free	Free

THE INDUSTRY AND MARKET

6. In terms of the International Telecommunications Union (ITU) treaty, all countries will have to migrate from analogue to digital transmission to ensure ongoing coordination and protection from signal interference. Examples of countries that are advanced in their migration process include the United Kingdom, New Zealand, Sweden, United States of America, and France.
7. South Africa is positioning itself as the STB manufacturing hub for the SADC region as well as the African continent. STBs for satellite TV reception are already domestically designed, manufactured and exported by Altech UEC (Pty) Ltd. The recommended rebate provision will also include materials and components for the manufacture of these digital satellite TV decoders.

8. Altech UEC (Pty) Ltd has been the sole manufacturer of STBs until recently when it was joined by the applicant. Five more manufacturers have the potential to manufacture the STBs for analogue to digital signal migration. These are AMAP-Tedelex, RC & C, Sabertec, Tellumat, and Vectronics.

COMMENTS RECEIVED

9. As a local manufacturer of STBs, Altech UEC (Pty) Ltd supports the application for the creation of a rebate provision as they are currently paying duties on materials and components that are not manufactured domestically.
10. No other comments or objections were received during the publication period.

FINDINGS

11. The Commission found that:
 - i) The migration from analogue to digital broadcasting is taking place world-wide, in accordance with timelines contained in the International Telecommunications Union (ITU) treaty. This move is expected to significantly boost the market for digital terrestrial television STBs;
 - ii) Although some materials and components for the manufacture of STBs are duty-free and others are manufactured in-house by Altech UEC (Pty) Ltd and other manufacturers, a number of electronic, electrical, and other components used for the manufacture of STBs are not manufactured domestically;
 - iii) A rebate of duty provision would reduce the cost of manufacturing and in the process also benefit the end consumer, and would enhance the competitive position of the industry manufacturing STBs, as fierce competition is experienced, especially from East Asia;

- iv) The design and manufacture of STBs is labour-intensive. STBs for satellite TV reception are already exported to destinations world-wide. The industry is well-placed to significantly contribute to the industrial policy objectives; and
- v) Currently, the rate of effective protection for the industry is negative. The recommendation of the Commission rectifies this anomalous situation by eliminating the negative rate of effective protection for the industry manufacturing STBs.

RECOMMENDATION

12. In light of the foregoing, the Commission recommends that a rebate of the full duty provision for materials and components used in the manufacture of STBs be introduced as follows for customs tariff administration purposes:

“Goods of any description used in the manufacture of reception apparatus for television not designed to incorporate a video display or screen, classifiable under tariff subheading 8528.71.”