

REPORT NO. 522

**CREATION OF A REBATE PROVISION FOR WOVEN
FABRICS USED IN THE MANUFACTURE OF SHIRTS**

The International Trade Administration Commission of South Africa herewith presents its Report No. 522: **Creation of a rebate provision for woven fabrics used in the manufacture of shirts.**



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Siyabulela Tsengiwe
CHIEF COMMISSIONER

PRETORIA
...10.../03.../2016

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 522

CREATION OF A REBATE PROVISION FOR WOVEN FABRICS USED IN THE MANUFACTURE OF SHIRTS

Synopsis

Pep Clothing, a Division of Pepkor Retail (Pty) Ltd ("PepClo"), applied for the creation of a rebate facility for woven fabrics with a rate of customs duty of 22 per cent ad valorem used in the manufacture of shirts classifiable under tariff headings 62.05 and 62.06.

The Commission considered the application in the light of the information at its disposal. The Commission found that although the industry has the capacity to dye and finish greige fabric into the subject fabric, the industry, however, does not meet the technical specification and laboratory performance of the subject product as required by the applicant. As such, the duty has an unnecessary cost-raising effect.

Therefore, duty relief through the creation of a rebate provision would improve the applicant's competitive position, enable it to utilise its installed production capacity and achieve economies of scale with a reduction in the marginal cost of production.

The rebate provision will be made subject to an ITAC permit issued in terms of the published guidelines, rules and conditions that have been amended as per the proposals by stakeholders.

In light of the foregoing, the Commission recommends the creation of a rebate provision for:

“Woven fabrics of polyester staple fibres, containing 60 per cent or more by mass of such fibres but not exceeding 70 per cent, mixed mainly or solely with cotton, containing yarns with a dtex of 115 but not exceeding 145, of a mass exceeding 100 g/m² but not exceeding 119 g/m², dyed, plain weave, classifiable in tariff subheading 5513.21 in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit for the manufacture of shirts classifiable in tariff headings 62.05 and 62.06”.

1. THE APPLICATION AND TARIFF POSITION

- 1.1. Pep Clothing, a Division of Pepkor Retail (Pty) Ltd (“PepClo”), applied for the creation of a rebate facility for woven fabrics with a rate of customs duty of 22 per cent ad valorem used in the manufacture of shirts classifiable under tariff headings 62.05 and 62.06.
- 1.2. The applicant is currently the largest manufacturer of affordable school wear for school children across the country, supplying Pep Stores and Ackerman’s under the brands Student Prince and Toughies.
- 1.3. As reasons for the application, the applicant stated the following:
 - 1.3.1. There are no local manufacturers of the products in question within the SACU region known to manufacture the subject product at the required technical specification, laboratory performance, volume and price.
 - 1.3.2. Should the creation of a rebate provision be supported, Pep Clothing will be well positioned to compete against similar school shirt products currently being imported, thereby providing the added benefit of increasing the absorption of factory overheads and further reducing manufacturing costs.

1.3.3. Pep Clothing is under threat of losing more market-share to imported finished garments unless relief in the form of duty rebate on the shirting fabric is offered. The additional cost and the subsequent loss of sales will have a significant impact on the business as a whole as well as the downstream impact on employees and their dependents, bearing in mind that a clothing industry employee supports at least 10 dependents.

1.4. The tariff structure of the subject fabric is given in Table 1 below:

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

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty			
				General	EU	EFTA	SADC
55.13		Woven fabrics of synthetic staple fibres, containing less than 85% by weight of such fibres, mixed mainly or solely with cotton, of a weight not exceeding 170 g/m ²					
	5513.21.00	Of polyester staple fibres, plain weave	Kg	22%	10%	12%	Free

1.5. The tariff structure for the end products (i.e. men's or boys and girls' or women's shirts) is given in Table 2 below:

Table 2: Tariff structure of the end products

Tariff heading	Tariff sub-heading	Description	Statistical unit	Rate of Duty			
				General	EU	EFTA	SADC
62.05		Men's or boys' shirts:					
	6205.20	Of cotton	u	45%	20%	20%	Free
	6205.30	Of man-made fibres	u	45%	20%	20%	Free
	6205.90	Of other textile materials	u	45%	20%	20%	Free
62.06		Women's or girls' blouses, shirts and shirt-blouses:					
	6206.10	Of silk or silk waste	u	45%	20%	20%	Free
	6206.20	Of wool or fine animal hair	u	45%	20%	20%	Free
	6206.30	Of cotton	u	45%	20%	20%	Free

1.6. The existing rebate provision for the subject end products is given in Table 3 below. However, the subject fabric does not qualify under this rebate provision:

Table 3: The existing rebate provision for the manufacture of men's or boys' shirts classifiable in heading 62.05

Rebate Item	Tariff sub heading	Rebate Code	Description	Statistical unit	Extent of Rebate
311.40	5208.4	01.05	Woven fabrics of cotton, containing 85 per cent or more by mass of cotton, of a mass not exceeding 200 g/m ² , of yarns of different colours, for the manufacture of men's or boys' shirts classifiable in heading 62.05, women's or girls' blouses, shirts and shirt-blouses classifiable in heading 62.06 and boxer-shorts classifiable in tariff headings 62.07 and 62.08	Kg	Full duty

1.7. The application was published in the Government Gazette on 20 November 2015 for comments by interested parties, as follows:

Table 4: Creation of a rebate facility:

Rebate Item	Tariff sub heading	Description	Extent of Rebate
311.40	5513.21.00	Woven fabrics of polyester staple fibres, containing 60 per cent or more by mass of such fibres but not exceeding 70 per cent, mixed mainly or solely with cotton, with a dtex of 115 but not exceeding 145, of a mass exceeding 100 g/m ² but not exceeding 119 g/m ² , dyed, plain weave, classifiable in tariff subheading 5513.21 in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit for the manufacture of shirts classifiable in tariff headings 62.05 and 62.06	Full duty

2. INDUSTRY AND MARKET

2.1. According to information at the Commission's disposal, there are no known manufacturers of the specific fabric that adhere to the specific technical, performance and quality specifications required for the high quality fabric Pep Clothing requires.

3. COMPETITIVE POSITION

- 3.1. Over the past seven years, Pep Clothing has lost market share to importers of finished garments, the rebate provision would therefore contribute to the reduction of marginal production costs, also leading to the applicant's improved competitive position.

4. COMMENTS ON THE APPLICATION

- 4.1. Comments in support of the application were received from the Southern African Clothing and Textile Workers' Union ("SACTWU"), the Textile Federation of South Africa ("Texfed") and industry role players, stating that should a rebate provision be created for the subject product, certain modalities should be introduced in order to limit abuse and unintended consequences.
- 4.2. Amongst several modalities proposed by stakeholders is that, should the proposed rebate provision be created, it must first satisfy industry stakeholders that the product definition:
- a) Is narrow enough to prevent widespread use of this rebate beyond school shirting;
 - b) Does not negatively impact South African textile mills;
 - c) Does not lead to substitution in the local market, whereby imported fabric (on rebate) replaces fabric already used in the local market and;
 - d) Three broad compliance monitoring tools should be established:
 - **Prospective tools:** The rebate must require that applications by companies wishing to be granted the rebate must be shared with industry stakeholders beforehand for vetting purposes, in order to establish the bona fides of the applicant.

- **In-process tools:** The rebate must require rebate-holders to agree to transparency of information, including that they will consent to ITAC publishing data about their usage of the rebate (volumes imported under rebate) on a monthly basis. This will allow the market to monitor the use of the rebate, and alert ITAC to any anomalies
- **Retrospective tools:** the rebate must require rebate-holders to have an audit of their rebate usage at the end of each financial year.

5. **FINDINGS**

- 5.1. The Commission considered the application in the light of the information at its disposal. The Commission found that although the industry has the capacity to dye and finish greige fabric into the subject fabric, the industry, however, does not meet the technical specification and laboratory performance of the subject product as required by the applicant. As such, the duty has an unnecessary cost-raising effect.
- 5.2. Therefore, duty relief through the creation of a rebate provision would improve the applicant's competitive position, enable it to utilise its installed production capacity and achieve economies of scale with a reduction in the marginal cost of production.
- 5.3. The rebate provision will be made subject to an ITAC permit issued in terms of the published guidelines, rules and conditions that have been amended as per the proposals by stakeholders.

6. **RECOMMENDATION**

6.1. In light of the foregoing, the Commission recommends the creation of a rebate provision for:

“Woven fabrics of polyester staple fibres, containing 60 per cent or more by mass of such fibres but not exceeding 70 per cent, mixed mainly or solely with cotton, containing yarns with a dtex of 115 but not exceeding 145, of a mass exceeding 100 g/m² but not exceeding 119 g/m², dyed, plain weave, classifiable in tariff subheading 5513.21 in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit for the manufacture of shirts classifiable in tariff headings 62.05 and 62.06”

[24/2014]