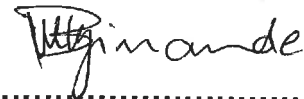


REPORT NO. 641

**Creation of a rebate facility for yarns and
textiles for use in the manufacture of apparel**

The International Trade Administration Commission of South Africa herewith presents its Report No. 641: **Creation of a rebate facility for yarns and textiles for use in the manufacture of apparel.**



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Meluleki Nzimande
CHIEF COMMISSIONER

PRETORIA

20 / *11* / 2020
..... / / 2020

REPUBLIC OF SOUTH AFRICA

**INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH
AFRICA**

REPORT NO. 641

**Creation of a rebate facility for yarns and textiles for use in the
manufacture of apparel**

Synopsis

The International Trade Administration Commission of South Africa (ITAC or the Commission) received a policy directive (Directive) from the Minister of Trade, Industry and Competition (Minister), to evaluate and investigate the creation of rebate facilities to address the supply of textiles for use in the manufacture of apparel.

In its recommendation, the Commission took into consideration the following:

- The aim of the Retail, Clothing, Textile, Footwear and Leather Masterplan (R-CTFL Masterplan) aims to establish a competitive, sustainable and dynamic R-CTFL value chain that is invested in growing employment and advancing inclusion and transformation. Commitment 4 of the R-CTFL Masterplan, calls for strategic use of tariffs and rebates (i) where stakeholders set a target to provide fair protection for the domestic Clothing, Textile, Footwear and Leather (CTFL) value-chain, (ii) where local production capacity exists or will be developed, and (iii) where the strategic use of rebates support localisation of manufacturing.
- Comments, in the form of a joint submission, were received from interested parties during the investigation period and were in support of the creation of rebate facilities for yarns and fabrics used in the manufacture of apparel. For the first time in decades, industry stakeholders across business, labour and industry, reached common ground when it comes to rebate facilities.

- The stakeholders of the R-CTFL Masterplan are in agreement with 5 guiding principles in relation to the strategic use of rebates, namely:
 - a) Current volume and value off-take from local Textile Mills not to be reduced;
 - b) Current volume and value off-take from local yarn producers not to be reduced;
 - c) Develop opportunities within the textile sector (i.e. deepen value chain);
 - d) Price restraint will apply to yarn and textile fabrics produced under Off-take Agreements; and
 - e) The rebate provision to be time-limited/subject to review.

- Although the proposed rebate description appears to be open-ended, in the first phase of administration, the rebate will be limited to woven fabrics under Chapters 51, 52, 53, 54, 55 and tariff heading 58.01 as certain fabrics are already manufactured in South Africa in abundance while some fabrics are not suitable for the manufacture of apparel. ITAC will publish a notice in the Government Gazette in this regard, which will also be on ITAC's website at www.itac.org.za, highlighting the manufacturing requirements of a 3rd Schedule rebate provision, which is an industrial rebate item linked directly to a specific manufacturing process, which has to take place in the same country that the permit was issued in. As such, existing production capacity would need to be protected through Off-take Agreements between retailers, clothing manufacturers and textile mills.

- The rebate facility is structured in a manner that accommodates all compliant role players in the value-chain; from textile mills that add value to greige fabric by dyeing and/or printing, to clothing manufacturers that supply retailers.

- Strict guidelines, rules and conditions have been developed to ensure the effective and efficient administration of the rebate facility with safeguard measures in order to minimise rebate abuse and/or misuse as well as endeavouring to avoid unintended consequences.

- One of the key action points under Commitment 4 of the R-CTFL Masterplan, is the development of appropriate mechanisms to provide transparency with regard to rebate permits. To this effect, the publication of any information would be on an

aggregated quarterly basis and not disclose the geographical location or specific company names/volumes given the possibility that this may facilitate anti-competitive behaviour.

In light of the foregoing, the Commission recommended the creation of a rebate facility to address the supply of yarns and textiles for use in the manufacture of apparel under the 3rd Schedule of the Customs and Excise Act 1964 (“Customs and Excise Act”), as follows:

“Textile yarns and textile fabrics, classifiable in Section XI of the Customs Tariff and approved by the International Trade Administration Commission (ITAC) through a Notice in the Government Gazette as qualifying yarns and fabrics that may be imported under this rebate item for the manufacture of apparel and clothing accessories classifiable in Chapters 61 and 62, in such quantities, at such times and subject to such conditions as ITAC may allow by specific permit, provided that –

- (i) ITAC or equivalent authority in SACU member states, is satisfied that the apparel and clothing accessories manufactured in terms of this item are supplied to and sold by retailers in the country in which the rebate permit will be issued;*
- (ii) as evidence in support of (i) above, the application for a permit must be supported by an order/orders from retailers in the country where the application is made; and*
- (iii) the yarns and fabrics are not specifically covered by another rebate provision in Schedule No. 3 for the same industry and purpose”.*

ITAC will publish a notice in the Government Gazette, which will also be on ITAC’s website at www.itac.org.za, highlighting the manufacturing requirements of a 3rd Schedule rebate provision, which is an industrial rebate item linked directly to a specific manufacturing process, which has to take place in the same country that the permit was issued in, as well as setting out the rebate conditions listed below:

- (i) ITAC will limit the rebate provision to a list of qualifying products. Such list to be determined and published by ITAC in the Government Gazette as well as on its website, which is aligned and attached to reciprocal off-take commitments as identified by the Department of Trade, Industry and Competition (DTIC), within the ambit of the R-CTFL Masterplan. In the first 12 months, the rebate item be applicable only for the importation of woven textile fabrics classifiable under chapters 51, 52, 53, 54, 55 and tariff heading 58.01 for the manufacture of apparel and clothing accessories classifiable under Chapter 62. The rebate permit issued by ITAC or equivalent authority in SACU member states must reflect conditions (i), (ii) and (iii) listed in the rebate item;

- (ii) Current volume and value offtake from local Textile Mills not to be reduced;
- (iii) Develop opportunities to deepen the value chain;
- (iv) Price Restraint; and
- (v) Rebate review in 18 months or such period as deemed appropriate by the Commission.

1. THE DIRECTIVE

1.1. ITAC received a Directive from the Minister in terms of Section 16(1)(d)(i) of the International Trade Administration Act (Act No. 71 of 2002), to evaluate and investigate the creation of rebate facilities to address the supply of textiles for use in the manufacture of apparel.

1.2. The Directive, stipulated, *inter alia*, the following:

- “a) Under the R-CTFL Masterplan, Government has committed to creating an enabling environment for investment and growth in the industry. In particular, commitment four calls for strategic use of tariffs and rebates. Action points under commitment four includes, inter alia, the review of rebate provisions on imported primary materials and components to support localisation of manufacturing, subject to:*
- i) Demonstrated, measurable and enforceable employment and investment growth benefits;*
 - ii) Future rebates subject to strict conditionalities (e.g. Bargaining Council compliance, tax compliant);*
 - iii) Effective enforcement to prevent abuse; and*
 - iv) Taking account of employment and production across the value chain, including textiles.*
- b) The Government has been approached by retailers in the clothing sector, who have highlighted challenges in obtaining sufficient apparel due to disruption in their supply chains due to the spread of the COVID-19 virus. These issues were ventilated at the inaugural Executive Oversight Committee meeting on the 12 March 2020, which was attended by representatives across the Retail, Clothing, Textile, Footwear and Leather (R-CTFL) value chain. Stakeholders have*

advised that appropriate rebate facilities for textiles used in the manufacture of apparel would support accelerated localisation of apparel manufacturing in South Africa.”

2. DISCUSSION

2.1. The R-CTFL Masterplan, was concluded and signed by the stakeholders at the 2nd South African Investment Conference in November 2019. The R-CTFL Masterplan aims to establish a competitive, sustainable and dynamic R-CTFL value chain that is invested in growing employment and advancing inclusion and transformation. In particular, under the R-CTFL Masterplan, South African CTFL retailers have committed to increasing the level of locally procured CTFL goods sold in stores from 44% currently to 65% over the next 10 years. The impact of this commitment has the potential to create 120 000 jobs across the R-CTFL value chain, with 70 000 jobs in the manufacturing component.

2.2. During the Inaugural meeting of the Executive Oversight Committee (EOC) for the Retail-CTFL Masterplan 2030, the Minister highlighted that there had to be an agreement between Government, Retailers, Labour, Clothing and Textile manufacturers in order to enable broad tariff rebates that can quickly unlock new opportunities for local clothing manufacturing.

2.3. The key elements for such an agreement as outlined by the Minister are that broad ranging tariff rebates should be implemented on the following basis:

a) Current volume and value off-take from local Textile Mills not to be reduced:
Undertaking from retailers and local manufacturers that current volume and value of off-take from local textile mills will not be reduced (i.e. retailers and manufacturers will not substitute locally produced fabrics for rebated imports).

b) Current volume & value off-take from local Yarn Producers not to be reduced:
Undertaking from local textile mills that the current volume and value off-take from local yarn producers will not be reduced (i.e. that retailers and manufacturers will not substitute locally produced yarns and fibres for rebated imports).

- c) Develop opportunities: That retailers and clothing manufacturers will work together with textile and yarn manufacturers to rapidly develop opportunities to leverage upstream rebates to increase local yarn and fabric manufacturing.
- d) Price Restraint: That local fibre, yarn, and textile producers and manufacturers, in exchange for off-take commitments from downstream off-takers, make undertakings around price restraint (for example that price increases should not exceed the producer price index on an average weighted basis).
- e) Time-limited basis/Rebate review: Rebates will be implemented on a time-limited basis (i.e. 12-18 months), and may be subject to early withdrawal if evidence of abuse, adverse unintended consequences or net negative employment trends emerge.

2.4. The South African Revenue Service (SARS) initially proposed that a 4th Schedule rebate be created, which excludes rebated fabric under the clothing industry code in the 3rd Schedule of the Customs and Excise Act as follows:

“Textile fabrics, classifiable in Section XI, for the manufacture of articles of apparel and clothing accessories, classifiable in Chapters 61 and 62, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the fabric is not specifically covered by another rebate provision in Schedule No. 3 for the same industry and purpose”.

2.5. The Minister’s Directive was published in the Government Gazette Notice No. 43632 on 21 August 2020 for comment by interested parties, based on the 4th Schedule rebate description provided by SARS. However, as will be more fully explained below, the 3rd Schedule (as suggested by industry) was deemed appropriate is proposed for the implementation of the proposed rebate facilities.

Comments received

- 2.6. R-CTFL stakeholders submitted comments in support of the creation of rebate facilities through a joint-submission, from the National Clothing Retailers Federation (NCRF), the South African Clothing and Textile Workers Union (SACTWU), the Apparel and Textile Association of South Africa (ATASA), the South African Apparel Association (SAAA), the Apparel Manufacturers of South Africa (AMSA) and the Textile Federation of South Africa (TEXFED).
- 2.7. In their joint-submission, the R-CTFL stakeholders submitted that they did not support the creation of rebate facilities through a 4th Schedule but rather through a 3rd Schedule to the Customs and Excise Act. The Stakeholders indicated that it is preferable from a control point that 3rd Schedule (goods used in the manufacture of other goods) rebates be created and that it should be for *“textile fabrics and yarns used in the manufacture of articles – to be sold in apparel Retail stores - of apparel and clothing accessories, classifiable in Chapters 61 and 62, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit”*.
- 2.8. The R-CTFL stakeholders further indicated that using the 4th Schedule for this rebate will provide too little control and may undermine the delicate balance between creating duty relief and securing the remaining local textile capacity.
- 2.9. The R-CTFL stakeholders suggested that, in order to accommodate the structure of the industry and to allow this rebate scheme to achieve its full growth potential and create jobs in smaller businesses as well, there would need to be sufficient space for outsourcing, a practice that is already in place with other rebates. The stakeholders would support manufacturers being able to outsource 50% of their production and design houses being able to outsource all production (100%).
- 2.10. According to the R-CTFL stakeholders, Design Houses are principal suppliers of apparel (i.e. clothing) to the retailers, as accredited by Masterplan participating Retailers and accepted by the National Bargaining Council (NBC) and the Program Management Office (PMO) of the R-TCFL Masterplan. However, they do not own factories but contract to various cut-make-trim operators (CMTs). Manufacturers,

also principal suppliers, traditionally own factories and may manufacture all orders or manufacture a percentage and contract a percentage to CMTs.

2.11. The R-CTFL stakeholders submitted that this outsourcing should only happen under the following circumstances:

- a) The manufacturers and design houses that outsource would need to set up and be responsible for the rebate stores;
- b) Any violation of the rebate rules would then see these manufacturers and design houses being unable to use this rebate anymore and paying the necessary penalties as determined by ITAC and SARS;
- c) Design houses that participate would need to have Compliance Certificates from the National Bargaining Council for the Clothing Manufacturing Industry; and
- d) Those businesses that manufacturers and Design Houses outsource to would need to have Compliance Certificates from the National Bargaining Council for the Clothing Manufacturing Industry.

2.12. The R-CTFL stakeholders proposed a phased approach to the introduction of tariff relief for fabrics and yarns used in the apparel manufacturing industry. The stakeholders supported ITAC's proposal to publish qualifying fabrics on its website. This will provide the necessary flexibility to allow for the phased approach as follows:

- a) The first phase should be rebates on woven fabrics only;
- b) The second phase should add rebates on knitted fabrics; and
- c) The third phase should add rebates on yarns.

2.13. For the first phase, stakeholders proposed that a rebate be introduced for the importation of woven textile fabrics of chapters 51, 52, 53, 54, 55 and tariff heading 58.01 for the manufacture of articles of apparel and clothing accessories, destined for sale in apparel retail outlets and classifiable in Chapter 62, subject to an off-take agreement being concluded with the local textile mills, which guarantees the uptake of the previous year's volume and value.

- 2.14. For the second phase, stakeholders proposed that imported knitted textile fabrics, classifiable in Section XI, for the manufacture of articles of apparel and clothing accessories, destined for sale in apparel retail outlets and classifiable in Chapter 61 be subject to a Duty Rebate Mechanism, the details of which are currently being discussed at the R-CTFL Masterplan level. Once these discussions have been finalised, the stakeholders submitted that they would request that ITAC publish the list of knitted fabrics that would then qualify for rebate.
- 2.15. The R-CTFL stakeholders proposed that phase 1 and 2 be treated as separate processes. As regards the third phase, yarns are to be treated on the same terms as 2.14 above.
- 2.16. The R-CTFL stakeholders submitted that importers of the textile fabrics imported under this rebate must be:
- a) Clothing manufacturers with Compliance Certificates from the National Bargaining Council for the Clothing Manufacturing Industry and must supply retailers that are signatories to the R-CTFL Masterplan with clothing made from the fabric imported under this rebate; and
 - b) Textile mills that add value, by dyeing and/or printing greige fabric (but not already printed fabric, already dyed fabric or yarn/fibre dyed fabric). Such dyers and/or printers of greige fabric must be registered with the National Textile Bargaining Council and have a Compliance Certificate from this Council and supply these fabrics to clothing manufacturers with Compliance Certificates from the National Bargaining Council for the Clothing Manufacturing Industry that supply retailers that are signatories of the R-CTFL Masterplan. This is intended to accommodate value-addition to greige fabric under the rebate facility.
- 2.17. The R-CTFL stakeholders supported the conditions published by ITAC in the Government Gazette Notice No. 43632, that the rebate be linked to reciprocal off-take commitments to the local textile mills that manufacture the fabrics in question and that the current volume and value off-take from local textile mills are not reduced.

2.18. In terms of off-take agreements applicable to phase 1, the R-CTFL stakeholders proposed the following:

- a) At the date of implementation of the rebate, producers of applicable textile fabric will have up to 2 weeks to provide Off-take Volume and Value claims, based on textile fabric produced for Chapter 62 apparel and clothing accessories, over any 12-month period from 1 March 2018 to 31 March 2020;
- b) Within a further 2 weeks, retailers will conclude Off-take Agreements directly with relevant textile mills;
- c) In the event of disputes in resolving Off-take Agreements, an Off-take Resolution Team (ORT) comprising, *inter alia*, a representative of each of the NCRF, SACTWU, DTIC and from the woven textile sector will, within 2 further weeks, facilitate the conclusion of the necessary Off-take Agreements, using a process which may include the following:
 - i) The Off-take claims referred to in paragraph 2.17 above will need to be co-signed by respective manufacturers of clothing products.
 - ii) The ORT will collate for each retailer the respective, collective and ratified, Volume and Value of each textile mill for consideration by the respective Retailer.
 - iii) Once the respective Volume and Values are agreed, each Retailer and the respective manufacturer will conclude with each textile mill an Off-take Agreement to ensure that a minimum of the agreed Value and/or Volume of textile fabric will be used in the production of apparel and clothing accessories.
 - iv) The stakeholders proposed that, once 90% of all tabled offtake requests are resolved with Off-take Agreements, ITAC may start to issue rebate permits that have been applied for. The stakeholders further proposed that ITAC, with input from the ORT, would act as the final arbiter on whether

90% of off-take requests have been concluded to allow full access to the rebate for qualifying participants.

- v) If there are no continued orders for fabrics that are the subject of an Off-take Agreement, the retailer and clothing manufacturer will explore alternative and appropriate options in attempt to meet or exceed commitments contained in the relevant Off-take Agreement.
- vi) Off-take Agreements must be processed/honoured within 9 months of the rebate start date. The stakeholders proposed that, a retailer or manufacturer, which is party to an off-take agreement not being honoured, will have all future rebate claims denied and will have to pay the import duties of fabric imported to date under this scheme back to SARS. Additionally, any penalties determined by SARS will be applied.

2.19. The textile manufacturers were in agreement that:

- a) Price restraint will apply to textile fabrics produced under the Off-take Agreements;
- b) Price restraint will apply to textile fabric imported under the rebate and dyed or printed for supply to apparel and clothing accessory manufacturers; and
- c) Textile producers will develop commercially viable and sustainable manufacturing capability and capacity to supply manufacturers and retailers in support to the requirements of Retail-CTFL Masterplan.

2.20. The manufacturers of apparel and clothing accessories were in agreement that they would ensure the following:

- a) Compliance with all legislative requirements, including Bargaining Council compliance;
- b) Co-sign textile fabric Off-take Agreements of Values and Volumes with the respective retailers;
- c) Establish data points for future interventions, which can be more readily demonstrable, measurable and enforceable, as necessary. Benefits gained from fabric rebates must be invested in strengthening manufacturing

capability, capacity, skills and compliance, whilst ensuring price restraint on product costs. This investment must be demonstrable and measurable, alternatively will be enforceable where necessary; and

- d) Price restraint in respect of fair local sourcing prices and fair product supply prices.

2.21. The retailers of apparel and clothing accessories were in agreement with the following:

- a) Ensure procurement spend is with Bargaining Council compliant manufacturers in the Supply Chain;
- b) Establish data points for future interventions, which can be more readily demonstrable, measurable and enforceable, as necessary;
- c) Ensure that commitments made in Off-take Agreements are processed within 9 months of concluded Off-take Agreements; and
- d) Benefits gained from fabric rebates must be used to promote a stronger, more sustainable and compliant local manufacturing industry.

2.22. Comments by Texfed:

2.22.1. Texfed submitted supplementary comments to the joint submission of the R-CTFL stakeholders to which it has lent its signature. Texfed supported the investigation and evaluation of the creation of rebate facilities for textiles used in the manufacture of apparel but objected to certain of the proposals contained in the aforementioned Gazette notice.

2.22.2. Texfed objected to the wide rebate description and argued that the woven fabrics that should qualify for rebate in the initial phase must be restricted to all woven broad-width fashion apparel fabrics exclusively destined for apparel retail outlets.

2.22.3. The reasons by Texfed for this limitation placed on the range of qualifying fabrics for tariff relief by way of a rebate linked to off-take commitments were as follows:

- a) In the phased approach to tariff relief that is proposed, initially only woven fabrics will qualify;

- b) Fabrics falling under chapter 56, namely wadding, felt and non-woven fabrics are produced in South Africa in substantial quantities. In addition these fabrics have limited end-use in the manufacture apparel of woven fabrics;
- c) Fabrics classifiable under tariff heading 58.02 are produced in South Africa by Glodina Towelling (Pty) Ltd and Colibri Towelling Western Cape (Pty) Ltd;
- d) Narrow woven fabrics classifiable under tariff heading 58.06 and badges and labels classifiable under tariff heading 58.06 are produced in substantial quantities by International Trimmings and Labels SA (Pty) Ltd and Braitex Tensilon (Pty) Ltd;
- e) Impregnated, coated, covered or laminated fabrics classifiable in chapter 59 are produced in substantial quantities in South Africa; and
- f) Knitted fabrics classifiable in Chapter 60 will only be included for tariff relief in phase two.

2.22.4. Therefore, Textfed supported ITAC's published intention and encouraged it to limit the rebate provision to a list of qualifying woven fabrics as indicated above during the initial phase of the rebate/linked off-take commitment scheme. However, Textfed was not supportive of "*such a list to be determined and published on ITAC's website*". Such list should be published in the Government Gazette and not subject to the vagaries of website notices.

2.22.5. Textfed also proposed the following pre-conditions and safeguards:

- a) Only signatories to the R-CTFL Masterplan should qualify and be eligible to apply for rebate permits under the scheme after concluding off-take commitments with local fabric and yarn mills;
- b) The first phase of the rebate/offtake commitment scheme should include all woven fabrics only. This should be followed by the second phase which should include all knitted fabrics under a Duty Rebate Mechanism (DRM) and the final phase which should include all yarns under a Duty Rebate Mechanism;
- c) Within 12 months of operation an assessment must be made to change the all woven fabric rebate/off-take commitment scheme also into a Duty Rebate Mechanism;

- d) In addition, it proposed that local purchases of woven fabrics leading up to the introduction of the DRM be counted as credits in determining DRM rebate quantities;
- e) In this regard, Textfed has commissioned the development of a Textile Industry Rebate Platform (TIRP) that will be designed to manage the DRM allocation for CMTs, apparel manufacturers and retailers. This platform should greatly assist the administration of the DRM by ITAC and SARS. Textfed presented on the TIRP to ITAC and SARS on 23 September 2020. It was concluded that Textfed should present the TIRP to ITAC, the dtic and Competition Commission in order to ensure that there is policy alignment among the entities;
- f) Independent audits be conducted quarterly to prevent unintended consequences from occurring;
- g) It proposed that a 3rd Schedule rebate for greige fabric worded along the lines set out below be introduced simultaneously with the 3rd Schedule finished fabric rebate that is introduced:
“Greige fabric classifiable in chapters 51, 52, 53, 54, 55 and 58.01, for the manufacture of articles of apparel classifiable under chapter 62 (excluding workwear), provided such greige fabrics undergo the processes of dyeing and/or printing together with finishing, in such quantities, at such times and subject to such conditions as ITAC may allow by specific permit, after consultation with the textile industry”; and
- h) To qualify for the greige fabric rebate, textile manufacturers must add value, by dyeing and/or printing together with finishing of greige fabric and the greige fabric must not be prepared for printing or already dyed fabric. Such textile manufacturers must be registered with the National Textile Bargaining Council and have a Compliance Certificate from this Council.

2.23. In light of comments received and engagements with SARS, the following rebate description was considered:

“Textile yarns and textile fabrics, classifiable in Section XI of the Customs Tariff and approved by the International Trade Administration Commission (ITAC) through a Notice in the Government Gazette as qualifying yarns and fabrics that may be imported under this rebate item for the manufacture of apparel and clothing accessories classifiable in Chapters 61 and 62, in such quantities, at such times

and subject to such conditions as ITAC may allow by specific permit, provided the yarns and fabrics are not specifically covered by another rebate provision in Schedule No. 3 for the same industry and purpose”.

- 2.24. Although the proposed rebate description appears to be open-ended, in the first phase of administration, the rebate will be limited to woven fabrics under chapters 51, 52, 53, 54, 55 and tariff heading 58.01 as certain fabrics are already manufactured in South Africa in abundance while some fabrics are not suitable for the manufacture of apparel. As such, existing production capacity would need to be protected through Off-take Agreements between retailers, clothing manufacturers and textile mills.
- 2.25. The 3rd Schedule rebate facility, being an industrial rebate item linked directly to a specific manufacturing process, which has to take place in the same country that the permit was issued in, is structured in manner that accommodates all compliant role players in the value-chain; from textile mills that add value to greige fabric by dyeing and/ or printing, to clothing manufacturers that supply retailers.
- 2.26. In order to ensure that the rebate facility achieves its intended objectives and contributes effectively to the R-CTFL Masterplan 2030 objectives, guidelines, rules and conditions have been developed. The purpose of the guidelines is to ensure the effective and efficient administration of the rebate facility and have safeguard measures in place that will minimise rebate abuse and/or misuse as well as endeavouring to avoid unintended consequences. Similarly, an application form has been customised in a manner that will assist ITAC to monitor and evaluate key indicators such as off-take commitments; employment, investment, pricing of outputs etc.
- 2.27. The Commission is cognisant of the fact that some South African retailers have manufacturing facilities in some of the Republic of Botswana, Kingdom of Eswatini, Kingdom of Lesotho and Republic of Namibia (BELN) and the Southern African Development (SADC) countries. The guidelines, rules and conditions stipulates that rebated goods may not be sent to the BELN or any other country outside the Republic of South Africa for further processing in order to support the deepening of value chains in the Southern African Customs Union (SACU) Member States.

2.28. One of the key action points under Commitment 4 of the R-CTFL Masterplan is the development of appropriate mechanisms to provide transparency with regard to rebate permits. ITAC may publish information pertaining to rebate permits on an aggregated basis and will not disclose the geographical location or specific company names/volumes given the possibility that this may facilitate anti-competitive behaviour.

2.29. The ultimate goal of the rebate facility is to ensure that there is growth in investment, employment and remuneration, sales to local retailers while protecting and ensuring that the value chain is deepened, in particular the upstream textile mills.

3. RECOMMENDATION

3.1 In light of the foregoing, the Commission recommended the creation of a rebate facility to address the supply of yarns and textiles for use in the manufacture of apparel under the 3rd Schedule of the Customs and Excise Act, as follows:

“Textile yarns and textile fabrics, classifiable in Section XI of the Customs Tariff and approved by the International Trade Administration Commission (ITAC) through a Notice in the Government Gazette as qualifying yarns and fabrics that may be imported under this rebate item for the manufacture of apparel and clothing accessories classifiable in Chapters 61 and 62, in such quantities, at such times and subject to such conditions as ITAC may allow by specific permit, provided that:

- (i) ITAC or equivalent authority in SACU member states, is satisfied that the apparel and clothing accessories manufactured in terms of this item are supplied to and sold by retailers in the country in which the rebate permit will be issued;*
- (ii) as evidence in support of (i) above, the application for a permit must be supported by an order/orders from retailers in the country where the application is made; and*
- (iii) the yarns and fabrics are not specifically covered by another rebate provision in Schedule No. 3 for the same industry and purpose”.*

ITAC will publish a notice in the Government Gazette, which will also be on ITAC's website at www.itac.org.za highlighting the manufacturing requirements of a 3rd Schedule rebate provision, which is an industrial rebate item linked directly to a specific manufacturing process, which has to take place in the same country that the permit was issued in, as well as setting out the rebate conditions listed below:

- (i) ITAC will limit the rebate provision to a list of qualifying products. Such list to be determined and published by ITAC in the Government Gazette as well as on its website, which is aligned and attached to reciprocal off-take commitments as identified by the DTIC, within the ambit of the R-CTFL Masterplan. In the first 12 months, the rebate item be applicable only for the importation of woven textile fabrics classifiable under chapters 51, 52, 53, 54, 55 and tariff heading 58.01 for the manufacture of apparel and clothing accessories classifiable under Chapter 62. The rebate permit issued by ITAC or equivalent authority in SACU Member States must reflect conditions (i), (ii) and (iii) listed in the rebate item;
- (ii) Current volume and value offtake from local Textile Mills not to be reduced;
- (iii) Develop opportunities to deepen the value chain;
- (iv) Price Restraint; and
- (v) Rebate review in 18 months or such period as deemed appropriate by the Commission.