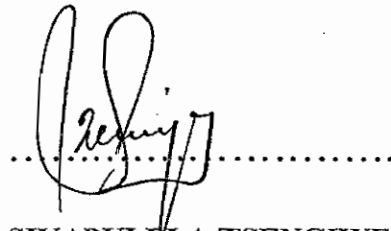


REPORT NO. 258

**REBATE OF DUTY ON CERTAIN COPPER TUBES
FOR THE MANUFACTURE OF FINNED TUBE
HEAT-EXCHANGERS, BLOWER COIL UNIT
COOLERS, EVAPORATORS AND CONDENSERS**

The International Trade Administration Commission herewith presents its Report No. 258: **REBATE OF DUTY ON CERTAIN COPPER TUBES FOR THE MANUFACTURE OF FINNED TUBE HEAT-EXCHANGERS, BLOWER COIL UNIT COOLERS, EVAPORATORS AND CONDENSERS**, with recommendation.

A handwritten signature in black ink, appearing to read 'Siyabulela Tsengiwe', is written over a horizontal dotted line.

SIYABULELA TSENGIWE

CHIEF COMMISSIONER

PRETORIA

20/01/2008

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 258

**REBATE OF DUTY ON CERTAIN COPPER TUBES FOR THE
MANUFACTURE OF FINNED TUBE HEAT-EXCHANGERS, BLOWER
COIL UNIT COOLERS, EVAPORATORS AND CONDENSERS**

Synopsis

Recoil (Pty) Ltd and HC Heat Exchangers (Pty) Ltd applied for a rebate of duty on copper tubes for the manufacture of finned tube heat-exchangers, blower coil unit coolers, evaporators and condensers. The Commission found that the applicant and other downstream manufacturers have experienced significant quality problems for a number of years with the domestically manufactured copper tubes used to manufacture heat-exchangers and have resorted to importing their copper tube requirements. A rebate of duty on these copper tubes being imported would assist the industry to reduce input costs in order to become more competitive. The Commission therefore recommended that a rebate of duty on tubes and pipes with an outside cross-sectional dimension not exceeding 115 mm classifiable under tariff subheading 7411.10.10 for the manufacture of finned tube heat-exchangers, blower coil unit coolers, evaporators and condensers, be introduced.

Introduction

1. Recoil (Pty) Ltd and HC Heat-Exchangers (Pty) Ltd, applied for a rebate of duty on certain copper tubes for the manufacture of finned tube heat-exchangers, blower coil unit coolers, evaporators and condensers. The application was published in the Government Gazette of 10 August 2007 for comment by interested parties.

Reason for the application

2. As reason for the application, the applicants stated that for a number of years the copper tubes manufactured domestically for the manufacture of finned tube heat-exchangers have been of inferior quality. In order to maintain their domestic market share, they had to import these copper tubes. The customs duty payable unnecessarily increases their production cost with adverse effects on their competitiveness.

The application and tariff position

3. The applicants requested that tubes and pipes of refined copper with an outside cross-sectional dimension not exceeding 115 mm classifiable under tariff subheading 7411.10.10, be imported under rebate of the duty for the manufacture of finned tube heat-exchangers, blower coil unit coolers, evaporators and condensers classifiable under tariff subheadings 8415.90.90 and 8418.99.
4. The copper tubes imported are currently classifiable under Schedule No. 1 of the Customs and Excise Act, as follows:

Heading	Subheading	Article Description	General	EU	SADC	EFTA
74.11		Copper Tubes and Pipes:				
	7411.10	Of refined copper:				
	7411.10.10	With an outside cross-sectional dimension not exceeding 115 mm	10%	Free	Free	10%

5. The end products, namely finned tube heat-exchangers, blower coil unit coolers, evaporators and condensers, classifiable under tariff subheadings 8415.90.90 and 8418.99, used in air conditioning machines and refrigerators, freezers and other refrigerating or freezing equipment are classifiable as follows:

Heading	Subheading	Article Description	General	EU	SADC	EFTA
84.15		Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated:				
	8415.90	Parts:				
	8415.90.90	Other	Free	Free	Free	Free
84.18		Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps				

		(excluding air conditioning machines of Heading No. 84.15):				
	8418.9	Parts:				
	8418.99	Other:				
	8418.99.10	Panels of bonded aluminium sheet, incorporating evaporation channels, not punched or sheared, without copper or aluminium pipes	Free	Free	Free	Free
	8418.99.20	Other, for household refrigerators or freezers	10%	Free	Free	10%
	8418.99.30	Other, for display counters, cabinets, show-cases or the like	10%	Free	Free	10%
	8418.99.40	Other evaporators and condensers	10%	10%	Free	10%
	8418.99.90	Other	Free	Free	Free	Free

The industry, market, and competitive position

6. The largest firms namely Recoil (Pty) Ltd and HC Heat-Exchangers (Pty) Ltd are situated in Boksburg and Maraisburg respectively. Other smaller manufacturers of heat-exchangers are Apache Manufacturing Co., Recamp Manufacturing (Pty) Ltd, Yucon Coil Co., Coldcap, Just Refrigeration, ECR and Euro Manufacturing.
7. In the manufacturing process, the layer wound copper coil is cut to length and inserted into the aluminium fin block. These coils are used to make the distributor tails and the straight lengths are used to make headers. All these different forms of copper tube carry refrigerant through the heat-exchanger with the purpose of either heating or cooling. The end product is a heat-exchanger that is used in air conditioning or refrigeration and comes in various shapes and sizes depending on the application.
8. The major manufacturers, Recoil (Pty) Ltd and HC Heat Exchangers (Pty) Ltd have invested approximately R 44 million and R 10 million in their firms and employ 268 and 80 workers respectively.
9. The size of the market for heat-exchangers in the SACU region is estimated at 270 000 units with a sales value of approximately R 200 million per year.

10. The applicants enjoy a market share in units of approximately 35% for heat-exchangers used in the industrial air conditioning and refrigeration market. Imported heat-exchangers also have a significant market share.

Comments on the application

11. Maksal Tubes (Pty) Ltd objected to the application. It stated that its facilities have been upgraded and that it would be able to meet the requirements of the domestic downstream industry.
12. The Copper Development Association Africa (CDA) also objected to the application. According to the CDA, the firm Copper Tubing Africa (Pty) Ltd (CTA) could in future be in a position to supply all coils and inner groove tubing requirements as they have a development agreement in place with Mitsubishi Materials Corporation and have access to all the relevant technology. CTA is pioneering the development of new technology tubing.

Findings

13. In reaching its findings, the Commission found that Maksal Tubes (Pty) Ltd has experienced significant quality problems over the last decade in manufacturing air conditioning and refrigeration copper tubes. The firm can only supply relatively small quantities of the specific copper tubes to the domestic industry in the SACU region and most of these buyers have been dissatisfied with the quality, especially as it has been shown that the copper tubes with the thinner diameters split when they are bent. The Commission also found that Maksal Tubes (Pty) Ltd has not fully co-operated with the downstream manufacturers as far as the technical problems and the regular testing of products are concerned.
14. The Commission also found that a tariff anomaly exists in that various parts, including heat-exchangers, used in air conditioning machines and refrigerators, freezers and other refrigerating or freezing equipment can be imported under Schedules 1 or 3 at free of duty, while the applicants that manufacture heat-exchangers for the industrial air conditioning and refrigeration market are burdened by a duty of 10% ad valorem applicable to imported copper tubes for the manufacture of similar heat-exchangers than those that can be imported free of duty.
15. As a result of the anomaly, the downstream manufacturers experience a negative rate of effective protection.
16. The production of copper tubes and pipes by the domestic manufacturer, Maksal Tubes, amounted to 10 000 tons in 2006. The firm invested R 85 million and employs 590 people. Exports represent approximately 18% of the production volume. The copper tubes and pipes manufactured by Maksal are mainly used in the plumbing industry. The refrigeration and air conditioning industries represent not more than 5% of Maksal's potential clientele. The market segment predominantly served by Maksal is the plumbing industry.

The imports of copper tubes by the refrigeration and air conditioning industries to be rebated, would therefore represent not more than approximately 5% of the production capacity of Maksal Tubes.

17. However, in the light of the objections from Maksal Tubes (Pty) Ltd and The Copper Development Association Africa, the Commission, upon request of the industry, would consider a possible review of the tariff and the rebate dispensation should circumstances warrant it and should the industry be able to meet the quality requirements of the domestic downstream industry.

Recommendation

18. In the light of the foregoing, the Commission recommends that rebate of the full duty be provided for in Schedule No. 3 to the Customs and Excise Act, 1964, as follows --

“ Tubes and pipes of refined copper with an outside cross-sectional dimension not exceeding 115 mm classifiable under tariff subheading 7411.10.10 for the manufacture of finned tube heat-exchangers, blower coil unit coolers, evaporators and condensers classifiable under tariff subheadings 8415.90.90 and 8418.99.”

[T5/2/16/2/1 (11/2007)]