

Report No. 53

Investigation into the withdrawal of certain rebate provisions for the textile, clothing and related industries

The International Trade Administration Commission herewith presents its
Report No 53: **INVESTIGATION INTO THE WITHDRAWAL OF CERTAIN
REBATE PROVISIONS FOR THE TEXTILE, CLOTHING AND RELATED
INDUSTRIES**


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CHIEF COMMISSIONER

PRETORIA

.....*10 August*.....**2005**

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION
OF SOUTH AFRICA

REPORT NO. 53

INVESTIGATION INTO THE WITHDRAWAL OF CERTAIN REBATE
PROVISIONS FOR THE TEXTILE, CLOTHING AND RELATED
INDUSTRIES

Synopsis

In Report No. 3558 dated 8 August 1995, the Board on Tariffs and Trade (BTT) made recommendations with regard to a future tariff dispensation for textiles and clothing. These recommendations entailed a phase-down schedule for *ad valorem* tariffs over 7 years as from 01 September 1995; minimum and maximum specific tariffs and a programme for their removal; the withdrawal of certain rebate provisions; and the phasing out of specified rebate provisions for yarns and fabrics for use by various industries. The phasing out of rebate provisions for yarn was scheduled for the period 01 September 1996 to 01 September 2002 and that of fabrics from 01 September 1999 to 01 September 2002.

However, the South African Revenue Service (SARS) was unable to implement the phase-out of the rebate provisions on textiles as recommended by the BTT.

As result of the above, the BTT decided to again investigate the matter, and in Report No. 4180 dated 26 August 2002 recommended that 199 rebate provisions be withdrawn and 86 be provisionally retained. Those rebate items provisionally to be retained were subject to further investigation to establish the following:

- The effect of the withdrawal of the rebate provisions on the sectors concerned;
- The general availability of the fabrics; and
- The likelihood of future production of the relevant fabrics.

The BTT 's intention to investigate the 86 rebate provisions was published in the Government Gazette No 24600, Notice No 860 of 28 March 2003.

During the investigation, the Commission found that the capacity of local textile manufacturers was limited in respect of fabric suitable for the manufacture of swimwear, foundation garments and undergarments. This was based on a survey conducted by the Commission.

The Commission also found that the dynamics within the textile and clothing industry have changed since the investigation conducted by the Panel Task Group for Textiles and Clothing. Developments have led to a limited availability of fabrics for the manufacture of garments for the SACU market.

In view of the above, the Commission recommended that:

- Those rebate provisions where no goods were imported in 2003 and 2004 be withdrawn.
- Those rebates that SARS have not been able to phase out be withdrawn.
- The rebate provisions in respect of the manufacturers of swimwear, undergarments and foundation garments be maintained and again reviewed in 2007.
- The rebate provisions in respect of the handkerchief industry, as well as the provision allowing the importation of carpet backing used in the manufacture of tufted carpets be maintained.
- The rebate provisions that apply to industries manufacturing end products other than textiles be maintained.
- The rebate provisions relating to components/accessories not available locally but used in the manufacture of textile products, be maintained.
- Finally, that the rebate provisions that were utilised during the period 2003 and 2004 be maintained.

INTRODUCTION

1. In its Report No. 3558¹, the Board on Tariffs and Trade (BTT) made recommendations with regard to the future tariff dispensation for textiles and clothing. These recommendations entailed a phase-down schedule for *ad valorem* tariffs over 7 years as from 01 September 1995; minimum and maximum specific tariffs and a programme for their removal; the withdrawal of certain rebate provisions; and the phasing out of specified rebate provisions for yarns and fabrics for use by various industries. The phasing out of the rebate provisions for yarn was scheduled for the period 01 September 1996 to 01 September 2002 and that for fabrics from 01 September 1999 to 01 September 2002.

¹ BTT Report No. 3558: Amendment of the tariff structure and rates of duty applicable to Textiles and Clothing classifiable under Chapters 50 to 63, 8 August 1995

2. The objectives of the revised tariff structure that was recommended by the BTT were as follows:
 - The industries should concentrate on the value added sector.
 - Both textile and clothing industries should become internationally competitive and export oriented.
 - Job losses should be minimized and employment be created.
 - The restructuring process was expected to improve the growth potential of the industries.
 - The tariff structure should be more certain and stable and as transparent as possible, which would facilitate the decision-making processes within the industries.
 - The industries should not rely too heavily on import protection for survival, but should accept and take responsibility for their own future.
3. However, the South African Revenue Services (SARS) was unable to implement the phase-out of the rebate provisions for fabric as recommended by the BTT in Report 3558.
4. The BTT again investigated the matter, which resulted in Report No. 4180². In the Report the BTT recommended that 199 rebate provisions be withdrawn and that 86 provisionally be retained subject to further investigation.
5. The purpose of the investigation was to determine the following:
 - The effect of the withdrawal on the sectors concerned;
 - The general availability of the fabrics; and
 - The likelihood of future production of the relevant fabrics.
6. Some of these provisions were deleted with effect from 13 June 2003, as a result of the BTT 's recommendation in Report No. 4180.
7. On 28 March 2003 the BTT, by way of Notice No. 860 of 2003 in the Government Gazette, gave notice of its intention to investigate the withdrawal or phasing out of the 86 textile rebate provisions concerned.
8. The reasons for the investigation were the following:
 - The Agreement reached by the Textile and Clothing Task Group (1994/95) that rebate provisions are to be phased out.
 - The need for rebates has declined as yarn and fabric duty rates have partially been reduced.
 - Encouragement for investment and increased production in the textiles sector.
 - The need for simplification of the tariff regime and improved customs control.

² BTT Report No. 4180: The withdrawal of certain rebate provisions in respect of fabrics as listed in BTT Report No. 3558, 26 August 2002.

9. The BTT further indicated that it would also take into account other factors during its consideration of the matter.

TARIFF POSITION

10. The existing rate of customs duty on fabrics varies from duty free to 22 per cent *ad valorem* for the majority of the tariff headings.
11. The existing rate of customs duty on clothing is 40 per cent *ad valorem* for the majority of tariff headings.

COMMENTS RECEIVED ON THE APPLICATION

12. The Textile Federation submitted comments in support of the withdrawal of the majority of the rebate provisions, stating that it was unfair that the industries manufacturing fabric were paying duties on their inputs while the clothing industry could import their inputs with rebate of the duty. Furthermore, the Federation urged the Commission to adhere to the recommendations in the BTT Report No. 3558 to phase out the rebate provisions for the textile and clothing industries.
13. On behalf of the clothing industry, the Clothing Trade Council of South Africa and the Export Council for the Clothing Industry in South Africa objected to the withdrawal of the rebate provisions and commented that the 3rd Schedule Rebate is the most powerful tool available to reduce input costs without impacting adversely on longer-term investment. They believe their request to retain the 3rd Schedule rebate provisions is thus in line with dti policy regarding the reduction of input costs via tariff reduction interventions where applicable.
14. Manufacturers of products classifiable under tariff headings 60.01 to 60.06, support the withdrawal of the provisions for rebate of the duty on knitted or crocheted fabrics, warp knit fabrics and other knitted or crocheted fabrics. They indicated that their production capacity is substantially underutilized and that the rebate provisions for the headings 60.01, 60.02, 60.03 60.04, 60.05, and 60.06 be withdrawn as the products are readily available from SACU production. Furthermore they indicated that they have to pay duties on yarn while the rebate provisions on fabric have not been phased out.
15. A survey was conducted by the Commission in order to determine the availability of fabrics in respect of those manufacturers that are affected by the withdrawal of the rebate items.
16. This survey focused on the manufacturers of swimwear, foundation and undergarments, as these industries strongly objected to the withdrawal of rebate items.
17. The survey conducted included the following manufacturers of fabric for swimwear, foundation and undergarments:

BMD Textiles, Dyefin Textiles, Gregory Knitting Mills, Le Bergo Fashions and Modulastic (Pty) Ltd.

18. The following manufacturers of swimwear, foundation and undergarments were included in the survey:

Charmfit, Cygnet Manufacturing, Seasprite, Triumph, Playtex and Suzi Products

19. One of the manufacturers indicated that it is able to supply the lining requirements for the swimwear manufacturers. Most of the fabric manufacturers indicated that they are able to manufacture fabric suitable for the foundation and undergarment industry. However one of the manufacturers indicated that it is not able to meet the required volumes.
20. The swimwear manufacturers indicated that most of the non-printed fabric is sourced within SACU. However, most of the manufacturers, especially manufacturers of ladies fashion swimwear use printed fabric that requires a high tech printing process. Most of the manufacturers also indicated that printed swimwear represents a larger portion of the sales than unprinted swimwear.
21. Manufacturers of foundation garments and underwear indicated that most of the fabric sourced in SACU is more suitable for the lower end of the market, while manufacturers of the end product concentrate on both ends of the market. There is currently also no lace manufacturer in South Africa.

CONSIDERATION

22. The dynamics within the clothing industry have changed since the Report on the Long-Term Strategy of the Clothing and Textile Industries in South Africa was released on 28 March 1994.
23. Trade agreements such as SADC, EU and AGOA have to an extent created opportunities for the textile and clothing sector. These opportunities have also changed the dynamics of fabric sourcing in terms of the rules of origin. This further aggravated the problem of the availability of fabric in the volumes and quality required for the manufacture of garments for the SACU market.
24. For materials imported for export purposes, the Duty Credit Certificate Scheme (DCCS) is an important source to obtain fabric that is not available locally. However, most of the companies sell their benefit to other importers and do not use their certificates to import those products that are not available locally.
25. The Textile manufacturers are mainly focussed on long production runs and their turnover time is 3 times longer than international standards. This makes it difficult for local clothing manufacturers to obtain fabric on short notice in the volumes required. Subsequently, clothing manufacturers are forced to import the required fabric in the volumes required.

26. The Commission also took into account that the clothing industry indicated that the 3rd schedule rebate is the most powerful tool available to the industry to reduce input costs without impacting adversely on longer-term investment.
27. The Commission found that a need for retaining some of these rebate items does exist in the case of the swimwear and the foundation garment/ undergarment industry. In case of printed fabric for the swimwear industry most of the fabric needs are imported due to the small requirement as well as price considerations. In respect of foundation garments/undergarments, there is no lace manufacturing capacity in SACU.

RECOMMENDATION

28. The Commission decided to recommend that the third schedule of the Customs and Excise Act be amended by withdrawing the rebate provisions listed hereunder:

Rebate item	Tariff Heading	Rebate code	Industry
311.03	51.07 54.02 54.03 55.09 55.10	01.00 01.04 03.00 07.00 01.00 01.00 02.00 01.00 02.00	Textile weaving
311.04	54.02 54.04 55.09	02.00 05.00 01.00 01.00	Textile knitting
311.07	52.04 52.05 52.06 55.13 56.05	01.00 01.00 01.00 01.00 01.00	Textile Embroidery
311.09	54.02 54.03	01.00 01.00	Fishing Net
311.10	54.02 5509.42	01.04 01.06	Carpets and other textile floor coverings
311.11	54.02 54.03	06.04 01.00	Narrow woven Fabrics (woven, cut or braided) and woven labels
311.12	3824.90 3902.10 5209.12 5209.22 5211.21 5212.11 5407.42 5407.91 54.08 5515.11 5516.12 59.07	01.06 01.06 01.06 01.06 01.06 01.06 01.06 01.06 01.06 02.04 03.04 01.06 01.06 01.04	Impregnated, coated, covered or laminated textile fabrics
311.13	54.02	02.00	Industrial textile articles and materials
311.15	60.04 6003.20 6003.30	01.04 02.04 01.06 01.06	Knitted gloves

	6005.2 6005.3	01.05 01.05	
311.18	5208.12 5209.11 54.03 5512.11	01.06 01.06 01.00 01.06	Handkerchiefs and other general made-up textile articles
311.19	55.12 55.13 55.15	01.00 01.00 01.00 02.00	Men's and boys outer garments
311.20	55.16	01.00	Women's and girls outer garments
311.21	54.07	01.00	Under garments
311.25	40.08	01.00	Foundation garments and elasticised apparel; belts whether or not elasticised
311.27	5211.31 54.07 58.06	01.06 01.00 01.00	Tarpaulins, sails, awnings, sun blinds, tents and camping goods
311.28	40.08	01.04	Protective gloves
311.30	59.03	01.00	
311.40	3921.12 40.16 42.05 59.03	01.00 01.00 01.00 01.04	Clothing: General
312.01	38.14	01.00	

29. The Commission decided that the following rebate provisions in the third schedule of the Customs and Excise Act be maintained and that they be further reviewed after 01 January 2007:

Rebate item	Tariff Heading	Rebate code	Industry
311.07	54.07	01.00	Textile Embroidery
311.20	60.02 60.03 60.04 60.05 60.06	01.04 02.00 01.04 01.04 01.04 01.04	Women's and Girls outer garments
311.21	60.02 60.03 60.04 60.05 60.06	01.04 01.04 01.04 01.04 01.04	Under garments
311.25	54.07 59.06 60.02 60.03 60.04 60.05 60.06	01.00 02.00 03.00 01.00 02.00 03.00 01.04 02.04 01.04 02.04 01.04 02.04 01.04 02.04 01.04 02.04	
311.40	59.06	01.00 02.00 03.00	Clothing (general)