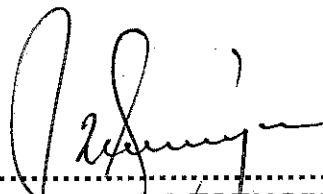


**INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF
SOUTH AFRICA**

REPORT NO. 292

**AMENDMENT TO REBATE ITEM 316.17 AND PART 1 OF
SCHEDULE No.1 OF THE CUSTOMS AND EXCISE ACT TO
SUPPORT THE INDUSTRY MANUFACTURING TELEVISION SETS**

The **International Trade Administration Commission of South Africa** herewith presents its Report No. 292: Amendment to rebate item 316.17 and Part 1 of Schedule No.1 of the Customs and Excise Act to support the industry manufacturing television sets



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

27/08/..... 2009

REPUBLIC OF SOUTH AFRICA

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**AMENDMENT TO REBATE ITEM 316.17 AND PART 1 OF SCHEDULE
No.1 OF THE CUSTOMS AND EXCISE ACT TO SUPPORT THE INDUSTRY
MANUFACTURING TELEVISION SETS**

Synopsis

Tedelex Trading (Pty) Ltd applied for an amendment to rebate item 316.17 to make the population or insertion of components onto circuit boards a requirement for access to this rebate provision. In other words, the request by TEDELEX is that a rebate structure be introduced that would allow for a rebate of the full duty only for CKD assemblers.

The Commission considered the application and recommended a revised tariff dispensation and a differentiated rebate dispensation for the CKD and SKD assemblers. The recommendation is that the CKD assemblers should enjoy a full rebate of the duty on components and the SKD assemblers a partial rebate of the duty.

The Commission recommended that the rebate provision be supported by a permit system underpinned by clear guidelines developed by ITAC, the dti and the industry, aimed at achieving the objectives of domestic investment, value addition and employment.

THE APPLICATION AND TARIFF POSITION

1. Tedelex Trading (Pty) Ltd applied for an amendment to rebate item 316.17 to make the population or insertion of components onto circuit boards a requirement for access to this rebate provision.

2. The existing rebate provision reads as follows:

Rebate Item	Tariff Heading	Rebate Code	Description	Extent of Rebate
316.17	00.00	05.00	Goods of any description (excluding mounted or populated circuit boards, picture tubes fitted with components other than the deflection coil, and cabinets fitted with components), for the manufacture of reception apparatus for television, whether or not combined, in the same housing with radio-broadcasting receivers or sound or video recording or reproducing apparatus	Full duty

3. The existing rebate item was created in the early 1990s for the assembly of conventional cathode ray tube (CRT) television sets. Technological changes have seen the advent of Plasma and LCD panel television sets. It has become necessary to amend the rebate item to explicitly include manufacturers of these new television sets. It is also important to note that the existing rebate item does not compel assemblers to populate circuit boards. Assemblers can still use the rebate provision provided that the duty on populated circuit boards is paid.

4. The application by Tedalex aims to exclude those assemblers that do not populate circuit boards from access to the rebate provision altogether. In other words, these so-called SKD assemblers would have to pay the 20% duty on all components of television sets, including the expensive panel, and not just on the populated circuit boards as is currently the case.

5. The existing tariff position for television sets is as follows:

Heading	Sub Heading	C D	Article Description	Rate of Duty			
				Gen	EU	EFTA	SADC
8528	8528.7		Reception apparatus for television, whether or not incorporating radio-broadcast receivers or sound or video recording or reproducing apparatus:				
	8528.71	8	---not designed to incorporate a video display or screen	free	free	free	free
	8528.72		---other colour				
	8528.72.10	1	---With a screen size not exceeding 3mx 4m	25%	9.5%	18.8%	free
	8528.72.90	0	---Other	free	free	free	free
	8528.73		--Other black and white or other monochrome				
	8528.73.10	8	---With a screen size not exceeding 3m x 4m	25%	9.5%	18.8%	free
	8528.73.90	6	---Other	free	free	free	free

The existing tariff position for parts of television sets is as follows:

Heading	Sub Heading	C D	Article Description	Rate of Duty			
				Gen	EU	EFTA	SADC
	8529.90.20	9	--Cabinets for reception apparatus for televisions	free	free	free	free
	8529.90.50	0	--Filters or separators, for the aerials for reception apparatus for television	free	free	free	free
	8529.90.60	8	---Tuners (very high frequency or ultra-high frequency) and tuner control devices, for reception apparatus for television	free	free	free	free
	8529.90.70	5	--Parts of moulded plastics or base metal, not incorporating electronic components, for reception apparatus for television	free	free	free	free

	8529.90.80	2	--Other parts for reception apparatus for television	20%	9.5%	15%	free
	85.29.90.90	9	--Other	free	free	free	free

6. The full application by Tedalex is to delete and substitute item 316.17/00.00/00.05 with the following three separate rebate items:

Rebate item 316.17/00.00/01.00

"Goods of any description (excluding mounted or populated circuit boards, picture tubes fitted with components other than the deflection coil and cabinets fitted with components and any apparatus classifiable in tariff heading 8528), for the manufacture of reception apparatus for television incorporating a cathode-ray tube (CRT) classifiable in tariff subheading 8528.72.20 and 8528.73.20, whether or not combined in the same housing with radio-broadcasting receivers or sound or video recording or reproducing apparatus".

Rebate item 316.17/00.00/02.00

"Goods of any description (excluding mounted or populated circuit boards and display panels, irrespective of their degree of completion and any apparatus classifiable in tariff heading 85.28), at such times, in such quantities and under such conditions as the International Trade Administration Commission may allow by specific permit, for the manufacture of reception apparatus for television incorporating a display other than a cathode-ray tube (CRT) classifiable in tariff subheading 8528.72.30 and 8528.73.30, whether or not combined in the same housing with radio-broadcast receivers or sound or video recording or reproducing apparatus, provided that the Commission is satisfied that the manufacturing process for reception apparatus for television includes the mounting and populating of unpopulated (blank) circuit boards.

Rebate item 316.17/00.00/03.00

"Plasma display panels and liquid crystal displays (excluding any apparatus classifiable in tariff heading 85.28), not equipped or presented with mounted or populated circuit boards designed for purposes other

than pixel control, and inverters, whether or not incorporating a back lighting unit but not equipped or presented with any other components, at such times, in such quantities and under such conditions as the International Trade Administration Commission may allow by specific permit, for the manufacture of reception apparatus for television classifiable in tariff subheadings 8528.72.30 and 8528.73.30, provided that the Commission is satisfied that the display panels are used in the manner prescribed in rebate item 316.17/00.00/02.00”.

The application was published in Government Gazette No. 31281 of 1 August 2008.

THE INDUSTRY AND MARKET

7. The industry consists of one CKD assembler (the applicant) and eight identified SKD assemblers. The difference between these two business models is that the CKD assembler has invested in an installation for the automatic insertion of components on circuit boards. SKD assemblers are those that have not made an investment in these placement machines and that import circuit boards already fully populated with components.
8. Tedalex is a major player in the television assembly industry. They have a 60% market share, including conventional CRT television sets. The company assembles under the Tedalex and Sansui brands. However, they are relatively new in the assembly of plasma and LCD television sets. The SKD assemblers are assembling plasma and LCD television sets for premium brands like Samsung, LG, and Panasonic on a contract basis. They do not own the brands and their contracts stipulate specific use of the SKD model. Tedalex is also using the SKD model for assembling television sets for Sony.
9. The sales of plasma and LCD sets are increasing and CRT sales are declining. The increase in sales of plasma and LCD sets from 2007 to 2008 was around 68%, and CRT sales declined by 44% over this

period. This is attributed to the declining prices of plasma and LCD television sets, improved picture quality, and the migration of television broadcasting from an analogue to a digital signal. The market share of imported fully built-up plasma and LCD sets was around 60% in the years 2006 to 2007, and rising.

COMPETITIVE POSITION

10. Tedalex is experiencing severe competition from the SKD assemblers who are enjoying a higher rate of effective protection given their relatively lower value addition. According to information at the Commission's disposal, the value added to components by the CKD assemblers is 10.9% (expressed as a percentage of the value of the final product). The value added to components by the SKD assemblers is 5.4%. This is because their investment and employment potential is less than that of the CKD assemblers.
11. The effective rate of protection for SKD assemblers under the existing outdated dispensation is higher than that for the CKD assemblers as the duty dispensation for inputs and output is roughly similar for both business models. To put the SACU industry on the same competitive footing, the effective rate of protection for both business models should be the same. The SKD assemblers are currently favoured by a more profitable rebate structure for their business process because their value addition is lower than that of the CKD assemblers.
12. To afford both business models the same rate of effective protection, the SKD assemblers should pay an average duty of 13.4% on their components, compared to a zero duty on components for CKD assemblers. In other words, assemblers that have invested in placement equipment would enjoy a rebate of the full duty while the assemblers that have not done this and employ fewer people would enjoy a rebate of the full duty less 12.2% on display panels while being liable for the full duty of 20% on mounted circuit boards. Given the cost

relationship between display panels circuit boards and other minor components, the average duty on components for SKD assemblers would be 13,4%.

COMMENTS ON THE APPLICATION

13. Comments were received from Philips SA (Pty) Ltd, Anyview Technology (Pty) Ltd (assembling for Samsung), RC&C (Pty) Ltd (assembling for Panasonic), Vektronix (Pty) Ltd (assembling various electronic products) and from Kiota (Pty) Ltd, a plant in Lesotho that assembles LG sets. Vektronix (Pty) Ltd supported the application by Tedalex (Pty) Ltd but the other four assemblers objected to the application.
14. The SKD assemblers believe that the proposed rebate provision would create a domestic monopoly in the industry because the investment required to populate circuit boards would make it impossible for the smaller assemblers to continue. According to the SKD assemblers, Tedalex bought an automatic insertion machine and that they are now attempting to force out other assemblers that have invested based on the requirements and provisions of the existing rebate provision.
15. According to the SKD assemblers, the trend around the world is to source components from large global specialist manufacturers to assemble television sets. The SACU market is too small to justify investing in dedicated automatic insertion machines. One of these machines, over a relatively short run can produce enough circuit boards for the total annual requirement within SACU. No single assembler will be able to fully utilize the machine. It was also emphasised that the value in a circuit board is embedded in its design and not in the mechanical action of inserting components onto it. The circuit boards are designed abroad by the principal owners of the intellectual property rights.

FINDINGS

16. The Commission found that the value added is relatively low for both models of assembly. The value added to components by the CKD assemblers is 10.9% (expressed as a percentage of the value of the final product). The value added to components by the SKD assemblers is 5.4%.
17. The rationale for excluding SKD assemblers from the rebate provision was relevant in the CRT era. During the CRT assembling process many components are inserted onto the PC boards manually. This manual insertion of components is labour-intensive. During the assembly of LCD and Plasma television sets the components are inserted mechanically. The employment generated by the SKD assemblers cannot be ignored.
18. The Commission found that the existing 20% tariff protection for populated circuit boards under tariff subheading 8529.90.80 does not sufficiently afford Tedelex a price advantage over the imported circuit boards. The imported circuit boards are much less expensive than the domestically produced ones even at the 20% duty level. This serves to illustrate that forcing the industry to populate circuit boards would make them uncompetitive price-wise against fully-built up LCD and Plasma television sets that already enjoy a 60% market share.
19. The SKD assemblers produce television sets under the Panasonic, Samsung and LG brand names (the latter in Lesotho) on a contract basis. It would be impracticable for the above assemblers to outsource the assembling of certain components.
20. The Commission found that the amended rebate provision, as requested by Tedelex, could lead to the demise of the SKD assemblers that together employ more people than the applicant, as they would not be able to utilise the rebate provision which would then be only available to the applicant. The Commission found such a situation to be patently

unfair to the assemblers of television sets. Therefore the Commission could not fully support the application by Tedalex. However, the recommendations below, the logic of which is based on an analysis of the rate of effective protection, would afford CKD assemblers an appreciable better dispensation than the existing one and would allow for a fair and equitable tariff and rebate dispensation.

21. The Commission recommended that the SKD and CKD assemblers should be put on the same competitive footing by affording both models of assembly the same rate of effective protection. To achieve this, the extent of the rebate allowed to CKD assemblers should be the full duty of 20%. The extent of rebate allowed to SKD assemblers should be full duty less 12,2% on display panels. In other words, CKD assemblers would pay no duty on components while enjoying 25% protection on the end product. SKD assemblers would have to pay a duty of 12,2% on display panels while also being liable for the full duty of 20% on mounted circuit boards and enjoying the same nominal rate of protection on their end product.
22. Based on an approximate cost relationship between display panels, circuit boards, and other minor components the SKD assemblers would pay an average duty of 13.4% on their components.
23. In addition, the Commission found that a permit system would be more effective in eliminating possible abuse of the rebate item, for instance, by unscrupulous "screwdriver" operations. ITAC, in consultation with the **dti** and the industry developed guidelines, contained in the annexure to this report that will support all assemblers that add value, contribute to employment creation, and have made appropriate investments.

RECOMMENDATION

24. In the light of the foregoing, the Commission recommends that rebate item 316.17 and Part 1 of Schedule No.1 of the Customs and Excise Act, be amended to support both SKD and CKD assemblers. However, the relative value added by the assemblers (SKD and CKD) has been taken into account in arriving at the extent of the rebate.

25. The specific recommendations are as follows:

Amendment to Part 1 of Schedule No.1

(a) Delete and substitute subheading 8528.72 and 8528.73 with the following:

Heading	Subheading	Article Description	Rate of Duty			
			Gen	EU	EFTA	SADC
8528	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
	8528.72	Other, colour:				
	8528.72.20	Incorporating a cathode-ray tube	25%	9.5%	18.8%	free
	8528.72.30	Other, with screen size not exceeding 3m x4m	25%	9.5%	18.8%	free
	8528.72.90	Other	free	free	free	free
	8528.73	Other, black and white or other monochrome:				
	8528.73.20	Incorporating a cathode-ray tube (CRT)	25%	9.5%	18.8%	free
	8528.73.30	Other with a screen size not exceeding 3mx4m	25%	9.5%	18.8%	free
	8528.73.90	Other	free	free	free	free

(b) Delete and substitute the description of item 316.17/00.00/00.05 with the following:

REBATE ITEM	TARIFF HEADING	REBATE CODE	DESCRIPTION	EXTENT OF REBATE
316.17	8528	01.00	Goods of any description (excluding mounted or populated circuit boards, picture tubes fitted with components other than the deflection coil and cabinets fitted with components and any apparatus classifiable in tariff subheading 85.28), for the manufacture of reception apparatus for television incorporating a cathode-ray tube (CRT) classifiable in tariff subheading 8528.72.20 and 8528.73.20, whether or not combined in the same housing with radio-broadcast receivers or sound or video recording or reproducing apparatus	Full duty
		02.00	Goods of any description (excluding mounted or populated circuit boards and display panels, irrespective of their degree of completion and any apparatus classifiable in tariff heading 85.28), at such times, in such quantities and under such conditions as the International Trade Administration Commission may allow by specific permit, for the manufacture of reception apparatus for television incorporating a display other than a cathode-ray tube (CRT) classifiable in tariff subheading 8528.72.30 and 8528.73.30, whether or not combined in the same housing with radio-broadcast receivers or sound or video recording or reproducing apparatus	Full duty

REBATE ITEM	TARIFF HEADING	REBATE CODE	DESCRIPTION	EXTENT OF REBATE
316.17	8528	03.00	Display panels (excluding any apparatus classifiable in tariff heading 85.28), not equipped or presented with mounted or populated circuit boards designed for purposes other than pixel control, and inverters, whether or not incorporating a back lighting unit but not equipped or presented with any other components, at such times, in such quantities and under such conditions as the International Trade Administration Commission may allow by specific permit, for the manufacture of reception apparatus for television classifiable in tariff subheading 8528.72.30 and 8528.73.30, provided that the Commission is satisfied that the manufacturing process for reception apparatus for television includes the mounting and populating of unpopulated (blank) circuit boards	Full duty
		04.00	Display panels (excluding any apparatus classifiable in tariff heading 85.28), not equipped or presented with mounted or populated circuit boards designed for purposes other than pixel control, and inverters, whether or not incorporating a back lighting unit but not equipped or presented with any other components, at such times, in such quantities and under such conditions as the International Trade Administration Commission may allow by specific permit, for the manufacture of reception apparatus for television classifiable in tariff subheading 8528.72.30 and 8528.73.30	Full duty less 12,2%

ITAC GUIDELINES FOR ISSUING A REBATE PERMIT TO ASSEMBLERS OF TELEVISION SETS UNDER REBATE 316.17

A rebate permit will only be considered if all of the following information has been submitted and verified by ITAC upon inspection at the premises.

- (a) Amount of capital invested in the operation;
- (b) Employment figures;
- (c) A full list of the equipment contained in the installation;
- (d) The assembly lines and the amount of staff per line;
- (e) A breakdown of the assembly instruction guide to determine how many stages are needed for the assembly of flat panel televisions;
- (f) The cost of flat panel television sets through the submission of commercial invoices accompanied by cost and price structures;
- (h) All Television sets made in South Africa must have a letter of authority (LOA) from the SABS; and
- (i) Submission of the completed attached production stages questionnaire.

STAGES OF PRODUCTION FOR SKD AND CKD (These stages are only a guide)

SKD / CKD Permit Criteria

#	Item	Compliance YES/NO
To meet the SKD permit criteria, the following production facilities (1 - 31) must be present and operational in the SKD factory		
The following production facilities must be present:		
1	High voltage test	
2	Final Testing of all functions	
3	Final testing of all signal interfaces	
4	White balance alignment facility	
5	Soak testing (Burn in) facility	
6	Switch-on test position	
7	Main assembly stages	
8	Sub-assembly stages	
9	Programming equipment for a minimum of HDCP licence	
10	Fault finder(s), suitably qualified and trained with minimum of oscilloscope and signal sources)	
The following test equipment must be present:		
11	Professional High voltage testing equipment (to IEC 60065)	
12	Facility for soaking LCD television set	
13	Signal sources as listed below:	
14	HF analogue signals	
15	Composite video baseband signals	
16	S-Video signals	
17	Audio signals (baseband)	
18	Component video signals (YPbPr)	
19	VGA signals with appropriate resolutions for products under test	
20	HDMI signals with 720 and 1080 line resolutions	
21	HDMI Signals that are HDCP protected	
22	Multichioce HD decoder signal	
23	Blue ray source	
24	HF Signal strength meters	
25	Oscilloscopes	
The following production support facilities must be available:		
26	Quality assurance facility and person/personnel	
27	Technical support technician	

SKD CRITERIA

