

REPORT NO. 309

**INCREASE IN THE RATE OF DUTY ON
SHOVELS AND SPADES**

The International Trade Administration Commission herewith presents its Report
No. 309: **INCREASE IN THE RATE OF DUTY ON SHOVELS AND SPADES**, with
recommendations.



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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. 309

INCREASE IN THE RATE OF DUTY ON SHOVELS AND SPADES

Synopsis

Lasher Tools (Pty) Ltd applied for an increase in the rate of duty on certain shovels and spades classifiable under tariff subheading 8201.10.90, from free of duty to 20 per cent *ad valorem*.

As reason for the application, the applicant stated that these smaller shovels and spades with a blade width of 150mm to 200mm are being imported under a "free of duty" category even if they compete with the larger domestically manufactured shovels and spades classifiable under tariff subheading 8201.10.10 attracting a duty of 20 per cent *ad valorem*. The applicant also manufactures shovels and spades with a blade width of 150mm to 200mm, albeit in relatively smaller quantities than its core range of shovels and spades with a blade width exceeding 200mm but not exceeding 320mm. The smaller shovels and spades are substitutes for the larger shovels and spades. The existing tariff dispensation for shovels and spades erodes the tariff protection afforded the industry manufacturing these products.

The Commission recommended the creation of a new tariff subheading at 20 per cent *ad valorem* for shovels and spades with a blade width of 150mm to 200mm.

Introduction

1. Lasher Tools (Pty) Ltd applied for an increase in the rate of duty on certain shovels and spades classifiable under tariff subheading 8201.10.90 from free of duty to 20 per cent *ad valorem*.

2. As reason for the application, the applicant stated that these smaller shovels and spades with a blade width of 150mm to 200mm are being imported under a "free of duty" category even if they compete with the larger domestically manufactured shovels and spades classifiable under tariff subheading 8201.10.10 attracting a duty of 20 per cent *ad valorem*. The applicant also manufactures shovels and spades with a blade width of 150mm to 200mm, albeit in relatively smaller quantities than its core range of shovels and spades with a blade width exceeding 200mm but not exceeding 320mm. The smaller shovels and spades are substitutes for the larger shovels and spades. The existing tariff dispensation for shovels and spades erodes the tariff protection afforded the industry manufacturing these products.
3. The application was published in the Government Gazette on 22 May 2009 for comment by interested parties. The Commission considered the comments received during the publication period.

The tariff position

4. Table 1 below shows the current duty structure for spades and shovels (tariff subheadings 8201.10.10 and 8201.10.90) as well as the proposed new tariff subheading 8201.10.05 (in bold) to be introduced.

Tariff Heading	Description	Rate of duty			
		General	EU	EFTA	SADC
	Hand tools, the following: Spades, shovels, Mattocks, Picks, Hoes, Forks and Rakes; Axes, Bill Hooks and similar hewing Tools; Secateurs, and Pruners of any kind; Scythes, sickles, Hay Knives, Hedge Shears, Timber Wedges and Other Tools of a Kind used in Agriculture, Horticulture or Forestry:				
8201.10	- Spades and Shovels:				
8201.10.05	= of a maximum blade width of more than 150mm but not exceeding 200mm	20%	Free	Free	Free

8201.10.10	= Of a maximum blade width of more than 200mm but not exceeding 320mm	20%	10%	20%	Free
8201.10.90	= Other	Free	Free	Free	Free

5. The WTO bound rate for spades and shovels classifiable under tariff subheading 8201.10 is 20 per cent *ad valorem*.

The industry and the market

6. The applicant is one of the largest domestic manufacturers of non-mechanical tools in Africa. The company is the major manufacturer of shovels and spades in the SACU region with a market share of 83 per cent. Another manufacturer is Ottoman Tools with a market share of approximately 9 per cent. Known importers of the products are J&K Distributors, Araf Industries, Jeplin Industries and Ikhaya Tools.
7. The applicant experiences severe competition from East Asia. Employment at Lasher Tools (Pty) Ltd declined significantly from 2006 to 2008. Lasher Tools (Pty) Ltd trains its employees (55 workers) in-house and also provides apprenticeship training on a 3-4 year training program.
8. According to the applicant, it produces in conformance with SABS standards and it is also ISO accredited. It has various patents registered under its name.
9. All components used are sourced domestically from companies such as Mittal Steel. The company has invested in a new plant to the value of R13m to expand its operations using recycled plastic. Recycled materials are an important source of components in the production process.
10. The capital invested in building and equipment is valued at R215m.
11. The imports of the larger shovels and spades (tariff subheading 8201.10.10) which are manufactured in large quantities by the applicant, decreased from 370 410 units in 2007 to 280 901 units in 2008. Sales by the applicant of the

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larger shovels and spades increased from 924 087 units in 2002 to 1 221 899 units in 2008. The applicant's exports of shovels and spades increased from 95 394 units in 2002 to 157 476 units in 2008. However, the imports of all smaller shovels and spades classifiable under tariff sub-heading 8201.10.90 increased from 431 626 units in 2006 to 567 596 units in 2008 or by approximately 32 per cent over this period. The applicant also manufactures some of these smaller shovels and spades with a blade width of 150mm to 200mm, but in small quantities, according to SACU market demands. These shovels and spades are considered substitutes for the larger shovels and spades.

12. The contribution to total sales of the smaller shovels and spades manufactured by the applicant has declined slightly from 3,75 per cent in 2002 to 2,92 per cent in 2008.

The competitive position

13. The applicant experiences strong import competition especially in the smaller range of shovels and spades imported in significant quantities from East Asia. Substantive price disadvantages are experienced.

Comments

14. The Hand Tool Manufacturers Association of South Africa (HATMA) supports the application.
15. Two importing firms objected to the application for an increase in the rate of duty on shovels and spades. They were of the opinion that an increase in the rate of duty on the smaller shovels and spades would cause the price of these products to increase. Lasher Tools (Pty) Ltd already manufactures these smaller shovels and spades and in their opinion competes in the market without tariff protection.

Findings

16. The Commission found that imported shovels and spades with a blade width of 150mm to 200mm effectively are substitutes for the larger shovels and spades and are eroding the support afforded the applicant. Although the latter manufactures the smaller range in low volumes, the manufacturing activities are geared towards manufacture of spades and shovels with a blade width between 200mm and 320mm.
17. The Commission took into consideration the industry's significant investment and employment potential, its competitive position in the face of low-priced imports and the erosion of its market share with concomitant adverse effects on employment in the industry and its return on investment. The Commission also considered that the existing duty structure affords the industry manufacturing the smaller shovels and spades no effective protection. The recommendation below is intended to afford the industry manufacturing shovels and spades of all dimensions, a similar rate of effective protection.

Recommendation

19. In the light of the foregoing, the Commission recommends that the general rate of duty on shovels and spades of a maximum blade width of more than 150mm but not exceeding 200mm, currently classifiable under tariff subheading 8201.10.90 at free of duty, be increased through the creation of a new tariff subheading at 20 per cent *ad valorem*.

[T5/2/18/1 (64/2008)]