


REPORT NO. 534

**INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN GAS
STOVES FOR GAS FUEL**

The International Trade Administration Commission of South Africa herewith presents its report No. 534: **APPLICATION FOR AN INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN GAS STOVES FOR GAS FUEL**, with recommendations.



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 534

APPLICATION FOR AN INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN GAS STOVES FOR GAS FUEL

Synopsis

ITAC received an application from Defy Appliances (Pty) Ltd for an increase in the rate of customs duty on gas stoves for gas fuel classifiable under tariff subheading 7321.11 from 15% *ad valorem* to 30% *ad valorem* by way of creating an additional 8-digit tariff subheading. The local industry manufactures gas stoves for gas fuel, having two or more plates with gas burners, and gas ovens with a gross capacity not exceeding 100 litres.

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

- The rising level of imports and the concomitant declining market share of SACU manufacturers of gas stoves;
- The low level of productive capacity utilisation and profitability of the domestic industry;
- Significant increases in the cost of steel products used in the manufacture of gas stoves;
- Increase in the cost of imported inputs due in part to the depreciating Rand;
- The price disadvantage experienced by the domestic industry *vis-à-vis* imports of the subject product; and

- The initial wide scope of the application covering all cooking appliances for gas fuel and for both gas and other fuel. The Commission decided and recommended below that a tariff subheading be introduced covering only those gas stoves with ovens that are manufactured locally and will have no negative impact on low-income earners and the poor.

The Commission concluded that additional tariff support would significantly improve the competitive position of the subject product, thereby ensuring economic viability and sustainability of the local industry.

The Commission recommends an increase in the rate of customs duty on gas stoves for gas fuel, having two or more plates with gas burners, and gas ovens with a gross capacity not exceeding 100 litres classifiable under tariff subheading 7321.11 from 15% to 30% *ad valorem* by way of creating an additional 8-digit tariff subheading. The Commission further recommends that the duty be reviewed after a period of three years from the date of implementation to determine the further performance of the domestic industry.

THE APPLICATION AND TARIFF POSITION

1. ITAC received an application from Defy Appliances (Pty) Ltd (Defy) for an increase in the rate of customs duty on gas stoves for gas fuel classifiable under tariff subheading 7321.11 from 15% *ad valorem* to 30% *ad valorem* by way of creating an additional 8-digit tariff subheading. The local industry manufactures gas stoves for gas fuel, having two or more plates with gas burners, and gas ovens with a gross capacity not exceeding 100 litres.
2. As reasons for the application, Defy stated the following:
 - As a result of imports from abroad, Defy is not price competitive with imports taking into account the current levels of plant utilization and economies of scale, which leads to higher unit costs of production and reduced profitability and employment;

- An increase in customs duty would enable Defy to compete with low-priced imports into SACU;
 - An increase in tariffs would ensure job retention, and allow the company to gain market share through an increase in local production resulting in additional employment; and
 - An increase in tariffs would support future plans for the introduction of additional ranges of gas stoves, and especially the planned production of two new models in the factory based in Durban.
3. The application was published in the Government Gazette of 20 November 2015 for comment by interested parties.
4. The existing tariff structure for the subject products is shown in Table 1 below:

Table 1: Current tariff structure for gas stoves

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty			
				General	EU	EFTA	SADC
73.21		Stoves, ranges, grates, cookers (including those with subsidiary boilers for central heating), barbecues, braziers, gas-rings, plate warmers and similar non-electric domestic appliances, and parts thereof, of iron or steel:					
	7321.1	Cooking appliances and plate warmers:					
	7321.11	For gas fuel or for both gas and other fuel	U	15%	free	15%	free

Source: SARS, 2015

5. The requested tariff structure is shown in Table 2 below.

Table 2: Requested tariff structure for gas stoves

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty			
				General	EU	EFTA	SADC
73.21		Stoves, ranges, grates, cookers (including those with subsidiary boilers for central heating), barbecues, braziers, gas-rings, plate warmers and similar non-electric domestic appliances, and parts thereof, of iron or steel:					
	7321.1	Cooking appliances and plate warmers:					
	7321.11	For gas fuel or for both gas and other fuel					
	7321.11.10	For gas fuel, having two or more plates with gas burners and a gas oven with a gross capacity not exceeding 100 litres	U	30%	free	15%	free
	7321.11.90	Other	U	15%	free	15%	free

6. The WTO bound rate for the subject product is 30% *ad valorem*.

INDUSTRY AND MARKET

7. The products subject to the application for an increase in duty are: Gas stoves for gas fuel, having two or more plates with gas burners and gas ovens with a gross capacity not exceeding 100 litres.

8. The subject product is depicted in figure 1 below.

Figure 1: Gas stove



Source: Applicant

9. The applicant is one of the two domestic manufacturers of the subject product in the SACU region; the other being the Edenvale based Zero Appliances (Pty) Ltd.
10. Major importers of gas stoves in the SACU region include: Atlas Appliances (Pty) Ltd, Eurafrikan (Pty) Ltd, D.K. Gas Appliances (Pty) Ltd t/a Totali, SBS Household Appliances (Pty) Ltd t/a SMEG and BSH Home Appliances (Pty) Ltd.
11. According to the applicant, challenges facing the domestic industry at an operational level include high manufacturing costs, transport costs and financing costs. In addition, the increases in electricity prices as well as labour costs pose a challenge to the domestic industry.
12. Tariff subheading 7321.11 includes other products that are not part of the investigation and therefore a determination could not be made regarding the level of imports of the subject products. However, imports of all cooking appliances for gas fuel and for both gas and other fuel increased by more than 40% per annum over the period 2012 to 2015. The creation of a separate tariff subheading for the subject product would assist the Commission with accurate trade data in future investigations.

COMPETITIVE POSITION

13. According to the information at the Commission's disposal, the domestic industry experiences price disadvantages *vis-à-vis* foreign manufacturers, in the face of rising domestic production costs and declining profitability.

COMMENTS RECEIVED

14. The Stringray Group (Pty) Ltd, D.K. Gas Appliances (Pty) Ltd t/a Totali, Home of Living Brands (Pty) Ltd, Topaz Tradenet (Pty) Ltd, EFBA Electrical Home Appliances Inc. Masstores (Pty) Ltd, SBS Household Appliances (Pty) Ltd t/a SMEG and BSH Home Appliances (Pty) Ltd objected to the application.

15. The comments centred on the wide scope of the application, the depreciating Rand/Dollar exchange rate that should discourage imports, the effect of the duties on low-income households, the perceived dominance and price competitiveness of Defy in the household appliances market, the confidential nature of Defy's application with regard to pricing and employment information, the limited period given to stakeholders to make submissions to the Commission, Defy's relatively low extent of assembly/manufacturing, the possible loss of employment for importers as a result of import duties, and that the tariff would encourage inefficiencies in an effort to creating a limited number of jobs at a relatively high cost to the economy.

16. Subsequent to the comments raised concerning the wide scope of the application that included other gas stoves not manufactured domestically and the potential negative impact of duties on low-income households, the Commission recommended that the investigation be limited to gas stoves for gas fuel, having two or more plates with gas burners and a gas oven with a gross capacity not exceeding 100 litres. This excludes other gas stoves such as gas stoves without an oven mostly used by low-income earners as shown in Figures 2 and 3 below.

Figure 2: Gas stove

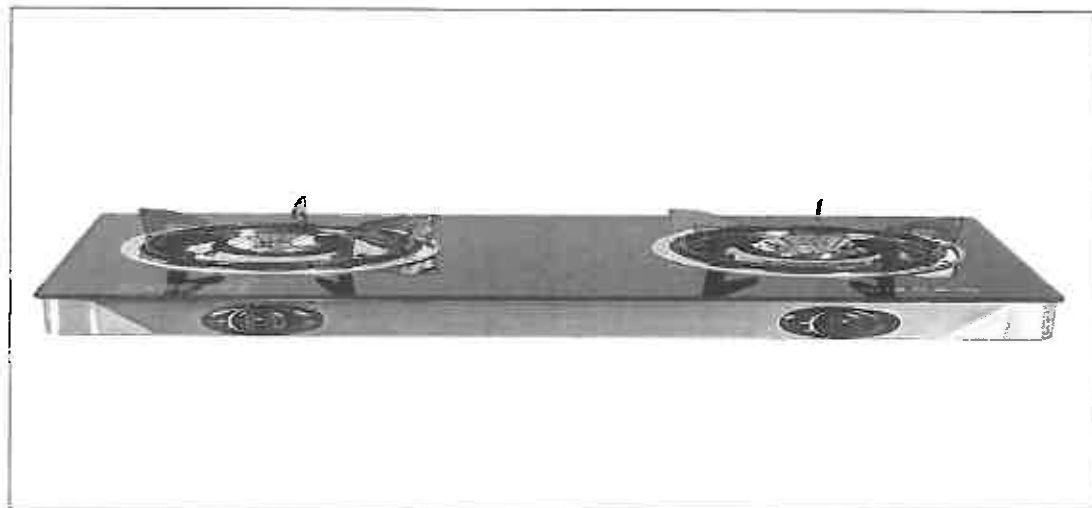
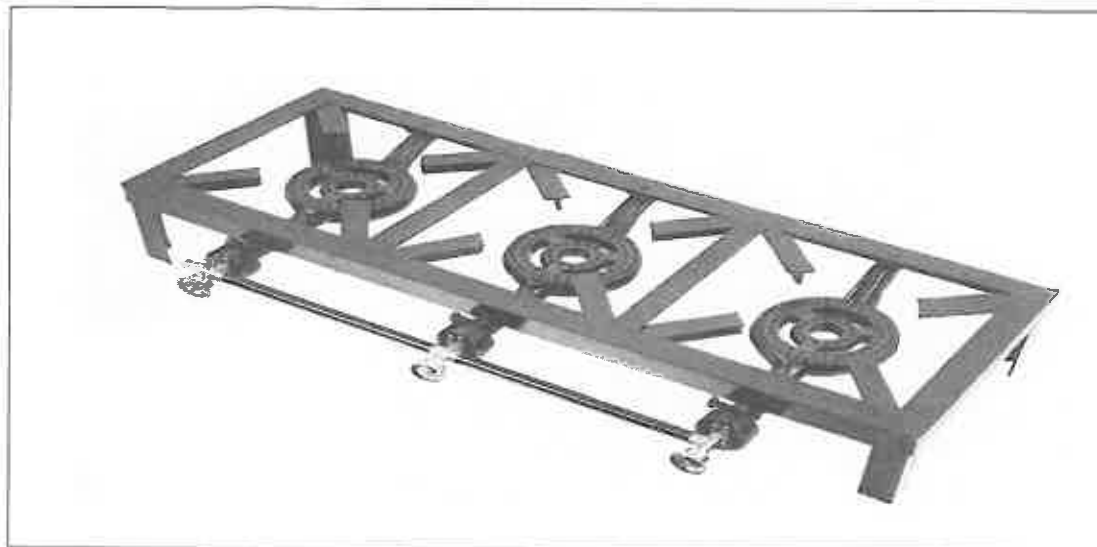


Figure 3: Gas stove



17. With regard to the assertion by importers that the retail prices of Defy's gas stoves are much lower than imported gas stoves, making the applicant price competitive in the domestic market, the Commission considered that as a matter of policy and practice, ITAC compares prices at the appropriate level of trade earlier in time because retail prices may reflect values that are not necessarily known or comparable, such as rebates, discounts, mark-ups, etc.
18. The Commission carefully considered the objections around the confidential nature of certain information contained in Defy's application. The Commission noted that the ITAC Regulations permit the deeming of certain information as confidential. According to the regulations a person may, when submitting correspondence to the Commission identify information therein that the person claims by nature to be confidential or otherwise that the person wishes it to be recognised as confidential.
19. The Commission noted the objections centred on the depreciating Rand/Dollar exchange rate which may provide additional protection for Defy by further discouraging imports. However, the Commission considered that a number of the parts used in the manufacture of the subject products are imported and therefore a weaker Rand also increases input costs for domestic producers.

20. The Commission deliberated on the possible trade-off between employment created by importers and manufacturing jobs as a result of import duties. The Commission took a view that manufacturing jobs require skills that are not comparable to the jobs created by importers. Such skills are transferable to similar production processes making workers more marketable and employable in other sectors of the economy.
21. According to some of the respondents, assembled products cannot enjoy protection because it is a simple and basic process. The Commission considered that as a matter of policy and practice, assemblers have received tariff relief before. In this regard, the importation of components is a common practice by nearly all manufacturers given the prevalence of international supply chains.
22. The Commission also took into account the opportunities presented by the shift of consumers from electric to gas products as a result of constraints in electricity supply. However, the Commission noted that a growing gas product market would not only benefit the applicant but would also increase sales for importers.
23. Comments supporting the application were received from the Botswana Ministry of Trade and Industry and Zero Appliances (Pty) Ltd.

FINDINGS

24. The Commission considered the application in light of the information at its disposal. In particular, the Commission took the following factors into account:
- The rising level of imports and the concomitant declining market share of SACU manufacturers of gas stoves;
 - The low level of productive capacity utilisation and profitability of the domestic industry;
 - Significant increases in the cost of steel products used in the manufacture of gas stoves;

- Increase in the cost of imported inputs due in part to the depreciating Rand;
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- The initial wide scope of the application covering all cooking appliances for gas fuel and for both gas and other fuel. The Commission decided and recommended below that a tariff subheading be introduced covering only those gas stoves with ovens that are manufactured locally and will have no negative impact on low-income earners and the poor.

25. The Commission concluded that additional tariff support would significantly improve the competitive position of the subject product, thereby ensuring economic viability and sustainability of the local industry.

RECOMMENDATION

26. In light of the foregoing, the Commission recommends an increase in the rate of customs duty on gas stoves for gas fuel, having two or more plates with gas burners, and gas ovens with a gross capacity not exceeding 100 litres classifiable under tariff subheading 7321.11 from 15% to 30% *ad valorem* by way of creating an additional 8-digit tariff subheading. The Commission further recommends that the duty be reviewed after a period of three years from the date of implementation to determine the further performance of the domestic industry.