

REPORT NO. 494

**CREATION OF A REBATE PROVISION FOR CERTAIN COMPONENTS, USED
FOR THE MANUFACTURE OF ELECTRICITY METERS**

The international Trade Administration Commission of South Africa herewith presents its Report No. 494: **Creation of rebate provision for certain components used for the manufacture of electricity meters**, with recommendations.



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CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 494

CREATION OF A REBATE PROVISION FOR CERTAIN COMPONENTS USED FOR THE MANUFACTURE OF ELECTRICITY METERS

Synopsis

Itron Metering Solutions (Pty) Ltd, a subsidiary of US multinational Itron Inc, applied for the creation of a rebate provision for components, excluding populated or mounted circuit boards, for the manufacture of electricity meters classifiable under tariff subheading 9028.30.

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

- The imported components, specifically for the manufacture of electricity meters, are not manufactured domestically and unlikely to be manufactured domestically;
- The significant influx of low-priced imports and concomitant erosion of market share of the SACU producers of electricity meters.
- The decline in production, profit, employment and capacity utilisation experienced by the SACU producers; and
- The anomalous duty structure facing the industry, which has adverse implications as components sourced by the manufacturer attract duties, while the final product can be imported at free of duty.

The Commission recommended that a rebate provision be introduced as outlined in paragraph 21 of this Report.

THE APPLICATION AND TARIFF POSITION

1. Itron Metering Solutions (Pty) Ltd, a subsidiary of US multinational Itron Inc, applied for the creation of a rebate provision for components, excluding populated or mounted circuit boards, for the manufacture of electricity meters classifiable under tariff subheading 9028.30.
2. The applicant is a manufacturer and distributor of intelligent metering systems to energy and water utilities in Africa. Its product range includes electricity, gas, water and heat meters, data collection and communication systems, including automated meter reading (AMR) and advanced metering infrastructure (AMI); meter data management and related software applications; as well as project management, installation, and consulting services.
3. As reason for the application, the applicant stated the following:
 - The domestic industry is facing fierce competition from low-priced imports of electricity meters, particularly from China;
 - Electricity meters are currently duty free, whilst some components used in the manufacture of electricity meters attract import duties. Thus, the local industry manufacturing electricity meters is placed at an additional disadvantage; and
 - The local industry is losing market share, and this will result in job losses.

4. Table 1 below outlines the current duty structure for electricity meters (final product), as follows:

Table 1: Tariff position-electricity meters

Tariff Subheading	Article Description	Rate of duty			
		General	EU	EFTA	SADC
90.28	Gas, liquid or electricity supply or production meters, including calibration meters				
9028.30	Electricity Meters	Free	Free	Free	Free

5. Electricity meters are currently classifiable at free of duty. The WTO bound rate for electricity meters is 10% *ad valorem*.
6. The application was published in the Government Gazette of 30 January 2015 for comments by interested parties, as follows:

“Goods of any description (excluding mounted or populated circuit boards) for the manufacture of prepayment electricity supply meters classifiable in tariff subheading 9028.30, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the Commission is satisfied that the circuit boards are mounted and populated in the SACU region”

INDUSTRY AND MARKET

7. Domestic manufacturers of electricity meters utilise the services of contract manufacturers of printed circuit boards (PCBs) or perform this function in-house. The final product assembly is divided in two parts, namely: automated (the placing of components on the PCB is done electronically) and non-automated (physical insertion of components and putting together all other components to complete the meter).

8. The main cost drivers are imported components, indirect production cost, and labour cost. The major dutiable imported components used in the manufacture of electricity meters, include relays, rubber keypads, and switches which attract customs duties ranging between 5% *ad valorem* and 15% *ad valorem*.
9. The anomaly in terms of the duty structure means that the domestic industry is experiencing a negative rate of effective protection.
10. The domestic industry has not invested in the establishment of domestic electronic component manufacturing facilities such as integrated circuit manufacturing, due to the lack of large economies of scale. The final labour-intensive product is made locally, using imported electronic components.
11. Populated/mounted circuit boards are sourced locally by the applicant from Barracuda (Pty) Ltd, a contract manufacturer in Cape Town. However, the components that are automatically inserted on the circuit boards are imported and some attract duties.
12. In the SACU region, there are five known manufacturers of electricity meters, namely: Landis + Gyr (Pty) Ltd; Itron Metering Solution (Pty) Ltd (the applicant); Elster Kent (Pty) Ltd; Conlog (Pty) Ltd and Actom (Pty) Ltd. Additionally, there are a number of electronic contract manufacturers that also add to the competence that exists in the domestic electronics industry.
13. SACU imports electricity meters from a number of countries especially East Asian countries, while it exports mainly to African countries such as Nigeria, Angola, Côte d'Ivoire, Mali, Malawi, Zimbabwe and the Democratic Republic of Congo.
14. Trade statistics show that since 2014 the industry moved from being a net exporter to a net importer.
15. According to the information at the Commission's disposal, the applicant has lost significant market share as imports increased significantly since 2013.

16. Employment declined significantly between 2012 and 2014. The applicant employs mainly women, and its engineering department employs experts in their relevant fields.

COMMENTS

17. Comments in support of the rebate creation were received from the Botswana Ministry of Trade and Industry and Barracuda Holdings (Pty) Ltd, stating that the creation of a rebate provision would assist in maintaining price competitiveness, and employment.

18. There were no objections to the application.

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 imported components, specifically for the manufacture of electricity meters, are not manufactured domestically and unlikely to be manufactured domestically;
- The significant influx of low-priced imports and concomitant erosion of market share of the SACU producers of electricity meters;
- The decline in production, profit, employment and capacity utilisation experienced by the SACU producers; and
- The anomalous duty structure facing the industry, which has adverse implications as components sourced by the manufacturer attract duties, while the final product can be imported at free of duty.

20. The Commission concluded that the rebate provision would improve the competitive position of the domestic industry in the face of stiff competition from abroad.

RECOMMENDATION

21. In light of the foregoing, the Commission recommends the creation of a rebate provision for certain components, excluding populated or mounted circuit boards, for the manufacture of electricity meters classifiable under tariff subheading 9028.30, as follows:

“Goods of any description (excluding mounted or populated circuit boards) for the manufacture of prepayment electricity supply meters classifiable in tariff subheading 9028.30, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the Commission is satisfied that the circuit boards are mounted and populated in the SACU region”.