

Report No. 240

Application for a reduction in the rate of customs duty on grape seed extract

The International Trade Administration Commission of South Africa herewith presents its **Report No. 240**: APPLICATION FOR A REDUCTION IN THE RATE OF CUSTOMS DUTY ON GRAPE SEED EXTRACT



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ACTING CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

**INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH
AFRICA**

REPORT NO. 240

**APPLICATION FOR A REDUCTION IN THE RATE OF CUSTOMS DUTY
ON GRAPE SEED EXTRACT**

Synopsis

The Commission considered an application for a reduction in the rate of customs duty on grape seed extract. Atriplex Pty Ltd (the applicant), uses the grape seed extract to manufacture Proanthocyanidin, a dietary supplement for the export market.

A decision to publish was taken based on the allegations by the applicant that there are no grape seed extract manufacturers in the SACU.

Brenn-O-Kem (Pty) Ltd, supported by Trade and Investment South Africa (TISA), objected to the reduction of the duty citing that the removal would be detrimental to the existence of Brenn-O-Kem (Pty) Ltd (SACU manufacturer). The reduction of the duty would have a negative effect on employment as Brenn-O-Kem would be forced to retrench employees in order to be competitive. Brenn-O-Kem is situated in Wolseley in the Western Cape where creation of employment is of utmost importance.

The Commission established that the SACU manufacturer has in the past years been investing a considerable amount of money on research and development to ensure that their product is of good quality and internationally competitive.

The Commission decided to reject the application for a reduction in the rate of duty on grape seed extract as a suitable similar product is manufactured in the SACU, and the duty therefore serves as an encouragement and protection for this industry.

Introduction

Atriplex (Pty) Ltd, applied for a reduction in the rate of customs duty, from 15 per cent ad valorem to free of duty on grape seed extract classifiable under tariff subheading 1302.19.12. The imported grape seed extract is used in the production of proanthocyanidin for the export market.

As reasons for the application, the applicant stated that the grape seed extract is not manufactured in the SACU and therefore no justification exists for the current rate of duty. Preliminary findings were tabled before the Commission. The Commission approved the publication of the application for interested parties to comment. The application was subsequently published in the Government Gazette of 22nd December 2006.

The current tariff position on grape seed extract is reflected in table 1 below

Table 1: Tariff structure of grape seed extract

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
13.02		Vegetable saps and extracts; pectic substances, pectinates and pectates; agar-agar and other mucilages and thickeners, whether or not modified, derived from vegetable products:					
	1302.1	Vegetable saps and extracts:					
	1302.19.12	Other, suitable for pharmaceutical purposes	Kg	15%	Free	15%	Free

Findings

Brenn-O-Kem (Pty) Ltd, a SACU manufacturer objected to the reduction in the rate of duty on grape seed extract. The company was established in 1968 mainly to process the by-products of the South African wine industry. Brenn-O-Kem indicated that they have invested funds in the manufacturing of grape seed extract. The company has also invested funds for studies at the University of Stellenbosch to do clinical testing on grape seed extract to improve its quality for it to be internationally competitive.

Investment

Brenn-O-Kem supplies pure grape seed extract in capsules and uses the grape seed extract to manufacture Oxiprovin (an antioxidant) for retail pharmacies. Oxiprovin is now being launched in Europe. Oxiprovin by Brenn-O-Kem is in direct competition with Proanthocyanidin manufactured by Afriplex.

Employment

Brenn-O-Kem employs people working full time manufacturing the grape seed extract and casual workers on contractual basis. The creation of employment opportunities is important in rural areas like Wolseley. The company believes that a reduction in the rate of duty would put the employment of people in the industry at risk. The applicant originally alleged in their application that 22 people are currently employed in the manufacture of Proanthocyanidin, but

upon verification it was established that there was currently no manufacturing of the product taking place at the applicant's premises.

Market

Afrilex manufactures proanthocyanidin primarily for the export market. Rebate items 470.03 and 521.00 are incentives that government provides to manufacturers to access raw materials at world prices. These rebate provisions would enable the applicant to access grape seed extract at world prices for its export market, while at the same time not exposing the existing SACU manufacturer of grape seed extract to lower priced imports.

Recommendation

In light of the foregoing, the Commission decided to reject the application for a reduction in the rate of customs duty on grape seed extract, as a suitable similar product is manufactured in the SACU.

[34/2006]