


REPORT NO. 521

**INCREASE IN THE RATE OF CUSTOMS DUTY ON
ADHESIVE BANDAGES**

The International Trade Administration Commission of South Africa herewith presents its Report No. 521: **Increase in the rate of customs duty on adhesive bandages**



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CHIEF COMMISSIONER

PRETORIA
.....07/03/2016.....

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 521

INCREASE IN THE RATE OF CUSTOMS DUTY ON ADHESIVE BANDAGES

Synopsis

BSN Medical (Pty) Ltd applied for an increase in the general rate of customs duty on adhesive bandages classifiable under tariff subheading 3005.10 from free of duty to 20% ad valorem through the creation of an additional 8-digit tariff subheading.

The Commission found that:

- The industry manufacturing adhesive bandages can meet the full requirements of the domestic market;
- The industry experiences price disadvantages vis-à-vis foreign manufacturers exporting the product to SACU;
- Adhesive bandages are vital and indispensable medical consumables;
- A duty of 10% recommended would provide adequate protection, in the light of the price disadvantages experienced; and
- The duty of 20% requested by the applicant would have an unnecessary cost-raising impact on consumers.

The duty of 10% recommended would enable the applicant to improve its price-competitive position, achieve economies of scale and reduce its cost of production.

Following the tariff support, the Commission will conduct a review of the duty structure to determine its economic impact in the market, three years from the date of implementation.

THE APPLICATION AND TARIFF POSITION

1. BSN Medical (Pty) Ltd applied for an increase in the rate of customs duty on adhesive bandages classifiable under tariff subheading 3005.10 from free of duty to 20% ad valorem through the creation of an additional 8-digit tariff subheading.

2. As reason for the application, the applicant stated that:

“Approximately 84% of the market is consuming imported products while it, being the sole manufacturer of the subject product in the SACU, holds only an approximate 16% market share. The lack of domestic demand leaves the local production facility vulnerable to closure as low domestic demand does not justify keeping the facility open in the SACU”.

3. The applicant also stated that it is facing fierce competition as far as its business with government is concerned. Government is its biggest client and it has now lost significant market share to imports.

4. The application was published in the Government Gazette on 20 March 2015, for interested parties to comment, as follows:

Increase in the rate of customs duty on:

“Adhesive Bandages classifiable under tariff subheading 3005.10; from free of duty to 20% ad valorem by the creation of an additional 8-digit tariff subheading”.

5. The existing tariff structure for the subject product reads as follows:

Table 1: Tariff structure for adhesive dressings and other articles having an adhesive layer

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
30.05		Wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packings for retail sale for medical, surgical, dental or veterinary purposes:					
	3005.10	Adhesive dressings and other articles having an adhesive layer	Kg	Free	Free	Free	Free

6. The WTO bound rate of the above products is 20% ad valorem. The tariff structure as requested by the applicant is as follows:

Table 2: Requested tariff structure

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
30.05		Wadding, gauze, bandages and similar articles (for example, dressings, adhesive plasters, poultices), impregnated or coated with pharmaceutical substances or put up in forms or packings for retail sale for medical, surgical, dental or veterinary purposes:					
	3005.10	Adhesive dressings and other articles having an adhesive layer	Kg	Free	Free	Free	Free
	New tariff subheading	Adhesive Bandages	Kg	20%	free	free	free

INDUSTRY AND MARKET

7. Adhesive bandages are bandages that provide compression support for joints, for instance, during high-stress sport activity. The bandages help minimise swelling

and provide additional support as an overwrap. They are suitable for compression bandaging of ankles, knees, fingers, shoulders and elbows.

8. The subject product is a combination of cotton/viscose spread with a rubber-based porous adhesive. It is typically used as a strong adhesive support bandage where consistent control is needed to maintain stability of an injured joint or ligament e.g. sprained joints, ligament injuries, fractures of the ribs clavicle and digits. The product is also used where strong support is required in addition to holding a dressing in place, e.g. post orthopedic and general surgery.
9. The production of adhesive bandages involves the mixture of adhesives with hyvisolvers. The mixture is then pumped to holding tanks. The material, which is a woven fabric, is imported and cut into the desired sizes (50, 75 or 100 mm width). The bulk cloth is slit into lanes and then relaxed, and threaded through a spreading tunnel where a thin layer of adhesive is applied to the substrate.
10. The substrate is then cured through a drying oven and allowed to relax over relaxation rollers. The product is placed on a conveyor belt where it is cooled before being rolled into bandages, which are flow-wrapped and packed into polybags for shipping to customers.
11. In the SACU, the applicant is the only manufacturer of the subject product. Certain input materials that are used in the production process are imported. There are a number of importers in the market who import a range of elastic adhesive dressings, tapes, strapping and bandages.
12. Amongst others, the following were identified as the importers of the product in question:
 - Be Safe Paramedical (Pty) Ltd;
 - SpiderTech SA (Pty) Ltd;
 - West Coast Medical (Pty) Ltd;
 - Supra Latex (Pty) Ltd;

- Multisurge (Pty Ltd; and
 - Logan Medical and Surgical (Pty) Ltd.
13. The Department of Health (DoH) is an important participant in the market as it supplies medical products to government hospitals via a tender process.
 14. The SACU demand for the bandages under consideration is estimated at approximately 300 000 to 370 000 kg per annum.
 15. The applicant's market share declined from 19% in 2012 to approximately 11% at present in the face of rising imports.

COMPETITIVE POSITION

16. According to information at the Commission's disposal, the applicant is experiencing price disadvantages vis-à-vis foreign manufacturers of the subject products, when the domestic ex-factory price of the subject product is compared to the landed cost of similar imported products.

COMMENTS ON THE APPLICATION

17. Comments objecting to the application were received from the following interested parties: SpiderTech, Be-Safe Paramedical, Multisurge, SA Health Care and the Government of Botswana.
18. Objections, in the main, centred on the cost-raising effect of the duty.

FINDINGS

19. The Commission found that:
 - The industry manufacturing adhesive bandages can meet the full requirements of the domestic market;

- The industry experiences price disadvantages vis-à-vis foreign manufacturers exporting the product to SACU;
- Adhesive bandages are vital and indispensable medical consumables;
- A duty of 10% would provide adequate protection in the light of the price disadvantages experienced; and
- The duty of 20% requested by the applicant would have an unnecessary cost-raising impact on consumers.

On balance, the duty of 10% recommended below would enable the applicant to improve its price-competitive position, achieve economies of scale and reduce its costs of production.

Following the tariff support, the Commission will conduct a review of the duty structure to determine its economic impact in the market, three years from the date of implementation.

RECOMMENDATION

20. In light of the foregoing, the Commission recommends that the rate of customs duty on adhesive bandages classifiable under tariff subheading 3005.10 be increased from free of duty to 10% ad valorem through the creation of an additional 8-digit tariff subheading.

[15/2014]