

REPORT NO. 498

**REVIEW OF REBATE ITEM 316.17/85.29 GOVERNING THE
TELEVISION ASSEMBLY INDUSTRY**

The International Trade Administration Commission of South Africa herewith presents its report No. 498: **Review of rebate item 316.17/85.29 governing the Television assembly industry**



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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

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Synopsis

The Department of Trade and Industry (“the dti”) requested the Commission to conduct a review of the differentiated rebate provision with a view to a possible withdrawal of the SKD provision and to ascertain whether the need still exists to retain the rebate provision for SKD assemblers who have not invested in automatic insertion machines for populating circuit boards.

The Commission found that there has been a significant shift from the SKD model of assembly towards full CKD manufacturing and that, by and large, the assemblers have transitioned to full CKD manufacture. The transition to CKD manufacture has resulted in higher value-added production, capital investment, and increased employment.

The Commission recommended that rebate item 316.17/85.29/02.04, providing for a partial rebate of duty on display panels for the manufacture of television sets, be deleted.

Background

1. In 2009, in its Report No 292, the Commission introduced a differentiated rebate dispensation for the television assembly industry: A rebate of the full duty provision for the completely knocked down (CKD) model of assembly and a partial rebate provision for the semi-knocked down (SKD) model of assembly. Unlike the SKD model, the CKD model of assembly required that the insertion or placement of electronic components on circuit boards be done domestically, necessitating deeper investment into the industry.
2. Under the existing rebate dispensation, CKD assemblers are allowed a rebate of the full duty on imported components. Semi-knocked down assemblers, in contrast, are liable for a duty of 12.2% on display panels and 20% on mounted circuit boards.
3. The aim of the rebate dispensation was to, over time, transition the SKD assemblers to full CKD assembly.

Application and tariff position

4. The dti requested the Commission to conduct a review of the differentiated rebate provision with a view to a possible withdrawal of the SKD provision and to ascertain whether the need still exists to retain the rebate provision for SKD assemblers that have not invested in automatic insertion machines for populating circuit boards.
5. As motivation for the review, the dti stated the following:
 - i) There is a need for a long term vision that will ensure the sustainability of the local electronics manufacturing industry;
 - ii) The jobs created under the SKD model of assembly are for unskilled workers that do not provide workers with employment security;

- iii) The SKD model of assembly limits the ability of companies to be innovative and technology transfer to local firms is minimal under this model of assembly;
- iv) SKD assembled products do not meet the requirements stipulated under the rules of origin governing trade between SACU and other countries. Such a limitation negatively affects the industry's ability to exploit growing markets, particularly in Africa; and
- v) The CKD assembling model must be a minimum requirement for the electronics industry to ensure growth and investment. CKD assemblers are better positioned to diversify their product range and have multiple assembling contracts.

6. The application was published on 22 March 2015 in the Government Gazette for comments by interested parties.

7. The current tariff structure for television sets is shown in Table 1 below and the current Schedule 3 rebate provision for flat screen display panels is shown in Table 2.

Table 1: Tariff position for the subject products

Tariff heading	Tariff subheading	Description	Unit	Rate of duty			
				General	EU	EFTA	SADC
85.28	8528.7	Reception apparatus for television, whether or not incorporating radio-broadcast receivers or sound or video recording or reproducing apparatus					
	8528.72.20	Incorporating a cathode-ray tube (CRT)	u	25%	free	free	free
	8528.72.40	Other, with a screen with no side exceeding 45 cm	u	free	free	free	free
	8528.72.50	Other, with a screen size exceeding 3 m x 4	u	free	free	free	free

		m					
	8528.72.90	Other	u	25%	free	free	free
	8528.73	Other, monochrome:					
	8528.73.20	Incorporating a cathode-ray tube (CRT)	u	25%	free	free	free
	8528.73.40	Other, with a screen with no side exceeding 45 cm	u	free	free	free	free
	8528.73.50	Other, with a screen size exceeding 3 m x 4 m	u	free	free	free	free
	8528.73.90	Other	u	25%	free	free	free

Table 2: Current Rebate dispensation for the manufacture of television sets

Rebate Item	Tariff Heading	Rebate code	Description	Extent of Rebate
316.17	85.29	01.04	Display panels (excluding any apparatus classifiable in heading 85.28) not equipped or presented with mounted or populated circuit boards designed for purposes other than pixel control, and inverters, whether or not incorporating a back lighting unit but not equipped or presented with any other components, at such times, in such quantities and under such conditions as the International Trade Administration Commission may allow by specific permit, for the manufacture of reception apparatus for television, classifiable in subheadings 8528.72.90 and 8528.73.90, provided that the Commission is satisfied that the manufacturing process for reception apparatus for television includes the mounting and populating of unpopulated (blank) circuit boards	Full duty (CKD)
316.17	85.29	02.04	Display panels (excluding any apparatus classifiable in heading 85.28), not equipped or presented with mounted or populated circuit boards designed for purposes other than pixel control, and inverters, whether or not incorporating a back lighting unit but not equipped or presented with any other components, at such times, in such quantities and under such conditions as the International Trade Administration Commission may allow by specific permit, for the manufacture of reception apparatus for television, classifiable in subheadings 8528.72.90 and 8528.73.90	Full duty less 12.2% (SKD)

8. As shown in table 2 above, the full duty rebate (CKD) on display panels is afforded to assemblers whose manufacturing process for reception apparatus for television includes the mounting and populating of unpopulated (blank) circuit boards. The partial rebate (SKD) is afforded to those manufacturers that import populated circuit boards.

Industry and market

9. Since the introduction of the differentiated rebate dispensation for television assembly, the domestic industry has seen significant change, including the entry of new assemblers, operating as contract manufacturers for multinational television brands such as Samsung, Telefunken, LG and Hisense.
10. When the differentiated rebate provision was introduced in 2009, there existed only one CKD manufacturer, Tedalex Trading (Pty) Ltd. Following the implementation of the existing dispensation, the number of CKD manufacturers has grown significantly and the local industry has seen the direct entry of multinational television manufacturers such as LG Electronics SA (Pty) Ltd, Hisense SA Manufacturing (Pty) Ltd, and Samsung Electronics South Africa Production (Pty) Ltd. The domestic contract manufacturers of television sets in the SACU include: Anyview Technology (Pty) Ltd, Vektronix (Pty) Ltd, Best Made Electronics Manufacturing (Pty) Ltd, RC & C Manufacturing Company (Pty) Ltd, Stylico (Pty) Ltd, and Tellumat (Pty) Ltd.

Comments received

11. Comments supporting a withdrawal of the SKD rebate provision were received from Vektronix (Pty) Ltd and Anyview Technology. The Botswana Ministry of Trade and Industry also supported the application for withdrawal. An objection to the review was received from Stylico (Pty) Ltd. The latter's more general comment centred on the perception of this firm

that government incentives appear to be biased in favour of large multinational firms and could lead to the closure of smaller firms.

Findings

12. The Commission found that there has been a significant shift from the SKD model of assembly towards full CKD manufacturing and that, by and large, the assemblers have transitioned to full CKD manufacture.

13. The Commission further found that the transition to CKD manufacture has resulted in higher value-added production, capital investment, and increased employment.

14. The Commission found adequate justification for the withdrawal of the SKD provision.

Recommendations

15. In light of the foregoing, the Commission recommends that rebate item 316.17/85.29/02.04, providing for a partial rebate of duty on display panels for the manufacture of television sets, be deleted.