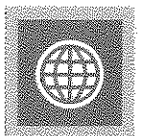


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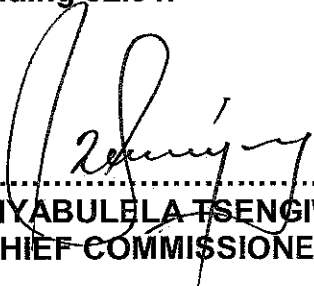
**REBATE OF DUTY ON COTTON NOT
CARDED OR COMBED CLASSIFIABLE
UNDER TARIFF HEADING 52.01**

enabling



FAIR TRADE

The International Trade Administration Commission of South Africa herewith presents its **Report No. 311: Rebate of duty on cotton not carded or combed classifiable under tariff heading 52.01.**



.....
SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

14 / 09 /.....2009

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 311

REBATE OF THE DUTY ON COTTON, NOT CARDED OR COMBED, CLASSIFIABLE UNDER TARIFF HEADING 52.01.

Synopsis

The Textile Federation of South Africa (Texfed), on behalf of cotton spinners, applied for the creation of a rebate of the full customs duty on cotton, not carded or combed, classifiable under tariff heading 52.01.

As reasons for the application, the applicant stated that:

- The varieties of cotton, not carded or combed, available in SACU and the SADC do not meet the full requirements of the cotton-spinning sector in SACU;
- These varieties, such as extra long staple cotton and certified contamination-free cotton, have to be imported from outside SADC;
- The tariff structure on cotton, not carded or combed, provides for a duty of R1.60 per kilogram on ginned cotton, not further processed, and 15% *ad valorem* on other cotton imported from outside the SADC region; and
- This duty makes the South African cotton-spinning sector unable to compete in niche product markets.

The Commission found that, under the circumstances of the required varieties not being available to cotton spinners, the duties on cotton, not carded or combed, from countries outside SADC places an undue financial burden on the cotton processors especially over the period when cotton is not available from domestic sources, as it raises the cost of manufacturing cotton yarn used for the manufacture of woven and knitted fabrics, and reduces the price-competitiveness of the final products.

The Commission recommended that a rebate provision be introduced for a rebate of the full duty on cotton, not carded or combed, classifiable in tariff heading 52.01, administered through a permit system operated by ITAC based on specific conditions agreed to by all stakeholders.

The application and the tariff position

The Textile Federation of South Africa (Texfed), on behalf of cotton spinners, applied for the creation of a rebate of the full customs duty provision for cotton, not carded or combed, classifiable under tariff heading 52.01.

Cotton is a natural fibre which is used for the manufacture of cotton yarn. This yarn is also blended with other yarns of man-made fibres and then used in the manufacture of woven and knitted fabrics.

As reasons for the application, the applicant stated that:

- The varieties of cotton, not carded or combed, available in SACU and in SADC do not meet the full requirements of the cotton-spinning sector in South Africa;
- These varieties, such as extra long staple cotton and certified contamination-free cotton have to be imported from outside SADC;
- The tariff structure for cotton, not carded or combed, provides for a duty of R1.60 per kilogram on ginned cotton, not further processed, and 15% *ad valorem* on other cotton imported from outside the SADC region; and
- This duty makes the South African cotton-spinning sector unable to compete in niche product markets.

The tariff structure in respect of cotton is as shown in Table 1 below:

Table 1: Tariff Structure of cotton not carded or combed

Tariff heading	Tariff sub heading	Description	Stats unit	Rate of duty			
				General	EU	EFTA	SADC
52.01	5201.00.20	Cotton not carded or combed, ginned but not further processed.	Kg	160c/kg	60,8c/kg	160c/kg	Free
	5201.00.90	Cotton not carded or combed, other	Kg	15%	5,7%	15%	Free

The tariff structure for cotton yarn is 15 % ad valorem (General), 5 % ad valorem (EU), 7 % ad valorem (EFTA) and free of duty (SADC).

The industry and market

Cotton is produced by commercial and small-scale farmers situated in the Northern Province, North West Province, Mpumalanga, Kwa-Zulu Natal and the Northern Cape.

Cotton is ginned by South African cotton ginners and supplied to the spinners who produce cotton and other blended yarns. These yarns are in turn used to produce woven and knitted fabrics.

Local cotton spinners consume approximately 71% of the cotton, available in the SACU.

The total SACU production for cotton for 2007/08 was 11 146 tons in comparison to the SADC production of 285 000 tons.

The total world market for cotton for 2007/08 amounted to 23 024 000 tons of which China, India and the USA are the largest contributors.

The competitive position

According to information at the Commission's disposal, both the cotton growing industry and the cotton spinners experience substantive price disadvantages against competitors from abroad.

Comments on the application

The application, which was published on 29 May 2009, attracted a number of comments.

The South African Cotton Producer's Organisation (SACPO) agreed to a rebate provision for cotton, not carded or combed, subject to the following conditions:

- Rebate permits are to be issued to spinners for the duty-free importation of cotton, not carded or combed, for a quantity equal to 15% of each spinner's annual consumption;
- Rebate permits will be apportioned to individual spinners based on their cotton consumption figures for the marketing year 2008/2009; and
- Spinners will be required to pay to Cotton SA the developmental statutory cotton levy applicable to all cotton imports from outside SADC.

The Commission consulted extensively with all stakeholders and the Department of Agriculture, Forestry and Fisheries (DAFF) with regard to the creation of a rebate provision for cotton, not carded or combed. DAFF agreed to the creation of the proposed rebate of the duty on cotton, not carded or combed, based on the conditions as provided by SACPO.

However, DAFF requested that imports under this rebate provision should be for the period 01 December to 30 April only, which falls outside the marketing season of cotton produced in SACU. Stakeholders supported this request.

Findings & recommendations

The Commission took a number of factors into consideration in terms of its criteria for adjudicating rebate applications such as:

- Domestic production capacity and potential;
- Demand and supply conditions;
- Price comparison between domestic and imported products; and
- Value chain implications.

The Commission found that, under the circumstances of the required varieties not being available to cotton spinners, the duties payable on cotton, not carded or combed, places an undue financial burden on these processors especially over the period when cotton is not available from domestic sources, as it raises the cost of manufacturing cotton yarn used for the manufacture of woven and knitted fabrics, especially on top of the levy on imports from outside SADC (small relative to the duty payable) that is payable to Cotton SA by domestic cotton spinners. The duty also has an adverse effect on the price-competitiveness of cotton spinners.

However, the Commission found that the duty protection is still needed by the cotton growers as they suffer significant price disadvantages compared to foreign producers.

It was found that the capacity of SACU cotton farmers is limited by the relatively low international cotton price which makes the farming of other crops more viable.

The Commission decided that tariff relief should be available to cotton spinners to increase their competitive position without adversely affecting the position of the cotton growers. This can be achieved by the introduction of a rebate provision administered through a permit system operated by ITAC based on specified conditions agreed to by stakeholders.

The Commission supported the request by DAFF, as did the applicant, and other stakeholders that imports under this rebate provision should be limited to imports over the period 01 December to 30 April, which falls outside the marketing season of cotton produced in the SACU.

The Commission decided to recommend the creation of a provision for rebate of the full duty on cotton, not carded or combed, classifiable in tariff heading 52.01 as follows:

“Cotton, not carded or combed, classifiable in tariff heading 52.01, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission (ITAC) may allow by specific permit.”

[61/2008]