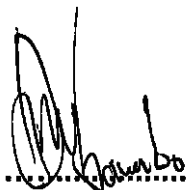


REPORT NO. 570

**APPLICATION FOR A REDUCTION IN THE RATE OF CUSTOMS
DUTY ON DIGITAL SMART CARDS (EXCLUDING PROXIMITY
CARDS AND TAGS), CLASSIFIABLE UNDER TARIFF SUBHEADING
8523.52.10**

The International Trade Administration Commission herewith presents its Report No. 570: APPLICATION FOR A REDUCTION IN THE RATE OF CUSTOMS DUTY ON DIGITAL SMART CARDS (EXCLUDING PROXIMITY CARDS AND TAGS), CLASSIFIABLE UNDER TARIFF SUBHEADING 8523.52.10, with recommendations.



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DUMISANI MBAMBO
ACTING CHIEF COMMISSIONER

PRETORIA

22 | 01 |2018

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 570

**APPLICATION FOR A REDUCTION IN THE RATE OF CUSTOMS DUTY ON
DIGITAL SMART CARDS (EXCLUDING PROXIMITY CARDS AND TAGS),
CLASSIFIABLE UNDER TARIFF SUBHEADING 8523.52.10**

Synopsis

Gemalto Southern Africa (Pty) Ltd, applied for a reduction in the rate of customs duty on digital smart cards (excluding proximity cards and tags), classifiable under tariff subheading 8523.52.10, from 5% *ad valorem* to free of duty, by way of creating a separate 8-digit tariff subheading.

The Commission considered the application in light of the information at its disposal. The Commission found that there is no local manufacturer of these digital smart cards and that the current duty only has an unnecessary cost raising effect.

However, the Commission further found that the reduction in customs duty on the subject products may result in a possible circumvention of customs duty on proximity cards and tags which are currently manufactured by the domestic industry. The Commission concluded that the creation of a rebate provision could be an appropriate instrument to address the risk of possible duty circumvention.

In light of the foregoing, the Commission recommended the following:

- The application for the reduction in the general rate of customs duty on smart cards (excluding proximity cards and tags), classifiable under tariff subheading 8523.52.10, from 5% *ad valorem* to free of duty, by way of creating a separate 8-digit tariff subheading, be terminated; and

- An investigation on the creation of a rebate provision on digital smart cards (excluding proximity cards and tags) classifiable under tariff subheading 8523.52.10, be initiated.

THE APPLICATION AND TARIFF POSITION

1. ITAC received an application from Gemalto Southern Africa (Pty) Ltd (“Gemalto”) for a reduction in the rate of customs duty on digital smart cards (excluding proximity cards and tags), classifiable under tariff subheading 8523.52.10, from 5% *ad valorem* to free of duty, by way of creating a separate 8-digit tariff subheading.
2. Gemalto is an importer of digital smart cards with microprocessors containing on-board cryptographic processing capabilities (the subject products) with its offices located in Gauteng (Kelvin).
3. The subject products are made of plastic which is generally polyvinyl chloride (PVC) with an embedded contact chip. They may also contain a magnetic stripe and are able to store data contained within the embedded circuit. The subject products may, together with the chip, also contain an antenna which enables the card to be a contactless smart card (also known as a combination card).
4. As motivation for the application, the applicant cited the following reasons:
 - There are no local manufacturers of the subject products in the SACU region; and
 - The current customs duty rate of 5% has an unnecessary cost raising effect on the net ex-factory selling price of the product.
5. The application was published in the Government Gazette of 30 June 2017 for interested parties to comment.

6. The current tariff structure of the subject products is as follows:

Table 1: Current tariff structure for the subject product

Tariff heading	Tariff subheading	Description	Unit of measurement	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
8523		Discs, tapes, solid-state non-volatile storage devices, "smart cards" and other media for the recording of sound or of other phenomena, whether or not recorded, including matrices and masters for the production of discs (excluding products of Chapter 37):						
	8523.2	- Magnetic media:						
	8523.21	-- Cards incorporating a magnetic stripe	U	5%	Free	Free	Free	5%
	8523.29	-- Other	U	Free	Free	Free	Free	Free
	8523.4	- Optical media:						
	8523.41	-- Unrecorded	U	Free	Free	Free	Free	Free
	8523.49	-- Other	U	Free	Free	Free	Free	Free
	8523.5	- Semiconductor media:						
	8523.51	-- Solid-state non-volatile storage devices	U	Free	Free	Free	Free	Free
	8523.52	-- "Smart cards":						
	8523.52.10	--- Digital	U	5%	Free	Free	Free	5%
	8523.52.90	--- Other	U	Free	Free	Free	Free	Free

Source: SARS, 2017

7. For administration purposes the South African Revenue Services (SARS) provided the tariff description as shown in the table below:

Table 2: Requested tariff structure

Tariff heading	Tariff subheading	Description	Unit of measurement	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
8523		Discs, tapes, solid-state non-volatile storage devices, "smart cards" and other media for the recording of sound or of other phenomena, whether or not recorded, including matrices and masters for the production of discs (excluding products of Chapter 37)						
	8523.5	- Semiconductor media						
	8523.52	-- "Smart cards":						
	8523.52.10	--- Digital						
	8523.52...	--- Proximity cards and tags	U	5%	Free	Free	Free	5%

	8523.52...	----Other	U	Free	Free	Free	Free	Free
	8523.52.90	-- Other	U	Free	Free	Free	Free	Free

Source: SARS, 2017

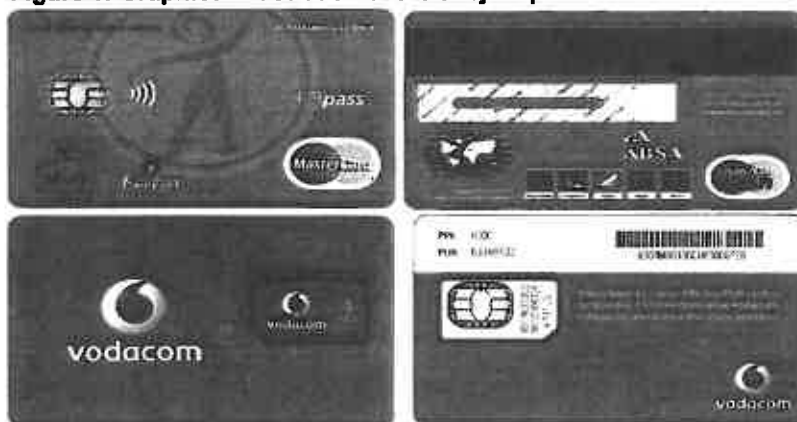
8. As shown in table 2 above, the applicant requested a reduction in the rate of customs duty from 5% *ad valorem* to free of duty, by way of creating an 8-digit tariff subheading in order to exclude proximity cards and tags which are currently manufactured locally.

INDUSTRY AND MARKET

9. The subject products are commonly used in the banking and mobile communications sectors. The subject products include smart ID cards used by the South African Department of Home Affairs.

10. Figure 1 below shows a graphical illustration of the subject products:

Figure 1: Graphical illustration of the subject product



11. Currently there are no local manufacturers of digital smart cards with a microprocessor (contact chip) which has an on-board cryptographic processing capability in the SACU region. NamiTech and Xantium Integrated Solutions ceased manufacturing of the subject products in the SACU region. Card Technology Services (Pty) Ltd ("CTS") only manufactures digital proximity cards and tags.

12. Some of the known importers of the subject products include Gemalto and Oberthur Technologies.

13. The applicant imports the subject products pre-printed and pre-branded as per the customer's specifications. The subject products are personalised according to customer's specification by embossing the required information onto the cards.

COMMENTS RECEIVED

14. Comments supporting the application were received from the Botswana's Ministry of Investment, Trade and Industry citing that the reduction of customs duty on the subject products will improve the industry's competitiveness.

15. Comments objecting to the application were received from Card Technology Services (Pty) Ltd, a domestic manufacturer of proximity cards and tags, citing amongst others: the risk of possible duty circumvention on proximity cards and tags should the reduction in customs duty on the subject products be supported; and that the granting of a temporary rebate provision would be a suitable tariff instrument in this regard.

FINDINGS

16. The Commission considered the application in light of the information at its disposal. The Commission found that there is no local manufacturer of digital smart cards.

17. The Commission further found that the reduction in customs duty on the subject products may result in a possible circumvention of customs duties on digital proximity cards and tags which are currently manufactured by the domestic industry.

18. The Commission found that the creation of a rebate provision subject to a permit issued by ITAC could be an appropriate instrument to address the risk of possible customs duty circumvention.

PROPOSAL

19. In light of the foregoing, the Commission recommended the following:

- the application for the reduction in the general rate of customs duty on smart cards(excluding proximity cards and tags), classifiable under tariff subheading 8523.52.10, from 5% *ad valorem* to free of duty, by way of creating a separate 8-digit tariff subheading, be terminated; and
- An investigation on the creation of a rebate provision on smart cards (excluding proximity cards and tags), classifiable under tariff subheading 8523.52.10, be initiated.