

## **Report No. 128**

# **Rebate of the duty on cotton lint**

The International Trade Administration Commission herewith presents its  
Report No 128: **REBATE OF THE DUTY ON COTTON LINT**

  
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**Ms N P MAIMELA**  
**CHIEF COMMISSIONER**

**PRETORIA**

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**REPUBLIC OF SOUTH AFRICA**  
**INTERNATIONAL TRADE ADMINISTRATION COMMISSION**  
**REPORT NO. 128**  
**REBATE OF THE DUTY ON COTTON LINT**

**Synopsis**

The South African Cotton Textiles Manufacturers Association (SACTMA) applied for a provision to be created in the 4th Schedule of the Customs and Excise Act for the duty free importation of long staple cotton lint classifiable under tariff subheading 5201.00.20.

The Commission decided to investigate the creation of a rebate provision for cotton lint based on the type of cotton that is not available in SACU.

This investigation was published in the Government Gazette of 10 December 2004.

The South African Cotton Producers Organisation (SACPO) opposed the creation of such a rebate provision for of the following reasons:

- Due to the low international price of cotton, cotton production is declining and is at the lowest level in 10 years.
- The South African cotton industry experiences strong competition from SADC countries.
- The removal of the rebate when the SADC duty became zero resulted in South African spinners taking up less cotton lint from South African growers.
- Cotton subsidies enable cotton producers in subsidized countries including SADC countries to produce and market their product at a much lower price.
- It will be difficult for the customs authorities to administer the rebate provision based on cotton lengths.
- Cotton spinners only require 3 500 bales (1 % of their seasonal requirements) of cotton lint with extra long staple.

SACTMA responded indicating that only 10 % of the world's cotton is grown in the Southern Hemisphere. The rebate provision based on cotton lengths will enable spinners to import cotton fibres, which are not obtainable within SACU. According to SACTMA, spinners should be allowed to import at least 20 % of their cotton lint requirements under rebate.

During the investigation the Commission took into consideration that:

- No consensus has been reached between SACTMA and SACPO on the creation of a rebate provision and a means of administration of the provision.
- The creation of a rebate provision to further expand the duty free importation of cotton lint by the South African spinners would not be in the interest of the cotton growers in South Africa. Furthermore, the quantities of extra long staple required by spinners are small in relation to their total cotton requirements.
- The requested rebate provision would be difficult to administer.

In view of the above the Commission decided that the application by SACTMA for rebate of the full duty on cotton fibres, not carded or combed, ginned but not further processed, of a length exceeding 28,0 mm but not exceeding 35,9 mm classifiable under tariff subheading 5201.00.20, be rejected.

## THE APPLICATION AND TARIFF POSITION

1. The Commission considered the proposal by the South African Cotton Manufacturers Association (SACTMA) to create a rebate provision under the 4th Schedule of the Customs and Excise Act.
2. SACTMA submitted the following arguments in support of their application:

### 2.1 Availability:

- 2.1.1 The Mature fiber(s) with a guaranteed micronaire of 3,4 to 3,8, which is used to produce yarn with a low torque are not available in SACU. These cotton types are as follows:

Type of Cotton	Description
Long Staple Cotton. This is all cotton above 31 mm in length	Depending on the end use of the cotton, spinners will buy cotton up to 1 3/8" or 34,9mm in lengths.
Fine Micronaire Mature Cotton	This is mature cotton with a micronaire range of 2,9 – 3,8. Length 1 1/8" or 28,58 mm upwards
Low Quality Cotton	This is short cotton primarily for coarse open-end spinning. Cotton length 13/16 " (20,64 mm) to 1" (25,44 mm)

### 2.2 Right/Correct Grade:

- 2.2.1 Only a small amount of contaminated-free cotton fiber is available in SA, which needs to be taken up over a short period, and is also not always the correct grade.

### 2.3 Contingency Plan:

- 2.3.1 In the event of environmental disasters such as drought (which results into immature cotton) or pest attack in the Southern African region, the cotton industry should have access to the international market.

### 2.4 Demand and Supply factors:

- 2.4.1 Only 10 % of cotton is grown in the Southern Hemisphere and therefore the industry does not have the ability to purchase its cotton requirements of a specific grade over a 12-month period. South African spinners need continuity in terms of quality and grade of cotton lint. Currently they are only able to purchase at the beginning of the year and this deprives them of the opportunity to take advantage of the most appropriate exchange rate and international cotton lint price.
- 2.4.2 Spinners have recently tried to purchase cotton from Zimbabwe and have only been allocated 50 % of the volume required.
- 3 After further consultation with SACTMA, SARS and the National Department of Agriculture (NDA), the Commission decided on 10 December 2004 that the application by SACTMA for rebate of the duty on cotton lint based on certain lengths of cotton be published in the Government Gazette for comment, and that the publication should read as follows:

***“Cotton fibers, not carded or combed, ginned but not further processed, of a length exceeding 28,0 mm but not exceeding 35,9 mm classifiable under tariff subheading 5201.00.20 in such quantities, at such times and subject to such conditions as the Director General: Agriculture may allow by specific permit”***

4. Cotton lint is currently classifiable as follows:

**Table 1: Tariff position**

Description	Tariff subheading	General	SADC	EU
Cotton ginned but not further processed	5201.00.20	160c/kg	Free	140,8c/kg

5. The duty phase down in terms of the EU Agreement is as follows:

**Table 2: Duty phase down in terms of the EU Agreement**

Tariff	Base Rate 2000	2005	2006	2007	2008	2009	2010	2011	2012
52.01	160c/kg	88 % of the base rate 140c/kg	75 % of the base rate 120c/kg	63 % of the base rate 100c/kg	50 % of the base rate 80c/kg	38 % of the base rate 60c/kg	25% of the base rate 40c/kg	13% of the base rate 20c/kg	0

6. A rebate provision exists in terms of South Africa's minimum market access requirements, as follows:

**Table 3: Minimum Market Access Requirements**

Rebate Item	Tariff Heading	Rebate Code	Description	Extent of rebate	Final Quota
460.25	52.01	01.04	Cotton, not carded or combed	Full Duty less 12 %	17 101 Metric tons

7. Although a rebate provision for minimum market access does exist, there is a reluctance by SACTMA to use this rebate item as the customs duty is not fully rebated.

## THE COMPETITIVE POSITION

8. According to the Department of Agriculture it has identified cotton growing as a strategic sector within agriculture. A plan has been formulated in order to promote global competitiveness, equity participation and sustainable agriculture. Growth of this sector should in the opinion of the Department of Agriculture, be enhanced and investment should be protected.
9. The Department of Agriculture is of the opinion that the introduction of such a rebate provision should be negotiated between the cotton growers and spinners within the framework of the National Strategy for the South African Cotton Industry. No consensus has been reached between SACTMA (spinners) and the SACPO (cotton growers) on the creation of this rebate provision.
10. South African cotton producers are experiencing strong competition from cotton producing countries within the SADC region.
11. Zimbabwe and Zambia are currently the largest producers of cotton lint within the SADC region. During the period 2003/4 total production of cotton lint in Zimbabwe was 120 000 tons and in Zambia 65 000 tons. This represents 36 % and 20 % respectively of the total production within the region.
12. Import of cotton lint by South Africa increased from 39,1 % (Zambia) and 30,3 % (Zimbabwe) in 2003/4 to 40,6 % (Zambia) and 35,0 % (Zimbabwe) in 2004/5. The stronger Rand in relation to weaker SADC currencies enables cotton lint producers in SADC countries to market their product at favourable prices to South African spinners. According to SACPO, this impacts negatively on South African cotton lint producers.
13. SACPO indicated that 47 % of their production falls within the length requirements of 28,0 mm and 35,9 mm.
14. SACPO also indicated that the requirement of South African spinners for extra long staple is only 3 500 bales which represents a mere 1 % of their of their total cotton requirements.

15. SARS indicated that they will only to an extent, and not without specialised assistance, be able to administer the proposed rebate provision based on cotton lengths.
16. The Department of Agriculture and SACPO also noted their concern with regards to the ability of SARS to administer the quality specifications in respect of cotton lint.

#### **RECOMMENDATION**

17. The Commission recommends that the application by South African Cotton Textile Manufacturers Association (SACTMA), for rebate of the full duty cotton fibers, not carded or combed, ginned but not further processed, of a length exceeding 28,0 mm but not exceeding 35,9 mm classifiable under tariff subheading 5201.00.20, be rejected.