

REPORT NO. 501

**APPLICATION FOR REBATE OF DUTY ON WOVEN
FABRICS USED IN THE MANUFACTURE OF
UPHOLSTERED FURNITURE**

The International Trade Administration Commission of South Africa herewith presents its Report No. 501: **Application for rebate of duty on woven fabrics used in the manufacture of upholstered furniture.**



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Siyabulela Tsengiwe
CHIEF COMMISSIONER

PRETORIA

...15.07.../2015

REPUBLIC OF SOUTH AFRICA

**INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH
AFRICA**

REPORT NO. 501

**APPLICATION FOR REBATE OF DUTY ON WOVEN FABRICS USED IN THE
MANUFACTURE OF UPHOLSTERED FURNITURE**

Synopsis

Coricraft Group (Pty) Ltd applied for the creation of rebate provisions for woven fabrics containing 85% or more by mass of synthetic filaments, of yarns of different colours, classifiable under tariff subheading 5407.73 and woven fabrics of polyester staple fibres (excluding that mixed mainly or solely with wool or fine animal hair), classifiable under tariff subheading 5515.1 for use in the manufacture of upholstered furniture classifiable under tariff heading 94.01.

Following a stakeholder and industry forum, the applicant decided to withdraw its application for a rebate provision for fabrics classifiable under tariff subheading 5515.1. The applicant stated that it had discontinued the production line that requires fabrics that fall under tariff subheading 5515.1.

The Commission considered the application in the light of the information at its disposal. The Commission found that similar substitute woven fabrics classifiable under tariff subheading 5407.73 used for the manufacture of upholstered furniture, classifiable under tariff heading 94.01, are manufactured domestically and that duty relief in the form of a rebate provision would erode the support and encouragement afforded to the SACU textile manufacturing industry.

The Commission also took into account that the industry manufacturing upholstered furniture enjoys adequate tariff support, that the applicant is producing at full capacity, and that no price disadvantages are experienced.

The Commission recommended that the application for the creation of a rebate provision for woven fabrics classifiable under tariff subheading 5407.73 be rejected.

1. THE APPLICATION AND TARIFF POSITION

- 1.1. Coricraft Group (Pty) Ltd, applied for the creation of a rebate provision for woven fabrics containing 85% or more by mass of synthetic filaments, of yarns of different colours, classifiable under tariff subheading 5407.73 and woven fabrics of polyester staple fibres (excluding that mixed mainly or solely with wool or fine animal hair), classifiable under tariff subheading 5515.1 for use in the manufacture of upholstered furniture classifiable under tariff heading 94.01.

1.2. The applicant currently manufactures five product categories made from various fabrics:

- a) Slip cover sofas –Allows for the removal of the fabric covering from the sofa so that it can be laundered or repaired;
- b) Fully upholstered sofas – Fabric sofas where the cushioning is typically part of the sofa unit and cannot be removed;
- c) Recliners – Most recliners are manufactured using leather but there are some fabric models;
- d) Ottomans; and
- e) Headboards.

1.3. As reasons for the application, the applicant stated the following:

1.3.1. Fabric supply in South Africa is relatively limited in the offerings in respect of trends and product newness compared to offerings available from the rest of the world;

1.3.2. A key restriction on the ability of local suppliers to meet Coricraft's fabric requirements is the sourcing of filament/fibre, which has to be imported. As a result of importation, the lead time of supply for local suppliers is significantly longer than that of the foreign supplier;

1.3.3. The local industry lacks dyeing capacity and capability;

1.3.4. Local suppliers fail to meet the "handle and performance standards" due to lack of finishing techniques; and

1.3.5. Local textile manufacturers derive most volumes of their fabric use from clothing, work wear and other industrial wear manufacturing. As such, Coricraft's fabric requirements cannot sustain these businesses and supporting these local suppliers has in the past placed Coricraft's business in jeopardy when an existing supply line was terminated without adequate warning.

1.4. The tariff structure for inputs (i.e. woven fabrics) is given in Table 1 below:

Table 1: Tariff structure of the subject products– input material

Heading	Sub-heading	Article Description	Rate of Duty			
			General	EU	EFTA	SADC
55.15		Other woven fabrics of synthetic staple fibres: Of polyester staple fibres:				
	5515.11	Mixed mainly or solely with viscose rayon staple fibres	22%	10%	10%	Free
	5515.12	Mixed mainly or solely with man-made filaments	22%	10%	10%	Free
	5515.19	Other	22%	10%	10%	Free

54.07		Woven fabrics of synthetic filament yarn, including woven fabrics obtained from materials of heading 54.04:				
	5407.73	Other woven fabrics, containing 85 per cent or more by mass of synthetic filaments: Of yarns of different colours	22%	10%	10%	Free

1.5. The tariff structure for the end products (i.e. upholstered furniture) is given in Table 2 below:

Table 2: Tariff structure of the end products

Heading	Sub-heading	Article Description	Rate of Duty			
			General	EU	EFTA	SADC
94.01		Seats (excluding those of heading 94.02), whether or not convertible into beds, and parts thereof:				
	9401.30	Swivel seats with variable height adjustment	20%	Free	20%	Free
	9401.40	Seats (excluding garden seats or camping equipment), convertible into beds	20%	Free	20%	Free
9401.5		Seats of cane, bamboo or similar materials				
	9401.51	Of bamboo or rattan	20%	Free	20%	Free
	9401.59	Other	20%	Free	20%	Free
9401.6		Other seats, with wooden frames:				
	9401.61	Upholstered	20%	Free	20%	Free
	9401.69	Other	20%	Free	20%	Free
9401.7		Other seats, with metal frames				
	9401.71	Upholstered	20%	Free	20%	Free
	9401.79	Other	20%	Free	20%	Free
	9401.80	Other seats	20%	Free	20%	free

1.6. The existing rebate provision for upholstered furniture classifiable under tariff heading 94.01 does not cater for the subject products, and reads as follows:

Rebate Item	Tariff sub heading	Description	Extent of Rebate
320.01	5407.61	Woven fabrics, containing 85 per cent or more by mass of non-textured polyester filaments, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, for use in the manufacture of upholstered furniture classifiable in tariff heading 94.01	Full duty
320.01	5903.20.90	Other textile fabrics impregnated, coated, covered or laminated with polyurethane, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, for use in the manufacture of upholstered furniture classifiable in tariff heading 94.01	Full duty
320.01	5907.00.90	Textile fabrics otherwise impregnated, coated or covered, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit for use in the manufacture of upholstered furniture classifiable in tariff heading 94.01	Full duty

- 1.7. The application was published in the Government Gazette on 30 January 2015 for comments by interested parties.

2. INDUSTRY AND MARKET

- 2.1. According to information at the Commission's disposal, current suppliers of woven fabric include Svenmill (Pty) Ltd, Gelvenor Textiles (Pty) Ltd, Helm Textile Mills (Pty) Ltd, Rossatex Cc, Da Gama Textiles and Ceder Brook (Pty) Ltd.
- 2.2. SBH/Epping Textiles and Mediterranean Textile Mills (Pty) Ltd were previous local suppliers of the fabric concerned that have since closed down, while the Frame Textile Group, who are now trading under the Seardel Group, have closed their spinning division.
- 2.3. The companies that have ceased production of the subject products have either resorted to importing the products or re-focused their production to more profitable product lines.

3. COMPETITIVE POSITION

- 3.1. According to information at the Commission's disposal, the applicant enjoys a price advantage vis-à-vis foreign manufacturers of upholstered furniture, when the domestic ex-factory selling price of upholstered furniture is compared to the landed cost of similar imported products.

4. COMMENTS ON THE APPLICATION

- 4.1. A comment in support of the application was received from the South African Home Textile Employers Association stating that the requested rebate provision should be subject to a permit in line with the existing provisions under rebate item 320.01.
- 4.2. Comments opposing the application were received from The Textile Federation of South Africa (TexFed), the Southern African Clothing and Textile Workers' Union (SACTWU) and Svenmill (Pty) Ltd.
- 4.3. The Textile Federation of South Africa (TexFed) indicated that the application for woven fabric rebate provisions for upholstered furniture is too wide in scope, covering every conceivable fabric description falling under tariff subheading 5407.73 and tariff subheading 5515.1. TexFed argued for the description of the rebate provisions to be more product specific, in order to avoid the current challenge of wide width fabric inclusion.
- 4.4. The Southern African Clothing and Textile Workers' Union (SACTWU) indicated that the South African Clothing and Textile manufacturing industry is a strategic industry and employment creator, as outlined in the Industrial Policy Action Plan (IPAP) and that it is particularly vulnerable to competition from low- priced imports. SACTWU is of the view that local textile mills are in a position to manufacture the subject fabrics, as well as manufacture substitute fabrics and that these manufacturers could be adversely affected should the rebate provision

be created. Such rebate provision would also be open to other firms, including those purchasing or intending to purchase from local mills that could manufacture the subject fabrics. This will have consequences for local employment opportunities. It will also adversely affect the significant investments made in the textile sector over the past five years, as part of IPAP and other interventions.

- 4.5. Svenmill objected to the application on the basis that it manufactures similar subject fabrics with abrasion resistance and colourfastness similar to those of the imported subject fabrics.
- 4.6. Following a stakeholder and industry forum, the applicant decided to withdraw its application for a rebate provision for fabrics classifiable under tariff subheading 5515.1. The applicant stated that it had discontinued the production line that requires fabrics that fall under tariff subheading 5515.1.

5. FINDINGS

- 5.1. The Commission considered the application in the light of the information at its disposal. The Commission found that similar substitute woven fabrics classifiable under tariff subheading 5407.73 used for the manufacture of upholstered furniture, classifiable under tariff heading 94.01, are manufactured domestically and that duty relief in the form of a rebate provision would erode the support and encouragement afforded to the SACU textile manufacturing industry.
- 5.2. The Commission also took into account that the industry manufacturing upholstered furniture enjoys adequate tariff support, that the applicant is producing at full capacity, and that no price disadvantages are experienced.

6. RECOMMENDATION

- 6.1. In the light of the foregoing, the Commission recommends that the application for a rebate provision for woven fabrics classifiable under tariff subheading 5407.73 used for the manufacture of upholstered furniture be rejected.

[10/2014]