

Dr Rob Davies, MP
 Minister of Trade and Industry
 Private Bag X84
PRETORIA
 0001

Dear Minister

**MINUTE NO. M1/2009: ADDENDUM TO REPORT NO. 313 -
 INCREASE IN THE RATE OF DUTY ON SPECIFIC CLOTHING
 CATEGORIES CLASSIFIABLE UNDER CHAPTERS 61 & 62**

In its attached Report No. 313, the Commission recommended that the duties on specific clothing categories be increased to 45% *ad valorem*.

The Commission's recommendations were implemented by the Customs & Excise authorities on 9 October 2009.

However, the following tariff subheadings were unintentionally omitted from the list of clothing tariff subheadings to be increased to 45% ad valorem, as contained in Report No. 313:

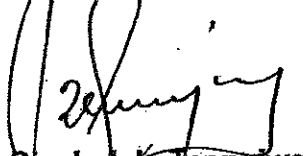
Tariff subheading	Description
6211.33.90	Other garments, men's or boys, of man-made fibres
6211.42.90	Other garments, women's or girls', of cotton
6112.1	Track suits
6201.1	Men's or boys' overcoats, raincoats, car-coats, capes, cloaks and similar articles
6201.9	Other men's or boys' overcoats, car-coats, capes, cloaks, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles (excl those of heading 62.03)

RECOMMENDATION

The Commission therefore recommends that the customs duties on the following clothing categories be increased from the current applied rate to the WTO bound rate as indicated hereunder:

Tariff subheading	Description	Current general rate of duty	Recommended general rate of duty
6211.33.90	Other garments, men's or boys, of man-made fibres	40%	45%
6211.42.90	Other garments, women's or girls', of cotton	40%	45%
6112.1	Track suits	40%	45%
6201.1	Men's or boys' overcoats, raincoats, car-coats, capes, cloaks and similar articles	40%	45%
6201.9	Other men's or boys' overcoats, car-coats, capes, cloakes, anoraks (including ski-jackets), wind-cheaters, wind-jackets and similar articles (excl those of heading 62.03)	40%	45%

Yours sincerely



Siyabulela Tsengiwe
Chief Commissioner
28.1.10.....2009

**NOTES REGARDING AMENDMENTS TO THE SCHEDULES
TO THE CUSTOMS AND EXCISE ACT, 1964**

4 DECEMBER 2009

These notes are issued merely as a guide and both the old and new provisions should be studied in order to determine what the amendment actually entails. These notes have no legal status.

<i>Provision</i>	<i>Note</i>
6112.11 6112.12 6112.19 6201.11 6201.12 6201.13 6201.19 6201.91 6201.92 6201.93 6201.99 6211.33.90 6211.42.90	The effect of this amendment is that the general rate of duty on specific clothing categories classifiable in Chapters 61 and 62 is increased from 40% to 45%.

Government Gazette No. 32785

No. R. 1146

2009-12-04

CUSTOMS AND EXCISE ACT, 1964.
AMENDMENT OF SCHEDULE NO. 1 (NO. 1/1/1393)

Under section 48 of the Customs and Excise Act, 1964, Part 1 of Schedule No. 1 to the said Act is hereby amended to the extent set out in the Schedule hereinafter.

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DEPUTY
MINISTER OF FINANCE

SCHEDULE

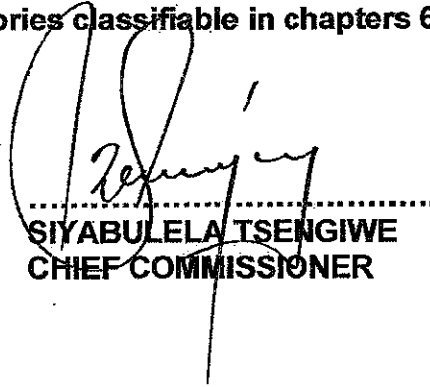
By the substitution of subheadings 6112.11, 6112.12, 6112.19, 6201.11, 6201.12, 6201.13, 6201.19, 6201.91, 6201.92, 6201.93, 6201.99, 6211.33.90 and 6211.42.90 of the following:

Heading	Subheading	C	D	Article Description	Statistical Unit	Rate of Duty			
						General	EU	EFTA	SADC
61.12	6112.11	2.		-- Of cotton	u	45%	20%	23%	free
61.12	6112.12	9		-- Of synthetic fibres	u	45%	20%	23%	free
61.12	6112.19	3		-- Of other textile materials	u	45%	20%	23%	free
62.01	6201.11	8		-- Of wool or fine animal hair	u	45%	20%	23%	free
62.01	6201.12	4		-- Of cotton	u	45%	20%	23%	free
62.01	6201.13	0		-- Of man-made fibres	u	45%	20%	23%	free
62.01	6201.19	9		-- Of other textile materials	u	45%	20%	23%	free
62.01	6201.91	4		-- Of wool or fine animal hair	u	45%	20%	23%	free
62.01	6201.92	0		-- Of cotton	u	45%	20%	23%	free
62.01	6201.93	7		-- Of man-made fibres	u	45%	20%	23%	free
62.01	6201.99	5		-- Of other textile materials	u	45%	20%	23%	free
62.11	6211.33.90	8		-- Other	kg	45%	20%	23%	free
62.11	6211.42.90	6		-- Other	kg	45%	20%	23%	free

REPORT NO: 313

**INCREASE IN THE RATE OF DUTY
ON SPECIFIC CLOTHING
CATEGORIES CLASSIFIABLE
UNDER CHAPTERS 61 & 62**

The International Trade Administration Commission of South Africa
herewith presents its **Report No. 313: Increase in the rate of duty on
specific clothing categories classifiable in chapters 61 and 62**



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

04 / 09 / 2009

REPUBLIC OF SOUTH AFRICA

**INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF
SOUTH AFRICA**

REPORT NO. 313

**INCREASE IN THE RATE OF DUTY ON SPECIFIC CLOTHING
CATEGORIES CLASSIFIABLE IN CHAPTERS 61 AND 62**

Synopsis

The Southern African Clothing and Textile Workers Union (SACTWU), applied for an increase in the customs duty, from 40% to 45% *ad valorem*, on 124 clothing tariff lines.

As reasons for the application, the applicant stated that:

- A significant increase in imports has occurred and very high levels of imports continue to flow into South Africa under the relevant 35 product categories comprising 124 tariff lines;
- Market disruptions to the SACU industry, that have resulted in large-scale factory closures and retrenchments and the ensuing massive social hardship, have been so severe that increased protection, in the form of higher duties, is needed; and
- Increasing the customs duties to the WTO-bound rates of the major clothing products in South Africa would provide some relief for the industry to continue its restructuring efforts, but, importantly, would act as an injection of confidence for a beleaguered industry.

In arriving at its decision, in support of the application, the Commission considered a range of factors in terms of its criteria for adjudicating tariff applications, such as domestic production capacity and potential, market share, import and export data, demand and supply conditions, price comparisons between domestic and imported items, investment and employment, and the rate of effective protection.

In its deliberations, the Commission found the declining rate of investment and employment in the clothing industry in the face of rapidly increasing low-priced imports, a worrying trend. Traditionally, the clothing industry has been a significant employer, especially of women and in the poorer communities.

The contraction in the industry has led to diminishing returns and a decrease in price competitiveness.

The Commission acknowledged that co-ordinated efforts on several fronts are necessary to reverse this decline.

In its recent Reports Nos. 281 and 301, the Commission already recommended the introduction of rebate provisions for the clothing industry, allowing it duty-free access to intermediate inputs such as certain fabrics. In addition, the unnecessary import duties on a range of intermediate inputs into the clothing industry, not manufactured domestically, such as certain specific forms of artificial filament yarn, metalised yarn, lace, yarn of wool, and tulle, classifiable under 35 different tariff lines, have been removed.

In combination with the already implemented lower duty structure on inputs, a very moderate increase in the duty on the clothing products concerned, to the WTO-bound rate of 45%, would not have an appreciable inflationary effect, while substantially increasing the rate of effective protection for the labour and capital employed in the clothing industry.

The Commission decided that an increase in customs duties from 40% to 45% to the WTO ceiling rates on 121 clothing tariff lines and from 20% to 45% on three lines (hosiery), would provide significant encouragement and support to the industry while its extensive efforts to restructure to become more competitive are continuing.

In tandem with the range of support measures provided for in the Textiles and Clothing Rescue Plan, the recommended increase in customs duties would enable the clothing manufacturers to protect existing jobs, increase market penetration and price competitiveness by reducing unit cost of manufacture, and growing the domestic clothing manufacturing sector also in the export market.

The application and the tariff position

The Southern African Clothing and Textile Workers Union (SACTWU), applied for an increase in the customs duty, from 40% to 45% *ad valorem*, on the following clothing product categories:

- Men's knitted jackets;
- Men's knitted trousers;
- Women's knitted jackets;
- Women's knitted dresses;
- Women's knitted skirts;
- Women's knitted trousers;
- Men's knitted shirts;
- Women's knitted blouses;
- Men's knitted underpants and briefs;
- Women's knitted panties;
- T- shirts;
- Jerseys;
- Babies' knitted garments;
- Knitted tracksuits, excl ski-suits;
- Hosiery;
- Socks;
- Men's woven overcoats;
- Women's woven windbreakers;
- Women's woven overcoats;

- Women's woven windbreakers;
- Men's woven suits;
- Men's woven jackets;
- Men's woven trousers;
- Women's woven suits;
- Women's woven jackets;
- Women's woven dresses;
- Women's woven skirts
- Women's woven trousers;
- Men's woven shirts;
- Women's woven blouses;
- Men's woven underpants and briefs;
- Babies' woven garments;
- Men's woven tracksuits;
- Women's woven tracksuits; and
- Bras

As reasons for the application, the applicant stated that:

- A significant increase in imports has occurred and very high levels of imports continue to flow into South Africa under the relevant 35 product categories;
- Market disruptions within the SACU industry that have resulted in large-scale factory closures and retrenchments and ensuing massive social hardship, have been so severe that increased protection, in the form of higher duties, is needed; and
- Increasing the customs duties to the WTO-bound rates for the major clothing products produced in South Africa would provide some relief for the industry to continue its restructuring efforts, but, importantly, would act as an injection of confidence for a beleaguered industry.

Except for hosiery classifiable under three tariff lines in tariff subheading 6115.2, the customs duties for all the remaining 121 clothing category tariff lines are 40% *ad valorem* (General); 20% *ad valorem* (EU); 23% *ad valorem* (EFTA) and free of duty (SADC).

With respect to hosiery, the customs duty is 20% *ad valorem* (General); free of duty (EU); free of duty (EFTA) and free of duty (SADC).

The industry and the market

The 35 product categories are all complete consumer articles, sold by manufacturers to small and large retailers, government departments, corporate clients and other customers.

While a few of the products are knit to shape, such as socks, hosiery and jerseys, most products are made by sewing together panels of fabric. Products are manufactured using either knitted or woven fabric.

While making appreciable capital investments, the clothing manufacturing industry is well-known to be highly labour intensive, and is a significant employer, particularly of women and in many poor communities, where few other employment opportunities exist.

The latest available figures show that there are currently 57954 workers in the clothing sector.

This is a significant reduction from the level ten years ago, when there were 149251 people employed in the clothing sector.

The industry is concentrated in specific geographic areas, where it is a very significant employer. According to Statistics SA's 1995 October Household Survey, the industry employed 35% of the manufacturing workforce in KwaZulu Natal, 25.5% in the Eastern Cape and 25.2% in the Western Cape.

In 2008, the South African textile and clothing sectors generated sales of R 34 billion, which, despite the decline, is a significant contribution to total manufacturing output.

The majority of the R 34 billion output is directed at the domestic market. It is important to note that similar to developed economies, SA's textile and clothing retailers yield considerable value chain power.

The top five retailers account for over 70% of formal South African clothing sales, according to the DTI's Customised Sector Programme (CSP) for Clothing and Textiles.

The retail sector is estimated in the CSP to hold the largest share of price addition within the apparel chain (57%), followed by clothing (23%), fabric (12%), yarn (5%) and fibre (4%).

The African Growth and Opportunities Act (AGOA), which provides Sub-Saharan African countries with duty free access into the United States market, along with the WTO's Agreement on Textiles and Clothing (ATC), resulted in buyers and producers looking for non-quota constrained and/or non-tariff bound countries to supply Europe and the US, thus providing smaller, higher cost, less developed countries such as those in this region with opportunities.

Nevertheless, exports from the region account for less than 1% of global exports and are mainly basic items that have long production runs, low labour content and few styling changes.

Over the last four years the value of sales of retailers selling textiles and clothing products increased by 13% from 2005 to 2006, by 11% from 2006 to 2007, and by a further 13% from 2007 to 2008.

This increase in the value of retail sales has not been accompanied by expansion in the local clothing and textile manufacturing industry and a concomitant increase in employment.

From 2001 to 2002, the value of clothing imports from all countries increased by 4% in US Dollar terms. In 2003, the increase on the previous year accelerated to 73% and in 2004 to 84%.

The growth continued in 2005 and 2006 with growth in clothing imports of 34% and 35% respectively. The total value of clothing imports amounted to more than \$1 billion in 2006. This growth was staunch in 2007 and 2008 when the Chinese quotas were in place.

The competitive position

According to the applicant, producer prices of domestic clothing manufacturers (PPI Clothing) have been below the average rise in both the producer price index (PPI) (domestic output) and the consumer price index (CPI).

Notwithstanding the lower than average increases in domestic producer prices, partly the result of price-pressures caused by imports, the domestic industry has not been able to maintain its market-share in the face of significant decreases in the landed price of imported goods.

According to price information at the Commission's disposal, domestic clothing manufacturers are experiencing significant price disadvantages against competitors from abroad on a range of clothing items when comparing the landed cost of imported products with the ex-factory selling price of similar domestically produced articles.

Comments on the application

The application was published in the Government Gazette of 26 June 2009.

According to the manufacturers and their representative associations, who voiced their support for the application, substantial job losses have been triggered by a massive flood of imports that have entered the country, coupled with the ability of retailers to procure merchandise cheaply.

The retail industry objected to the application, stating that:

- The biggest cause of the local clothing manufacturing industry's loss of business is not only price-related; it is also related to lead times, reliability, and the inability to perform detailed work, including but not limited to intricate finishing and outwork, certain complex and technical constructions, fine gauge knitwear and advanced denim treatments, which are seemingly not possible locally at acceptable prices;
- The proposed increase in clothing duties to the WTO-bound rate of 45% would have a direct inflationary effect and would impact on the consumer's ability to buy clothing at affordable prices; and

- The delay in the implementation of the Customised Sector Programme for textile and clothing was in no way influenced by any retail or consumer actions. The requested increase in duties would have a punitive impact on both the retail sector and the end consumer and would have a further deleterious effect on relationships within the industry.

In reaching its findings, the Commission took into consideration all the comments received and the oral presentations made by interested parties.

Findings and recommendation

The Commission took the following factors into consideration in terms of its comprehensive criteria for adjudicating tariff applications:

- Domestic production capacity and potential;
- Market share;
- Import & export data;
- Demand and supply conditions;
- Price comparison between domestic and imported items;
- Financial state of the industry;
- Investment and Employment;
- Rate of effective protection; and
- Value chain implications.

In its deliberations, the Commission found the declining rate of investment and employment in the clothing industry in the face of rapidly increasing low-priced imports, a worrying trend. Traditionally, the clothing industry has been a significant employer, especially of women and in the poorer communities.

The contraction in the industry has led to diminishing returns and a decrease in price competitiveness.

The Commission acknowledged that co-ordinated efforts on several fronts are necessary to reverse this decline.

In its recent Reports Nos. 281 and 301, the Commission already recommended the introduction of rebate provisions for the clothing industry, allowing it duty-free access to intermediate inputs such as certain fabrics. In addition, the unnecessary import duties on a range of intermediate inputs into the clothing industry, not manufactured domestically, such as certain specific forms of artificial filament yarn, metalised yarn, lace, yarn of wool, and tulle, classifiable under 35 different tariff lines, have been removed.

In combination with the already implemented lower duty structure on inputs, a very moderate increase in the duty on the clothing products concerned, to the WTO-bound rate of 45%, would not have a material inflationary effect, while substantially increasing the rate of effective protection for the labour and capital employed in the clothing industry.

An increase in customs duties from 40% to 45% to the WTO ceiling rates on 121 clothing tariff lines and from 20% to 45% on three lines (hosiery) listed hereunder, would provide significant encouragement and support to the industry while its efforts to restructure to become more competitive are continuing.

In tandem with the range of support measures provided for in the Textiles and Clothing Rescue Plan, the recommended increase in customs duties would enable the clothing manufacturers to protect existing jobs, increase market penetration and price competitiveness by reducing unit cost of manufacture, and growing the domestic clothing manufacturing sector also in the export market.

The new tariff dispensation will be subject to review by the Commission to evaluate the progress of the clothing industry in light of the measures now taken to enhance the competitiveness of the industry.

In view of the above, the Commission recommends that the customs duties on the clothing categories listed, be increased from the current applied rate to the WTO Bound Rate as indicated.

HS TARIFF SUBHEADING	DESCRIPTION	CURRENT GENERAL RATE OF DUTY	RECOMMENDED GENERAL RATE OF DUTY
6103.3	Jackets and blazers:		
6103.31	Of wool or fine animal hair	40%	45%
6103.32	Of cotton	40%	45%
6103.33	Of synthetic fibres	40%	45%
6103.39	Of other textile materials	40%	45%
6103.4	Trousers, bib and brace overalls, breeches and shorts:		
6103.41	Of wool or fine animal hair	40%	45%
6103.42	Of cotton	40%	45%
6103.43	Of synthetic fibres	40%	45%
6103.49	Of other textile materials	40%	45%
6104.3	Jackets and blazers:		
6104.31	Of wool or fine animal hair	40%	45%
6104.32	Of cotton	40%	45%
6104.33	Of synthetic fibres	40%	45%
6104.39	Of other textile materials	40%	45%
6104.4	Dresses:		
6104.41	Of wool or fine animal hair	40%	45%
6104.42	Of cotton	40%	45%
6104.43	Of synthetic fibres	40%	45%
6104.44	Of artificial fibres	40%	45%

6104.49	Of other textile materials	40%	45%
6104.5	Skirts and divided skirts:		
6104.51	Of wool or fine animal hair	40%	45%
6104.52	Of cotton	40%	45%
6104.53	Of synthetic fibres	40%	45%
6104.59	Of other textile materials	40%	45%
6104.6	Trousers, bibs and brace overalls, breeches and shorts		
6104.61	Of wool or fine animal hair	40%	45%
6104.62	Of cotton	40%	45%
6104.63	Of synthetic fibres	40%	45%
6104.69	Of other textile materials	40%	45%
61.05	Men's or boys' shirts, knitted or crocheted:		
6105.10	Of cotton	40%	45%
6105.20	Of man-made fibres	40%	45%
6105.90	Of other textile materials	40%	45%
61.06	Women's or girls' blouses, shirts and shirt-blouses, knitted or crocheted:		
6106.10	Of cotton	40%	45%
6106.20	Of man-made fibres	40%	45%
6106.90	Of other textile materials	40%	45%
6107.1	Underpants and briefs:		
6107.11	Of cotton	40%	45%
6107.12	Of man-made fibres	40%	45%
6107.19	Of other textile materials	40%	45%
6108.2	Briefs and panties:		
6108.21	Of cotton	40%	45%
6108.22	Of man-made fibres	40%	45%
6108.29	Of other textile	40%	45%
61.09	T-shirts, singlets and other vests, knitted or crocheted:		
6109.10	Of cotton	40%	45%
6109.90	Of other textile materials	40%	45%
61.10	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted:		
6110.1	Of wool or fine animal hair		
6110.11	Of wool	40%	45%
6110.12	Of Kashmir (cashmere) goats	40%	45%
6110.19	Other	40%	45%
6110.20	Of cotton	40%	45%
6110.30	Of man-made fibres	40%	45%

6110.90	Of other textile materials	40%	45%
61.11	Babies' garments and clothing accessories, knitted or crocheted		
6111.20	Of cotton	40%	45%
6111.30	Of synthetic fibres	40%	45%
6111.90	Of other textile materials	40%	45%
6115.2	Other panty hose and tights		
6115.21	Of synthetic fibres, measuring per single yarn less than 67 dtex	20%	45%
6115.22	Of synthetic fibres, measuring per single yarn 67 dtex or more	20%	45%
6115.29	Of other textile materials	20%	45%
6115.9	Other:		
6115.94	Of wool or fine animal hair	40%	45%
6115.95	Of cotton	40%	45%
6115.99	Of other textile materials	40%	45%
62.09	Babies' garments and clothing accessories:		
6209.20	Of cotton	40%	45%
6209.30	Of synthetic fibres	40%	45%
6209.90	Of other textile materials	40%	45%
6212.10	Brassières	40%	45%
6202.1	Overcoats, raincoats, car-coats, capes, cloaks and similar articles:		
6202.11	Of wool or fine animal hair	40%	45%
6202.12	Of cotton	40%	45%
6202.13	Of man-made fibres	40%	45%
6202.19	Of other materials	40%	45%
6202.9	Other:		
6202.91	Of wool or fine animal hair	40%	45%
6202.92	Of cotton	40%	45%
6202.93	Of man-made fibres	40%	45%
6202.99	Of other textile materials	40%	45%
6203.1	Suits:		
6203.11	Of wool or fine animal hair	40%	45%
6203.12	Of synthetic fibres	40%	45%
6203.19	Of other textile materials	40%	45%
6203.3	Jackets and blazers		
6203.31	Of wool or fine animal hair	40%	45%
6203.32	Of cotton	40%	45%
6203.33	Of synthetic fibres	40%	45%
6203.39	Of other textile materials	40%	45%
6203.4	Trousers, bib and brace		

	overalls, breeches and shorts:		
6203.41	Of wool or fine animal hair	40%	45%
6203.42	Of cotton	40%	45%
6203.43	Of synthetic fibres	40%	45%
6203.49	Of other textile materials	40%	45%
6204.1	Suits:		
6204.11	Of wool or fine animal hair	40%	45%
6204.12	Of cotton	40%	45%
6204.13	Of synthetic fibres	40%	45%
6204.19	Of other textile materials	40%	45%
6204.3	Jackets and blazers:		
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6204.39	Of other textile materials	40%	45%
6204.4	Dresses:		
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6204.42	Of cotton	40%	45%
6204.43	Of synthetic fibres	40%	45%
6204.44	Of artificial fibres	40%	45%
6204.49	Of other textile materials	40%	45%
6204.1	Suits		
6204.11	Of wool or fine animal hair	40%	45%
6204.12	Of cotton	40%	45%
6204.13	Of synthetic fibres	40%	45%
6204.3	Jackets and blazers:		
6204.31	Of wool or fine animal	40%	45%
6204.32	Of cotton	40%	45%
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6204.39	Of other textile materials	40%	45%
6204.4	Dresses:		
6204.41	Of wool or fine animal hair	40%	45%
6204.42	Of cotton	40%	45%
6204.43	Of synthetic fibres	40%	45%
6204.44	Of artificial fibres	40%	45%
6204.49	Of other textile materials	40%	45%
6204.5	Skirts and divided skirts:		
6204.51	Of wool or fine animal hair	40%	45%
6204.52	Of cotton	40%	45%
6204.53	Of synthetic fibres	40%	45%
6204.59	Of other textile materials	40%	45%
6204.6	Trousers, bib and brace overalls, breeches and		

	shorts:		
6204.61	Of wool or fine animal hair	40%	45%
6204.62	Of cotton	40%	45%
6204.63	Of synthetic fibres	40%	45%
6204.69	Of other textile materials	40%	45%
62.05	Men's or boys' shirts:		
6205.20	Of cotton	40%	45%
6205.30	Of man-made fibres	40%	45%
6205.90	Of other textile materials	40%	45%
62.06	Women's or girls blouses, shirts and shirt-blouses:		
6206.10	Of silk or silk waste	40%	45%
6206.20	Of wool or fine animal hair	40%	45%
6206.30	Of cotton	40%	45%
6206.40	Of man-made fibres	40%	45%
6206.90	Of other textiles materials	40%	45%
6207.1	Underpants and briefs:		
6207.11	Of cotton	40%	45%
6207.19	Of other materials	40%	45%
62.11	Tracksuits, Ski Suits and Swimwear; Other Garments		
6211.3	Other garments, men's or boys':		
6211.32	Of cotton:		
6211.32.90	Other	40%	45%
6211.39	Of other textile materials		
6211.39.90	Other	40%	45%
6211.4	Other garments, women's or girls':		
6211.41	Of wool or fine animal hair:		
6211.41.90	Other	40%	45%
6211.43	Of other textile materials:		
6211.43.90	Other	40%	45%
6211.49	Of other textile materials:		
6211.49.90	Other	40%	45%