



International Trade Administration Commission of South Africa

Report No. 6

Rebate of the full customs duty on imported cork insoles for the manufacture of footwear

The International Trade Administration Commission of South Africa herewith presents its
Report No. 6: REBATE OF THE FULL CUSTOMS DUTY ON IMPORTED CORK
INSOLES FOR THE MANUFACTURE OF FOOTWEAR, with recommendations


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CHIEF COMMISSIONER

PRETORIA

...14.../...07.../ 2003

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION
REPORT NO. 6

REBATE OF THE FULL CUSTOMS DUTY ON IMPORTED CORK INSOLES FOR
THE MANUFACTURE OF FOOTWEAR.

Synopsis

The Commission considered an application from Soleflex Comfort Footwear CC, for rebate of the full customs duty on imported cork insoles, classifiable under tariff subheading 6406.99.90 for the manufacture of footwear with retrospective effect from 1 January 2002. The reason for the application was that the customs authorities at SARS had classified the product under tariff subheading 6406.99.90, at a rate of duty of 20 % ad valorem. The applicant, in the past, cleared the imported product free of duty under tariff subheading 6406.99.25. According to SARS, the applicant was instructed to clear the relevant product under the correct tariff subheading since it was clearing the goods incorrectly under a tariff subheading at free of duty. The application for a rebate of duty was published in the Government Gazette on 7 February 2003 and no comments were received. The Commission found that the product is not manufactured in the SACU, that the applicant serves a niche market and is experiencing competition from similar imported end products. The Commission concluded that a rebate of the duty is justifiable and therefore recommended that a provision be created for rebate of the full duty on cork insoles for the manufacture of footwear. The Commission did not support the applicant's request that the rebate provision be created with retrospective effect from 1 January 2002.

The application and the tariff position

1. Soleflex Comfort Footwear CC, applied for rebate of the full customs duty on imported cork insoles, classifiable under tariff subheading 6406.99.90 for the manufacture of footwear.
2. The reasons given for the application for a rebate of duty on imported cork insoles are as follows:
 - 2.1 The Commissioner for SARS reclassified the product under tariff subheading 6406.99.90 at a rate of duty of 20 percent ad valorem whereas the applicant used to clear it free of duty under tariff subheading 6406.99.25. To the applicant, this resulted in an increase in the duty payable. The rate of duty on the end product(s), footwear, is 30 percent ad valorem.

Appeals to the South African Revenue Service regarding the tariff determination for the cork insoles in question have been unsuccessful.

The applicant is an SMME who has established a viable niche market for its products. The firm claims that it has built a solid reputation for comfort, quality and durability in the South African market. Other South African manufacturers as well as importers/wholesalers of shoes are, in the opinion of the applicant, impinging on its market with inferior quality shoes and sandals.

- 2.4 The existing 20 percent duty on the imported raw material is placing an onerous financial strain on the company. According to the applicant, shoe retailers in South Africa exert continuous pressure on manufacturers to keep wholesale prices as low as possible, as the South African consumer is price-conscious. The applicant argued that an increase in the landed cost of the raw material cannot easily be passed on to the retailer and end consumer, as this will not be accepted and will lead to a decrease in sales and therefore production. Soleflex Comfort Footwear contends that it is not in a financial position to sustain the continued application of a 20 percent import duty on this important raw material.

According to information at the Commissioner's disposal, the South African manufacturers of shoe components are not able to supply the raw material (genuine cork insoles) due to the fact that setting up a manufacturing plant for it would not be economically and financially viable.

3. **The cork insoles are classifiable as follows:**

Other parts of footwear (including uppers, whether or not attached to soles (excluding outer soles); removable in-soles, heel cushions and similar articles; gaiters, leggings and similar articles, and parts thereof; of other materials, classifiable under tariff subheading 6406.99.90, at a rate of duty of 20 percent ad valorem.

4. The bound rate of duty in terms of South Africa's WTO commitments with respect to cork insoles is 20 percent ad valorem.

5. **The end-products are classifiable as follows:**

Other footwear with outer soles of rubber, plastics or composition leather and uppers of leather, covering the ankle, classifiable under tariff subheading 6403.91 at a rate of duty of 30 percent ad valorem and other footwear, with outer soles of rubber, plastics or composition leather and uppers of leather classifiable under tariff subheading 6403.99 at a rate of 30 percent ad valorem.

6. The bound rate of duty in terms of the South Africa's WTO commitments with respect to the end products is 30 percent ad valorem duty.

7. On 7 February 2003, the application was published in Government Gazette 24326, Notice 364 of 2003, as follows:

"Rebate of the duty on cork insoles classifiable under tariff subheading 6406.99.90 for the manufacture of footwear".

The industry and the market

8. The "comfort" sector of the South African (and global) market is growing at a rate of 25% per annum. South African comfort shoe manufacturers are producing an estimated 1 200 000 pairs of comfort shoes per annum.

9. The company presently employs 16 permanent factory workers. Additional personnel are employed on a contract basis during the high demand season between September and January. All staff is directly involved in the manufacture of the end product.

Conclusion

10. The duty expressed as a percentage of the applicant's ex-factory selling price is considered significant in view of the competition experienced by the applicant.

11. The Commission found that tariff relief by way of rebate of duty is required to enable the applicant to continue manufacturing its products at a competitive price.

12. The Commission found adequate justification for supporting the application for the following reasons:

the product concerned is not manufactured in the SACU;

the applicant is an SMME that has established a viable niche market where it enjoys a comparative advantage.

the applicant is experiencing fierce competition from similar imported end products, the 20 percent ad valorem duty payable on the imported raw material is placing an undue financial strain on the company.

Recommendation

13. The Commission concluded that a rebate of duty is justified and therefore recommends that a provision be created for rebate of the full duty on cork insoles for the manufacture of footwear. The Commission did not support the applicant's request that the rebate provision be created with retrospective effect from 1 January 2002.

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