

REPORT NO. 680

**REDUCTION IN THE GENERAL RATE OF CUSTOMS DUTY ON
AUTOMATIC SLACK ADJUSTERS, CLASSIFIABLE UNDER
TARIFF SUBHEADING 8716.90.90**

The International Trade Administration Commission herewith presents its **Report No. 680: reduction in the general rate of customs duty on automatic slack adjusters, classifiable under tariff subheading 8716.90.90**, with recommendations.


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MELULEKI NZIMANDE
CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 680

**REDUCTION IN THE GENERAL RATE OF CUSTOMS DUTY ON
AUTOMATIC SLACK ADJUSTERS, CLASSIFIABLE UNDER
TARIFF SUBHEADING 8716.90.90**




Synopsis

1. BPW Axles (Pty) Ltd (“BPW Axles” or “the applicant”) applied for the reduction in the general rate of customs duty on automatic slack adjusters classifiable under tariff subheading 8716.90.90 from 15% *ad valorem* to free of duty, through the creation of an additional eight digit tariff subheading under tariff heading 87.16.
2. The Commission considered all the relevant information at its disposal. In particular, the Commission considered the following factors:
 - The Commission found that there is currently no known domestic manufacturers of subject products. The current customs duty of 15% *ad valorem* payable on the importation of the subject products imposes an unnecessary cost raising effect to the end users; and
 - The suitability of creating a rebate provision against a reduction in the general rate of customs duty on the subject product was considered. The Commission considered the improbability of any future investment in domestic manufacturing of the subject products given that the domestic demand is insufficient relative to minimum volumes required for localisation and that the product is an old technology. Furthermore, there is a declining demand for automatic slack adjuster, as more trucks are being fitted with disc brakes instead of brake drums. In this regard, the Commission concluded that a reduction in the duty as opposed to a rebate is justified.

3. The Commission recommended that the general rate of customs duty automatic slack adjusters classifiable under tariff subheading 8716.90.90 be reduced from 15% ad valorem to free of duty, through the creation of an additional eight-digit tariff subheading under tariff heading 87.16.

THE APPLICATION AND TARIFF POSITION

4. ITAC received an application from BPW Axles for the reduction in the general rate of customs duty on automatic slack adjusters classifiable under tariff subheading 8716.90.90 from 15% *ad valorem* to free of duty, through the creation of an additional eight digit tariff subheading under tariff heading 87.16.
5. BPW Axles is a wholly owned subsidiary of BPW Bergische Achsen KG based in Germany. The local subsidiary was formerly known as Automobile Brake Services (Pty) Ltd and was wholly bought out by BPW Bergische Achsen KG in 1962.
6. The products under investigation are automatic slack adjusters. The products are fitted on axles of medium and heavy trailers and semi-trailers.
7. The purpose of the component is to keep the brake shoes at a proper distance from the surface of the brake drums. As the brake shoes and the brake drums wear down, the automatic slack adjusters automatically adjust the brake shoes so that the shoes remain at the proper distance from the drums, maintaining optimum braking performance. Each axle is fitted with two automatic slack adjusters.
8. The subject products are safety-critical components. In South Africa trailers above 3 500 kg G.V.M, registered after 14 February 2004 must comply with SANS 20013, which requires that they have automatic slack adjusters fitted.
9. The applicant imports axle and suspension components in fully-knocked down form from the parent company for local assembly and distribution to the local trailers and semi-trailer building industry.
10. Figures 1, 2 and 3 below depict the subject product, the end product assembled by the applicant and the final product on which the axles are fitted respectively.

Figure 1: Automatic Slack Adjuster	Figure 2: Axles for trailers	Figure 3: Trailers
		
<i>Source: Applicant, 2021</i>	<i>Source: Applicant, 2021</i>	<i>Source: Applicant, 2021</i>

11. As motivation for the application, the applicant cited, amongst others, the following reasons:

- There are no known manufacturers of automatic slack adjusters in the Southern Africa Customs Union (“SACU”); and
- The customs duty has an unnecessary additional cost-raising effect on the subject product and downstream users of the product.

12. The current tariff structure of the subject product is indicated in Table 2 below:

Table 2: Current tariff structure

Tariff subheading	Description	Statistical Unit	Rate of Duty					
			General	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA
87.16	Trailers and semi-trailers; other vehicles, not mechanically propelled; parts thereof							
8716.90	Parts:							
8716.90.90	Other	Kg	15%	Free	Free	Free	15%	15%

Source: SARS, 2021

13. The subject product attract an ordinary customs duty of 15% ad valorem. The products from EU/UK, EFTA and SADC are imported free of duty.

14. The applicant submitted a request for the reduction in the general rate of customs duty through the creation of a new 8-digit tariff subheading. As shown in Table 3 below, South African Revenue Service (“SARS”) provided for administrative purposes a separate 8-digit tariff classification for automatic slack adjusters. The requested tariff position is depicted in Table 3 below:

Table 3: The requested tariff structure

Tariff subheading	Description	Statistical Unit	Rate of Duty					
			General	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA
87.16	Trailers and semi-trailers; other vehicles, not mechanically propelled; parts thereof							
8716.90	Parts:							
8716.90.xx	Automatic slack adjusters	Kg	Free	Free	Free	Free	-	-
8716.90.90	Other	Kg	15%	Free	Free	Free	15%	15%

Source: Applicant, 2021

15. The subject products attract a general rate of customs duty of 15% *ad valorem* and the WTO bound rate for the subject products is 20% *ad valorem*.

16. The application was published in the Government Gazette No. 45176 on 17 September 2021 under Notice 565 of 2021, for interested parties to comment as follows:

“Application for a reduction in the rate of customs duty on automatic slack adjusters, classified under tariff subheading 8716.90.90, by the creation of a separate 8-digit tariff subheading for the said goods under tariff subheading 8716.90”

INDUSTRY AND MARKET

17. In terms of policy, the subject product forms part of the automotive subsector. According to the IPAP (2018/19–2020/21), the automotive industry remains an important pillar of South Africa’s industrial landscape. The industry employs approximately 113,000 people across light vehicle and medium & heavy commercial vehicle OEMs, as well as over 400 automotive component firms. Further to this, it is estimated that employment is as high as 322,220 if the downstream activities of wholesale, retail trade and maintenance are included.

18. Key opportunities for the sector include: local and regional market development for vehicles and components; localisation of targeted components; transformation of the supply chain through the development of black suppliers; and competitiveness improvement of suppliers.

19. Challenges facing the industry include: a relatively small domestic market; mutual economic growth proposition with regional trading partners and slow progress in relation to increasing depth of localisation.

20. ITAC administers Phase 2 of the Automotive Production and Development Programme (APDP2). The objective of the programme is to support the vision for the Automotive Masterplan of creating a globally competitive and transformed automotive industry that actively contributes to the sustainable development of South Africa's productive economy, creating prosperity for industry stakeholders and broader society. However, the subject automatic slack adjusters do not qualify for benefits under the programme as they are fitted to non-qualifying vehicles.
21. Currently, there are no known manufacturers of automatic slack adjusters for trailers and semi-trailers in the SACU region.
22. Global manufacturers of the automatic slack adjusters include: Bendix Corporation; Haldex AB Public Company; Madras Engineering Industries; Meritor Inc Corporation; and Wabco Holding Inc.
23. The subject products are imported and used by manufacturers of axles for trailers and semi-trailers as well as re-sellers for the replacement markets. The known importers and users of the subject products in the SACU region include: Afrit (Pty) Ltd; BPW Axles; GRW Engineering (Pty) Ltd; Henred Freuhauf (Pty) Ltd; and Jost SA (Pty) Ltd.
24. Tariff subheading 8716.90.90 encompasses other products that are not related to the investigation. As a result, any conclusions from analysis of the import statistics may be misleading.
25. The suitability of creating a rebate provision against a reduction in the general rate of customs duty on the subject product was considered. The Commission considered the improbability of any future investment in domestic manufacturing of the subject products given that the domestic demand is insufficient relative to minimum volumes required for localisation and that the product is an old technology. Furthermore, there is a declining demand for automatic slack adjuster, as more trucks are being fitted with disc brakes instead of brake drums. In this regard, the Commission concluded that a reduction in the duty as opposed to a rebate is justified.

COMPETITIVE POSITION

26. The reduction of the customs duty will contribute to the reduction of importation cost

on the subject products and improve the competitive position of the automotive industry.

COMMENTS RECEIVED

27. The National Association of Automotive Component and Allied Manufacturers (“NAACAM”) submitted comments in support of the application citing inter alia that: they are unaware of any local manufacturing of automatic slack adjusters: while local capability exists for these parts to be cast and assembled locally, the potential for localisation is low due to the relatively low domestic volumes relative to minimum volumes required for localisation to take place; there is a declining need for automatic slack adjuster, as more trucks are being fitted with disc brakes instead of brake drums; and currently the subject product imported from EU, EFTA and SADC region attracts zero customs duty.

FINDINGS

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

29. The Commission found that there is currently no known domestic manufacturers of subject products. The current customs duty of 15% *ad valorem* payable on the importation of the subject products imposes an unnecessary cost raising effect to the end users.

30. The suitability of creating a rebate provision against a reduction in the general rate of customs duty on the subject product was considered. The Commission considered the improbability of any future investment in domestic manufacturing of the subject products given that the domestic demand is insufficient relative to minimum volumes required for localisation and that the product is an old technology. Furthermore, there is a declining demand for automatic slack adjuster, as more trucks are being fitted with disc brakes instead of brake drums. In this regard, the Commission concluded that a reduction in the duty as opposed to a rebate is justified.

31. Reciprocal commitments pertaining to job creation and increase in investment to enhance efficiencies and increase capacity with respect to axels (final product).

Furthermore, the applicant undertook to pass on the duty saving to the end-users

32. The Commission recommended that the general rate of customs duty on automatic slack adjusters classifiable under tariff subheading 8716.90.90 be reduced from 15% *ad valorem* to free of duty, through the creation of an additional eight-digit tariff subheading under tariff heading 87.16.

RECOMMENDATION

33. In light of the foregoing, the Commission recommended the reduction in the general rate of customs duty on automatic slack adjusters classifiable under tariff subheading 8716.90.90 from 15% *ad valorem* to free of duty, through the creation of an additional eight-digit tariff subheading under tariff heading 87.16.