

## **REPORT NO 491**

**INCREASE IN THE RATE OF CUSTOMS DUTY ON LEAD-ACID BATTERIES OF  
A KIND USED FOR STARTING PISTON ENGINES**

The International Trade Administration Commission of South Africa herewith presents its Report No. 491: **INCREASE IN THE RATE OF CUSTOMS DUTY ON LEAD-ACID BATTERIES OF A KIND USED FOR STARTING PISTON ENGINES**, with recommendations.



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Siyabulela Tsengiwe  
CHIEF COMMISSIONER

PRETORIA

.18./02/2015

# REPUBLIC OF SOUTH AFRICA

## INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

### REPORT NO.491

#### INCREASE IN THE RATE OF CUSTOMS DUTY ON LEAD-ACID BATTERIES OF A KIND USED FOR STARTING PISTON ENGINES

##### Synopsis

The Commission considered a joint application from Powertech Batteries (Pty) Ltd and First National Battery (Pty) Ltd for an increase in the rate of customs duty on automotive lead-acid batteries of a kind used to start piston engines, classifiable under tariff subheading 8507.10, from 5% to 30% *ad valorem*.

The Commission considered the application in light of the information at its disposal. In particular, the Commission took the following factors into account:

- The increase in the level of imports, and concomitant erosion of the market share of the SACU manufacturers of automotive lead-acid batteries;
- The declining profitability of the domestic firms manufacturing the subject product, that has negatively affected domestic employment and investment opportunities;
- The considerable decline in the level of production and capacity utilisation;  
and
- The price disadvantage experienced by the domestic industry vis-à-vis foreign, especially East Asian manufacturers.

The Commission found no justification for an increase in duty to the requested level of 30% *ad valorem*. Such an increase would have an undue cost-raising impact on industrial users and consumers. On balance, the Commission found that tariff support for the industry at the level of 15% *ad valorem* would significantly improve its price-competitive position, enable it to utilise its installed production capacity and achieve economies of scale. Following the tariff support, the Commission will conduct a review of the duty structure to determine its impact on the industry value chain, three years from the date of implementation.

The Commission also found that motorcycle batteries are not manufactured domestically and recommended that a separate tariff subheading be created at the existing rate of 5% *ad valorem*.

In light of the foregoing, the Commission recommended that the tariff structure for automotive batteries be amended as follows with the batteries that are the subject of the application classifiable in tariff subheading 8507.10.10:

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty			
				General	EU	EFTA	SADC
85.07		Electric accumulators, including separators thereof, whether or not rectangular (including square):					
	8507.10	Lead-acid, of a kind used for starting piston engines:					
	8507.10.05	With dimensions not exceeding 185mm(l) x 125mm(w) x 195mm(h)	U	5%	free	0.6%	free
	8507.10.10	Other	U	15%	free	0.6%	free

## THE APPLICATION AND THE TARIFF POSITION

1. Powertech Batteries (Pty) Ltd and First National Battery (Pty) Ltd, domestic manufacturers of automotive batteries, applied for an increase in the rate of customs duty on automotive lead-acid batteries, classifiable under tariff subheading 8507.10, from 5% to 30% *ad valorem*.



2. The applicants are the manufacturers and distributors of lead acid batteries in South Africa. The applicants manufacture a wide range of batteries that include mining traction batteries, materials handling batteries, miners cap lamp batteries, marine batteries, leisure batteries, solar power storage batteries and automotive batteries. The subject product is manufactured for the export market, for original equipment manufacturers (OEMs) and for the replacement market.

3. As reasons for the application, the applicant stated, *inter alia*, the following:

- a) In recent years, imported automotive lead-acid batteries have continued to flow into the SACU market. As a result, local manufacturers have found it increasingly difficult to compete as the pricing models adopted by foreign manufacturers are often below local costing. This influx of low priced batteries is a threat to the local battery manufacturers' performance in relation to sales, market share and employment;
- b) The majority of the imports originate from South Korea where these manufacturers enjoy government sponsored grants and incentives;
- c) A number of battery importers are sending back scrap batteries to the countries where they were originally manufactured. This raises the cost of domestically recycled lead making local manufacturing uncompetitive and uneconomical; and
- d) It is estimated that importers have grown their share of the South African battery market from about 8.5% in 2010 to just over 20% in 2013. This has had a significant negative impact on local manufacturers, which is further compounded by the exportation of scrap batteries.

4. The application was published in the Government Gazette on 18 July 2014 for comments by interested parties as follows:

**INCREASE IN THE RATE OF DUTY ON:**

“Lead-acid batteries, of a kind used for starting piston engines, classifiable under tariff subheading 8507.10 from 5% to 30% *ad valorem*.”

5. The existing tariff structure for lead-acid batteries, of a kind used for starting piston engines is shown in table 1 below. The applicable WTO bound rate is 30% *ad valorem*.

**Table 1: Current tariff structure**

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty			
				General	EU	EFTA	SADC
85.07		Electric accumulators, including separators thereof, whether or not rectangular (including square):					
	8507.10	Lead-acid, of a kind used for starting piston engines	U	5%	free	0.6%	free

Source: SARS

6. The tariff structure covers lead-acid batteries that are not subject to this investigation, i.e. lead-acid batteries that are fitted on motorcycles. SARS therefore provided a possible new tariff description as shown in table 2 below, with the batteries that are the subject of the application classifiable in tariff subheading 8507.10.10.

**Table 2: The requested tariff structure**

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty			
				General	EU	EFTA	SADC
85.07		Electric accumulators, including separators thereof, whether or not rectangular (including square):					
	8507.10	Lead-acid, of a kind used for starting piston engines:					
	8507.10.05	With dimensions not exceeding 185mm(l) x 125mm(w) x 195mm(h)	U	5%	free	0.6%	free
	8507.10.10	Other	U	30%	free	0.6%	free



## INDUSTRY AND MARKET

7. A battery is an electrochemical device that stores and delivers energy. When the terminals of the battery are connected, electrical energy passes through the circuit, providing power on demand. The subject product is an automotive lead-acid battery, typically 12 volt, which is used for starting automotive engines. When used in engine start applications, the batteries are usually referred to as SLI batteries (starting, lighting and ignition) used to power the starter motor, lights, and the ignition system of a vehicle's engine. These products also supply extra power when the vehicle's electrical load exceeds the supply from the charging system and act as voltage stabilisers.

8. Automotive batteries are made up of almost 80% recyclable materials and the raw materials include:

- a) Refined Lead
- b) Polypropylene
- c) Separators – usually a micro-porous polyethylene synthetic material
- d) Pasting paper
- e) Carbon Black
- f) Liquid electrolyte – better known as battery acid

9. Most of the raw materials are sourced locally while separators are fully imported. Lead, which constitutes the highest cost item in the production process, is sourced both locally and abroad. All the inputs are currently duty free, except for carbon black which is dutiable at 10% *ad valorem*. However this input constitutes less than 1% of the ex-factory selling price of local manufacturers.

10. During the manufacturing process of automotive lead-acid batteries, polypropylene is moulded into containers, lids, vents and caps. Lead is cast into slugs and converted into oxide which is mixed with other additives through a paste mixing process together with an acid solution to form positive and negative paste.

11. Paste is applied on lead grids to convert them into either a positive or negative plate which are then processed through a combination of curing and drying in ovens under carefully controlled conditions of temperature, humidity and time. Battery plates undergo an electrical formation process where plates are loaded into large baths of diluted sulphuric acid and a direct current is passed to form the positive and negative plates. After drying, the plates are cut and assembled, with separators between them and are connected by welding together the plate slugs into battery boxes.
12. On completion, vent plugs are fitted and the battery is washed, tested, labelled and packaged for delivery to customers. Automotive batteries are highly recyclable. Recycling of scrap batteries do not only provide raw materials for the manufacturers, but is also important for a sustainable environment.
13. There are four local manufactures of the subject product in the SACU region, namely: Powertech Batteries (Pty) Ltd, First National Battery (Pty) Ltd, Dixon Batteries (Pty) Ltd and Chloride Exide Botswana (Pty) Ltd.
14. The domestic industry has the capacity to produce approximately 5 million automotive batteries per annum, which is more than sufficient to supply the SACU replacement market demand estimated at approximately 4 million units as well as the requirements of the OEM market. Over the period of the investigation, local manufacturers produced on average 4 million batteries per annum. Following a decline in production volumes between 2012 and 2013, total industry capacity utilisation declined from 77% to approximately 70% over the same period.

## **COMPETITIVE POSITION**

15. According to the information at the Commission's disposal, the domestic industry experiences price disadvantages vis-à-vis foreign manufacturers, in the face of rising domestic production costs and declining profitability.



## **COMMENTS ON THE APPLICATION**

16. Comments in support of the application were received from the National Association of Automotive Component and Allied Manufacturers (NAACAM), Dixon Batteries (Pty) Ltd, Chloride Exide Botswana (Pty) Ltd and the Botswana Ministry of Trade and Industry.
17. Comments objecting to the application were received from Powabatt Batteries CC, the Association of Motorcycle Importers and Distributors (AMID), KMSA Distributors (Pty) Ltd, MotoSport Distribution (Pty) Ltd, Interac Distribution (Pty) Ltd, the South African Battery Importers Association (SABIA), Duratec Batteries (Pty) Ltd, the National Association of Automobile Manufacturers of South Africa (NAAMSA), Kestrel Technologies (Pty) Ltd and HTC Industries (Pty) Ltd.
18. The objections centred on the inclusion of batteries for motorcycles which are not manufactured domestically; the insignificant price differentials between domestically manufactured products and imported equivalent products, perceived restrictive business practices by local manufacturers; and the cost-raising effect of the duty.

## **FINDINGS**

19. The Commission considered the application in light of the information at its disposal. In particular, the Commission took the following factors into account:
- The increase in the level of imports, and concomitant erosion of the market share of the SACU manufacturers of automotive lead-acid batteries;
  - The declining profitability of the domestic firms manufacturing the subject product, that has negatively affected domestic employment and investment opportunities;
  - The considerable decline in the level of production and capacity utilisation;
- and

- The price disadvantage experienced by the domestic industry vis-à-vis foreign, especially East Asian manufacturers.

20. The Commission found no justification for an increase in duty to the requested level of 30% ad valorem. Such an increase would have an undue cost-raising impact on industrial users and consumers. On balance, the Commission found that tariff support for the industry at the level of 15% *ad valorem* would significantly improve its price-competitive position, enable it to utilise its installed production capacity and achieve economies of scale with a reduction in the marginal cost of production. Following the tariff support, the Commission will conduct a review of the duty structure to determine its impact on the industry value chain, three years from the date of implementation.

21. The Commission also found that motorcycle batteries are not manufactured domestically and recommends below that a separate tariff subheading be created at the existing rate of 5% *ad valorem* for these smaller lead-acid batteries.

## RECOMMENDATION

22. In light of the foregoing, the Commission recommends that the tariff structure for automotive batteries be amended as follows:

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty			
				General	EU	EFTA	SADC
85.07		Electric accumulators, including separators thereof, whether or not rectangular (including square):					
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