

Report No. 201

Creation of a rebate provision “Goods of any description for use in the construction of the infrastructure known as the Gautrain Rapid Rail Link”

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infrastructure known as the Gautrain Rapid Rail Link."



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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 201

CREATION OF A REBATE PROVISION FOR GOODS OF ANY DESCRIPTION FOR USE IN CONSTRUCTION OF THE INFRASTRUCTURE KNOWN AS THE GAUTRAIN RAPID RAIL LINK

Synopsis

Bombela Consortium (Pty) Ltd applied for the creation of a rebate provision for goods that will be used in the construction of the infrastructure known as the Gautrain Rapid Rail Link. According to the applicant, some of the dutiable goods that are needed are not available in the Southern African Customs Union (SACU) in the required quantities and specifications and some are not manufactured domestically. The large majority of the goods that will be imported are already duty free and no rebate permit will be required. The applicant stated that the Gautrain will be highly advanced technologically. The applicant mentioned that there are strict deadlines to be met and that therefore a shortage of supply during construction could not be afforded as the Gautrain Rapid Rail Link is due to be operational by 2010 in the major stations.

The Commission considered the application and recommended that a rebate provision be created for the construction of the infrastructure known as the Gautrain Rapid Rail Link, as follows: "Goods of any description for use in the construction of the infrastructure known as the Gautrain Rapid Rail Link, at such times and in such quantities as the International Trade Administration Commission of South Africa may allow by specific permit".

1. THE APPLICATION

- 1.1 Bombela Consortium (Pty) Ltd applied for a 4th Schedule rebate provision on goods that will be used for the construction of the Gautrain Rapid Rail Link. The construction of Gautrain will take place over a period of 4,5 years and the rebate applied for will cover this period. Gautrain will require technologically advanced products compared to what is currently used in the railway and electro- mechanical industry. The safety and security of the Gautrain Rapid Rail Link is of high priority.
- 1.2 Construction of the Gautrain will entail the following: Laying of nearly 80kms of railway, 50kms of surface earthworks, removal of 6 million m³ of soil, 15kms of tunnel – 25% using tunnel – boring equipment, 10,5kms of viaducts, 55 overpass or underpass bridge structures, 10 stations: three underground, three elevated on viaducts, four at street

level, 9 000 park and ride bays, 750 000 m³ concrete, 750 000 m³ of stones and soil to be mixed into concrete, 300 000 tonnes of cement, 50 000 tonnes of reinforcing steel, 20 000 tonnes of rail, 350 000 rail sleepers and one million tonnes of ballast.

- 1.3 Operation of the Gautrain will entail: Travel at maximum speed of 160kms per hour, 24 trains of 4 car sets each, 38 minutes travelling time between Johannesburg Park Station and Hatfield, 12 minutes between Sandton and OR Tambo International Airport, stop eight times between Park Station and Hatfield, each stop will vary between 30 and 45 seconds, 11 trains on the track at any given time, up to 3 200 passengers at peak time and a fleet of close to 150 air-conditioned buses.
- 1.4 According to the applicant, some of the goods that will be needed to put up the infrastructure are not available within SACU in the required quantities, quality standards, timing of delivery and additional services to be provided such as: maintenance, required warranties, guarantees to add future supplies of spares and correct interface with imported hardware as well as software. Other products are not manufactured domestically.
- 1.5 After consultations with SARS the following rebate description was recommended to accommodate the requirements of the applicant: "Goods of any description for use in the construction of the infrastructure known as the Gautrain Rapid Rail Link, at such times and in such quantities as the International Trade Administration Commission of South Africa may allow by specific permit".
- 1.6 More than 80% of what will be imported for the Gautrain is already free of duty and the remaining items attract varying levels of duty. A significant part of the product requirements for the Gautrain are classified under Chapter 86 which makes provision at free of duty for railway or tramway locomotives, rolling-stock and parts thereof, railway or tramway track fixtures and fittings and parts thereof and mechanical (including electro mechanical) traffic signalling equipment of all kinds.
- 1.7 The dutiable items are fare gates, transformers, electrical cables, power generators, exterior and signalling lights, television circuits, dumpers and steel pipes. There are local manufacturers of these products and Bombela will be sourcing most of these locally. Importation will only be considered when the local market cannot supply due to high volumes and advanced technology that will be required.
- 1.8 The following table represents the products that attract duty as per the application:

PRODUCT & TARIFF	PRODUCT USAGE	DUTY
Fare gates-7308.90.90	Gautrain will use different fare gates from the normal fare gates, which will be glass sliding doors, and glass will be from a local company. Glass sliding doors were preferred because they reduce fraud The drive mechanism with multi-pole continuously variable & infinite stopping & starting motors, & electronic control will be imported. Local manufacturers that were approached indicated the highly advanced technology required for the motors & electronic controls (It should also be noted that SACU presently imports more than 70% of electric motors)	15%
Transformers-8504	Transformers are manufactured and available locally. Bombela has confirmed that they don't have any intentions of sourcing these items	10%

	<p>internationally as they are made locally.</p> <p>The need to import will only be as a result of supply shortage by domestic manufacturers due to the high volumes that will be required for the project.</p> <p>There was no specific comment from publication with regards to transformers.</p> <p>Transformer manufacturers are in the Bombela database.</p>	
Electrical cables-- 8544.60	<p>More than three local companies do manufacture high voltage cables and have indicated that there is capacity to manufacture and Bombela will source available cables locally.</p> <p>The non-flammables will be used in the tunnels and this kind of cable is not available locally</p> <p>SA has good quality cables in the ranges that they currently manufacture and they are already internationally competitive.</p> <p>Companies within this industry are willing to extend their production capacity should the need arise.</p>	15%
Power generators - 8502	<p>Power generators for the control room and the stations will be sourced locally. Names have been forwarded and the companies have confirmed their ability to supply Bombela.</p> <p>Domestic generator companies are mostly importing.</p>	20%
Exterior and signalling lights- 8504.40.90	<p>Specific lights to be used in the tunnels, trains and stations</p> <p>Water proof- lighting bulb in tunnels will be specific and not sourced in SACU.</p> <p>Train lighting is in candescent halogen for head lights and LED for tail, marker & information lights and fluorescent for interior</p> <p>Local sourcing from a number of potential specialist railway lighting sources but there are also lights that are highly specialised and they are not manufactured domestically.</p> <p>(It should also be noted that there's currently no manufacturer of lights like compact fluorescent lights although they do attract duty)</p>	20%
Television circuits - 8528.12.80	<p>Only television receiving sets carry a duty. All other TV transmission equipment, camera's, etc, are zero- rated.</p> <p>Bombela will be using computers, not the normal TV sets. The CCTV cameras are currently imported for all SA applications.</p> <p>Computers are used for monitoring purposes and are imported.</p> <p>A computerised TV with all the information about the coach, including defaults and service timelines will be at the driver's area.</p>	Free to 25%
Dumpers - 8704.10.25	<p>Manufacturers of dumpers believe that they can meet the needs of the client for these items</p> <p>Bombela mentioned that their process is that of competitive tender to ensure best price quality and delivery time. According to Bombela the earthmoving equipment that will be required is not manufactured locally.</p>	10%
Steel pipes - 7305	<p>Specialised large bore piping</p> <p>This will be used for sewerage and drainage</p> <p>There is currently no local manufacture of other specialised piping.</p>	10%

- 1.9 The application was published for comments in the Government Gazette of 04 August 2006, Notice 1041 of 2006. The application attracted 16 comments in total. They were from different Industry Associations and Companies. Most of these were general comments that did not take into consideration duty free items. Generally the comments were opposing the creation of the rebate and the reasons for opposing the application were: (1) a blanket rebate; (2) available goods in SACU that can be negatively affected by the importation and; (3) the control process that ITAC will use to avoid misuse.

- 1.10 It should be mentioned that the notion that this will be a blanket rebate provision is ill - informed. The importation of dutiable items will be subject to the strict permit requirements of ITAC. Bombela, as all enterprises in SACU, will of course be able to import the non – dutiable items at will and would not need a permit for doing so.
- 1.11 The Gautrain project is fully committed to ASGISA (Accelerated and Shared Growth Initiative for South Africa). The Socio Economic Development (SED) requirements were specifically included as part of the Public Private Partnership (PPP) requirements for the Gautrain. A SED obligation that involves penalties and a task team to monitor progress and accomplishment of commitments indicates that a best effort has been made to consider the interests of the domestic industry.
- 1.12 Bombela will not only source material, equipment, components and workforce domestically but will also transfer skills. An example is with the coaches. There is a lack of skills in terms of manufacture and assembly in this field and the coaches can be imported free of duty. Even so, only 10% will be imported and the rest will be assembled locally. Bombela will send South Africans abroad for training on the coach manufacturing process.
- 1.13 The interests of the local industry are of paramount importance and the rebate is meant to assist the project in cases where the products are not satisfactorily available locally. The rebate permit will be issued by ITAC and before approval, confirmation on lack of satisfactory local supply will be established.

2. RECOMMENDATION

- 2.1 The Commission found that the duties applicable to the products required that are not available in the required quantities, standards and at the required time frames or not manufactured locally at all have an unnecessary cost – raising effect on the Gautrain Rapid Rail Link project. The Commission therefore recommended that a rebate provision under Schedule Four of the Customs and Excise Act be created as follows: “Goods of any description for use in the construction of the infrastructure known as the Gautrain Rapid Rail Link, at such times and in such quantities as the International Trade Administration Commission of South Africa may allow by specific permit”.