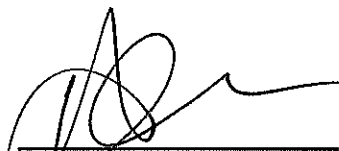


**REPORT NO. 681**

**CREATION OF A TEMPORARY REBATE PROVISION FOR THE  
IMPORTATION OF CERTAIN AIR CONDITIONING MACHINES  
HAVING A RATED COOLING CAPACITY NOT EXCEEDING 8,8  
KILOWATTS, CLASSIFIABLE UNDER TARIFF SUBHEADING  
8415.10.10**

The International Trade Administration Commission of South Africa herewith presents its **Report No. 681: Creation of a temporary rebate provision for the importation of certain air conditioning machines having a rated cooling capacity not exceeding 8,8 kilowatts, classifiable under tariff subheading 8415.10.10, with recommendations.**



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**AYABONGA CAWE**  
**CHIEF COMMISSIONER**

**PRETORIA**

**10/02/2023**

## **REPUBLIC OF SOUTH AFRICA**

### **INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA**

#### **REPORT NO. 681**

### **CREATION OF A TEMPORARY REBATE PROVISION FOR THE IMPORTATION OF CERTAIN AIR CONDITIONING MACHINES HAVING A RATED COOLING CAPACITY NOT EXCEEDING 8,8 KILOWATTS, CLASSIFIABLE UNDER TARIFF SUBHEADING 8415.10.10**

#### **Synopsis**

In August 2021, the International Trade Administration Commission of South Africa ("ITAC" or "the Commission") initiated an investigation into the possible creation of a temporary rebate provision for the importation of certain air conditioning machines having a rated cooling capacity not exceeding 8,8 kilowatts, classifiable under tariff subheading 8415.10.10.

The Commission considered all the relevant information at its disposal. In particular, the Commission considered the factors set out below:

- Currently there are no known manufacturers of the subject air conditioning machines of a cooling capacity not exceeding 8.8 kW in the Southern Africa Customs Union ("SACU") region. As such, the applicable customs duty has an unnecessary cost raising effect on final users of the subject product;
- There exists potential for localisation of the production of the subject product in the short-to-medium term;
- The duty relief, through the creation of a temporary rebate provision under Schedule 4 of the Customs and Excise Act, 1964 ("Schedule 4"), will allow for a waiver of the full customs duty whilst the customs duty will remain in place and serve as incentive for potential manufacturers; and
- The rebate provision will be made subject to an ITAC permit issued in terms of guidelines, rules and conditions. As such, the Commission will have a mechanism

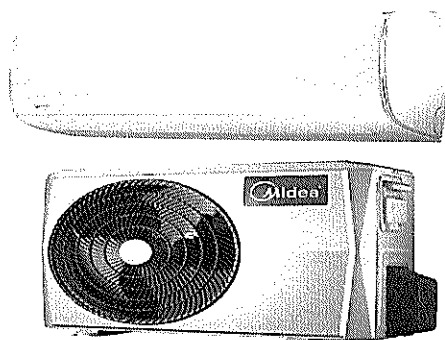
in place to discontinue issuing a rebate permit as soon as local production commences.

In light of the foregoing, the Commission recommended that a Schedule 4 temporary rebate provision be created for the importation of certain air conditioning machines of a cooling capacity not exceeding 8.8 kW, classifiable under tariff subheading 8415.10.10. The Commission further recommended that the rebate provision be reviewed following a period of three (3) years (unless otherwise determined by the Commission), principally to monitor whether manufacturing activity has begun.

## **THE APPLICATION AND TARIFF POSITION**

1. In August 2021, ITAC initiated an investigation into the possible creation of a temporary rebate provision for the importation of certain air conditioning machines having a rated cooling capacity not exceeding 8,8 kilowatts, classifiable under tariff subheading 8415.10.10.
2. The reason for initiating the investigation are summarised below:
  - There are no known manufacturers of the subject product in the SACU region; and
  - The customs duty has an unnecessary additional cost-raising effect on the subject product and downstream users of the product.
3. The products under investigation are air conditioning machines comprising of motor-driven fan and elements, including those machines for which humidity cannot be separately regulated, of a kind designed to be fixed to a window wall, ceiling or floor, self-contained or a split system used for buildings, compressor operated, having a rated cooling capacity not exceeding 8.8 kW.
4. A picture of the subject product appears in Figure 1 below. The subject products are used in buildings to remove heat and moisture from the interior of an occupied space to improve the comfort of occupants.

Figure 1: Subject products



5. The current tariff structure of the subject product is indicated in Table 1 below:

**Table 1: Current Tariff position for the subject products**

Heading/ Sub heading	Description	Statistical Unit	Rate of Duty								
			General	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA			
8415	Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated;										
8415.10	- Of a kind designed to be fixed to a window, wall, ceiling or floor, self-contained or split-system;										
8415.10.10	-- Of a kind used for buildings, compressor operated, having a rated cooling capacity not exceeding 8,8 Kw	U	15%	Free	15%	Free	15%		12%		

Source: SARS, 2022

6. As per Table 1 above, the subject product currently attracts a general rate of customs duty of 15% *ad valorem*. The subject product also attracts 15 per cent *ad valorem* duty when imported from European Free Trade Association ("EFTA") and MERCOSUR as well as 12% *ad valorem* when imported from the African Continental Free Trade Area ("AfCFTA").
7. As shown below, the South African Revenue Service ("SARS") provided for administrative purposes the wording for a Schedule 4 temporary rebate:

*"Air conditioning machines, comprising a motor-driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated, of a kind used for buildings, compressor operated, having a rated cooling capacity not exceeding 8,8 kW, classifiable in tariff subheading 8415.10.10, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the product is not available in the SACU market"*

## INDUSTRY AND MARKET

8. According to the Industrial Policy Action Plan (IPAP 2018/19-2020/21) ("IPAP"), the South African white goods industry continues to attract and maintain investments in certain areas of production but is largely dependent on imported content. The IPAP highlighted both a need and a possibility to localise production of inputs where capacity and capability exists. Furthermore, localisation and skills development were cited as being essential for growing the domestic industry and accessing export markets across the African continent.
9. Key opportunities in the sector include the conclusion of the Tripartite Free Trade Agreement opening up further markets in the Eastern, Western, Northern and Central regions of the African continent.
10. Currently, there are no known manufacturers of air conditioning machines of a cooling capacity not exceeding 8.8kW in the SACU region.
11. During the investigation, it was found that there is a potential investor that has commenced work towards the localisation of production of the subject product. The company is currently working towards establishing a facility for the assembly of various white goods products including the subject product locally. It is envisaged that the company will produce for the domestic market and export mainly into Africa.
12. The known importers of the subject product in the SACU market include, amongst others: Whirlpool South Africa (Pty) Ltd; Hisense SA manufacturing (Pty) Ltd; Samsung Electronics South Africa (Pty) Ltd; LG Electronics SA (Pty) Ltd; and Imperial Air Conditioning (Pty) Ltd.
13. According to SARS, official trade statistics imports of the subject products mainly originate from Asian countries.
14. A total of 318 066 units of the subject products were imported in 2020 and approximately R130 million in customs duties were paid on the importation of the subject product. There were negligible exports (7 887 units) mainly destined for African countries.

15. The subject product is a consumer good within the white goods sector. The end-users of the subject products include hotels, learning institutions, office parks, and private residents.
16. The duty relief, through the creation of a Schedule 4 temporary rebate provision will allow for a waiver of the full customs duty and reduce importation cost while the customs duty will remain in place and serve as incentive for potential manufacturers.
17. The rebate provision will be made subject to an ITAC permit issued in terms of guidelines, rules and conditions. As such, the Commission will be able to discontinue issuing a rebate permit as soon as local production commences.

### **COMMENTS RECEIVED**

18. Comments in support of the application were received from Mr Jean Pool; Beijer Ref (Pty) Ltd; FC Dubbelman & Associates on behalf of Defy Appliances (Pty) Ltd; Turner Shipping (Pty) Ltd on behalf of GMC Air Conditioning cc; and Sir Air (Pty) Ltd. The support centred on the unavailability of the subject product in the SACU region and that the duty poses an unnecessary cost-raising effect.
19. Comments in support of the creation of the rebate provision have been received from the Republic of Namibia's Ministry of Industrialisation and Trade. No other comments were received from other SACU member states.

### **FINDINGS**

20. The Commission considered all the relevant information at its disposal. In particular, the Commission considered the factors set out below:
  - Currently there are no known manufacturers of the subject air conditioning machines of a cooling capacity not exceeding 8.8 kW in the Southern Africa Customs Union ("SACU") region. As such, the applicable customs duty has an unnecessary cost raising effect on final users of the subject product;

- There exists potential for localisation of the production of the subject product in the short-to-medium term.
- The duty relief, through the creation of a Schedule 4 temporary rebate provision, will allow for a waiver of the full customs duty whilst the customs duty will remain in place and serve as incentive for potential manufacturers; and
- The rebate provision will be made subject to an ITAC permit issued in terms of guidelines, rules and conditions. As such, the Commission will have a mechanism in place to discontinue issuing a rebate permit as soon as local production commences.

## **RECOMMENDATION**

21. In light of the foregoing, the Commission recommended that a Schedule 4 temporary rebate provision be created for the importation of certain air conditioning machines of a cooling capacity not exceeding 8.8 kW, classifiable under tariff subheading 8415.10.10. The Commission further recommended that the rebate provision be reviewed following a period of three (3) years (unless otherwise determined by the Commission), principally to monitor whether manufacturing activity has begun.