



International Trade Administration Commission of South Africa

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## **Report No. 66**

# **Rebate of the duty on ceramic fibre mineral wool for press-cutting into shapes suitable for use in the manufacture of catalytic converters**

The International Trade Administration Commission of South Africa herewith presents Report No. 66: *Rebate of the duty on ceramic fibre mineral wool for press-cutting into shapes suitable for use in the manufacture of catalytic converters, with recommendation.*

  
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CHIEF COMMISSIONER

PRETORIA

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21 July 2004  
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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 66

**REBATE OF THE DUTY ON CERAMIC FIBRE MINERAL WOOL FOR PRESS-CUTTING INTO SHAPES SUITABLE FOR USE IN THE MANUFACTURE OF CATALYTIC CONVERTERS**

**Synopsis**

3 M South Africa (Pty) Ltd and Feltex Automotive (Pty) Ltd applied for a reduction in the rate of duty on ceramic fibre mineral wool consisting of alumino-silicates, classifiable under tariff subheading 6806.10, from 15 per cent *ad valorem* to free of duty. The mineral wool is imported in rolls for press-cutting into shapes that are suitable for use in the manufacture of catalytic converters.

Both applicants are experiencing problems in complying with the conditions related to importing under rebate item 470.03 or claiming back duty in terms of item 521.00, specifically with regard to proof of export. The applicants supply the press-cut mats to various canners of catalytic converters in the Southern African Customs Union (SACU). The catalytic converters are either exported by the canners or by motor vehicle manufacturers.

The Commission found that the specific product under consideration is not manufactured in the SACU, but that a reduction in the rate of duty would impact on the protection afforded to a range of mineral wool products manufactured in the SACU that are also classifiable under tariff subheading 6806.10. The cut mat is incorporated in catalytic converters that are exported. The duty has a significant effect on the ex-factory selling price of the cut mats.

The Commission rejected the application for a reduction in the rate of duty as applied for but concluded that a rebate provision would provide relief to the applicants without impacting on the protection afforded to manufacturers of products that fall under the same tariff subheading of 6806.10. The Commission therefore recommends that a rebate provision be created for ceramic fibre mineral wool consisting of alumino-silicates in rolls or sheets for press-cutting into shapes suitable for use in the manufacture of catalytic converters.

**The application**

1. 3 M South Africa (Pty) Ltd and Feltex Automotive (Pty) Ltd applied for a reduction in the rate of duty on ceramic fibre mineral wool consisting of alumino-silicates, classifiable under tariff subheading 6806.10, from 15 per cent *ad valorem* to free of duty. The mineral wool is imported in rolls for press-cutting into shapes that are suitable for use in the manufacture of catalytic converters.

2. The specific ceramic fibre mineral wool matting is required for its high temperature resilience, intumescent properties and strength. All catalytic converters have to use the specific type of matting for the specific properties of the matting in order to comply with the environmental specifications of export destinations.

#### The reasons for the application

3. Both applicants are experiencing problems in complying with the conditions related to importing under rebate item 470.03 or claiming back duty in terms of item 521.00/00.00/01.00, specifically with regard to proof of export. Importers under the mentioned rebate provision remain liable for the duty until proof of export has been provided to the South African Revenue Service (SARS). The applicants supply the press cut mats to various canners of catalytic converters in the Southern African Customs Union (SACU). The catalytic converters are either exported by the canners or by motor vehicle manufacturers.

#### Tariff structure

4. The mineral wool mat that is imported in rolls is currently classifiable as follows:

Heading Sub-heading	Description	Rate of Duty		
		<u>General</u>	<u>EU</u>	<u>SADC</u>
68.06	<b>Slag wool, rock wool and similar Mineral wool; exfoliating vermiculite, expanded clays, foamed slag and similar expanded mineral materials; mixtures and articles of heat insulating, sound insulating or sound absorbing mineral materials (ex-cluding those of Heading No. 68.11 or 68.12 of Chapter 69):</b>			
6806.10	<b>Slag wool, rock wool and similar mineral wools (including mixtures thereof), in bulk,sheets or rolls</b>	15%	15%	free

#### The industry and the market

5. Imports of matting exceeded R100 million in 2002.
6. The majority of catalytic converters that are manufactured in the SACU are exported. Certain catalytic converters are fitted to cars that are exported or are incorporated in exhaust systems or engine manifolds that are exported.
7. The duty as a percentage of the ex-factory selling price of the press cut mats varies from 3 per cent to 6 per cent. The duty therefore has a material impact on the competitiveness of the cut mats.

8. The applicants employ 30 persons in their press cutting operation. They have invested R7,5 million.
9. The SACU catalytic converter industry supplies approximately 12 per cent of the world market for catalytic converters. The catalytic converter industry competes with manufacturers of catalytic converters worldwide. Any unnecessary cost acts as an impediment to the industry with regard to its efforts to improve its competitive position.

#### **Publication of application and comments received**

10. The application was published in the Government Gazette of 10 October 2003 as follows:

##### **"REDUCTION OF CUSTOMS DUTY ON:**

'Slag wool, rock wool and similar mineral wools in rolls or sheets consisting of ceramic alumino-silicates with a mass per m<sup>2</sup> not below 1000 g for the manufacture of catalytic converters currently classifiable under tariff subheading 6806.10 from 15% *ad valorem* to duty free.

##### **Reason for application:**

According to the applicants this material is not manufactured locally, and this is used mainly in catalytic converters, of which 99% are exported.

[Note: should this application be successful it would imply an insertion of a new tariff subheading.]"

11. Two companies objected to the application on the grounds that the product as described in the publication is manufactured in the SACU. It was contended that a duty free provision would open the door for products manufactured by these companies to be imported and duties to be exempted. Other industries would suffer indirectly or directly, e.g. manufacturers of roof insulation.
12. The Commission ascertained that the product under consideration is not manufactured in the SACU, but that a reduction in the rate of duty would impact on the range of products manufactured in the SACU that fall under the same tariff subheading. The companies that objected to the publication supported the creation of a rebate provision that is very specific in terms of the product that may be imported under rebate and its end-use.

#### **Consideration**

13. The two applicants have experienced major problems in obtaining the necessary export documentation to comply with the requirements of either rebate item 470.03 or drawback item 521.00. They have quoted and invoiced their customers on the basis that they would be able to comply with items 470.03 or 521.00. The supply chain from the importer of the matting to the exporters is quite complex. The specific product under consideration is not manufactured in the SACU and is incorporated in catalytic converters that are exported. The duty has a significant effect on the ex-factory selling price of the cut mats.

Should the application not succeed, the catalytic converter manufacturers will resort to importing the cut mats, with the resultant loss of employment. A rebate provision will overcome the administrative difficulties that the applicants are experiencing, without impacting on the protection afforded to manufacturers of other products that fall under tariff subheading 6806.10.

14. A rebate provision under Schedule 3 would obviate the need to prove exports of the catalytic converter and would be restrictive enough to limit the usage thereof.

#### **Recommendation**

15. The Commission rejected the application for a reduction in the rate of duty on ceramic fibre mineral wools as applied for but recommends that a provision be created in Schedule 3 to the Customs and Excise Act, 1964, for rebate of the duty on ceramic fibre mineral wool consisting of alumino-silicates with a mass per m<sup>2</sup> exceeding 1000 g, in rolls or sheets, classifiable under tariff subheading 6806.10, for press-cutting thereof into pieces suitable for use in the manufacture of catalytic converters.

[T5/2/17/3/1(020030 and 15/2003)]