

REPORT NO: 627

**REVIEW OF REBATE ITEM 316.01/8415.90/02.06 PERTAINING TO
THE MANUFACTURE OF AIR CONDITIONING MACHINES
IDENTIFIABLE FOR USE IN HEAVY VEHICLES**

The International Trade Administration Commission herewith presents its Report No. **627: REVIEW OF REBATE ITEM 316.01/8415.90/02.06 PERTAINING TO THE MANUFACTURE OF AIR CONDITIONING MACHINES IDENTIFIABLE FOR USE IN HEAVY VEHICLES**, with recommendations.



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MELULEKI NZIMANDE
CHIEF COMMISSIONER

PRETORIA

..... 26 / 08 / 2020

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA
REPORT NO: 627

**REVIEW OF REBATE ITEM 316.01/8415.90/02.06 PERTAINING TO
THE MANUFACTURE OF AIR CONDITIONING MACHINES
IDENTIFIABLE FOR USE IN HEAVY VEHICLES**

Synopsis

The Commission initiated an investigation to review rebate item 316.01/8415.90/02.06 pertaining to the manufacture of air conditioning machines identifiable for use in heavy vehicles.

The Commission considered all the relevant information at its disposal. The Commission found that there are no known manufacturers of air conditioning machines identifiable for use in heavy motor vehicle in the SACU region.

Furthermore, the Commission established that there has been a technical error with regard to the implementation of BTT Report No. 4082. To give effect to the BTT's recommendation, the rebate provision should have been created for air conditioning machines identifiable for use in heavy motor vehicles classifiable under tariff subheading 8415.20.

The duty relief, through the creation of an industrial rebate provision, will result in a reduction in production costs and should improve the competitive position for local assembly of air conditioning machines identifiable for use heavy motor vehicle.

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

- The withdrawal of rebate item 316.01/8415.90/02.06 as the rebate was erroneously implemented; and

- The creation of rebate item 316.01/8415.20/02.06 for the importation of air conditioning machines, having a rated cooling capacity exceeding 3 kW, incomplete or unassembled, for the manufacture of air conditioning machines identifiable for use in heavy vehicles as defined in Note 1 to rebate item 317.07.

APPLICATION AND TARIFF POSITION

1. The Commission initiated an investigation to review rebate item 316.01/8415.90/02.06 pertaining to the manufacture of air conditioning machines identifiable for use in heavy vehicles.
2. As motivation for the investigation, the Commission stated the need to assess the impact of a revised rebate provision given that the industry could have evolved significantly since its implementation in 2001 and to align the rebate provision with the tariff structure and industry capabilities, where applicable.
3. In 2001, the then Board on Tariffs and Trade (the BTT) recommended in Report No. 4082 the creation of a rebate provision on air conditioners for motor vehicles with a cooling capacity exceeding 3 kW, incomplete or unassembled. To give to the BTT recommendation, the South African Revenue Service (SARS) implemented the existing rebate dispensation through Notice No.836 of Government Gazette No. 22634 dated 07 September 2001.
4. The existing rebate dispensation is as follows:

Table 1: Rebate dispensation for the manufacture of air condition machines

Rebate Item	Tariff Heading	Rebate Code	Description	Extent of Rebate
316.01	8415.90	02.06	Air conditioning machines, having a rated cooling capacity exceeding 3 kW, incomplete or unassembled, for the manufacture of air conditioning machines identifiable for use in heavy vehicles as defined in Note 1 to rebate item 317.07	Full duty

5. The existing ordinary customs duty structure for air conditioning machines and parts is as follows:

Table 2: Current tariff position

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
Air conditioning machines								
84.15	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%
	8415.10.20	Of a kind used for buildings, not compressor operated, having a rated cooling capacity not exceeding 8,8 kW	U	free	free	free	free	free
	8415.10.50	Other, compressor operated, having a rated cooling capacity not exceeding 8,8 kW	U	15%	free	15%	free	13.5%
	8415.10.90	Other	U	free	free	free	free	free
	8415.20	Of a kind used for persons, in motor vehicles	U	15%	free	15%	free	15%
Air conditioning machines Parts								
8415.90	Parts:							
	8415.90.05	Indoor units and outdoor units for machines of subheadings 8415.10.10 and 8415.10.20	U	15%	free	free	free	13.5%
	8415.90.20	Other parts identifiable for use solely or principally with compressor operated machines of subheading 8415.10 having a rated cooling capacity not exceeding 8,8 kW	U	15%	free	free	free	15%
	8415.90.90	- Other	U	free	free	free	free	free

6. As shown in Table 1 above, the rebate description caters for air conditioning machines, having a rated cooling capacity exceeding 3kW, incomplete or unassembled, for the manufacture of air conditioning machines identifiable for use in heavy vehicles as defined in Note 1 to rebate item 317.07. However, the subject rebate covers 8415.90, which caters for air conditioning machines parts, as shown in Table 2 below. As such, the Commission found that there has been a technical error with regards to the implementation of BTT Report No. 4082.
7. Furthermore, SARS indicated that since implementation of the subject rebate provision there has been no registration by industry to utilise the rebate provision.
8. The application was published in the government gazette notice No. 42775, for interested parties to comments, under Notice No. 561 of 18 October 2019 as follows:

REVIEW OF REBATE ITEM 316.01/8415.90/02.06:

"Air conditioning machines, having a rated cooling capacity exceeding 3kW, incomplete or unassembled, for the manufacture of air conditioning machines identifiable for use in heavy vehicles as defined in Note 1 to rebate item 317.07"

INDUSTRY AND MARKET

9. The Commission investigated local capabilities with regards the manufacture of air conditioning machines identifiable for use in heavy vehicles classifiable under tariff subheading 8415.20.
10. According to the information at ITAC's disposal, there are known local manufacturers of air conditioning machines identifiable for use in light motor vehicle, classifiable under tariff subheading 8415.20, namely, Smith Manufacturing Pty (Ltd); Hansens Engineering (Pty) Ltd; and Mahle Behr South Africa (Pty) Ltd.
11. The Commission found that although there are local manufactures of air conditioning for use in light motor vehicles, there are currently no local manufacture of air conditioning machines identifiable for use in heavy vehicles.

12. According to the local industry, the substantial investment layout required to set up a manufacturing plant for air conditioning machines identifiable for use in heavy motor vehicles is not justifiable given the relatively small domestic market size.

COMPETITIVE POSITION

13. The rebate provision will contribute to the reduction in cost of assembly and should improve the competitive position of the domestic industry assembling air conditioning machines identifiable for use in heavy vehicles.

COMMENTS

14. The National Association of Automotive Component Allied Manufacturers (NAACAM) indicated that there are local manufacturers of air conditioning machines and similar systems classifiable under 8515.20.

FINDINGS

15. The Commission found that there are no known manufacturers of air conditioning machines identifiable for use in heavy motor vehicles in the SACU region.

16. The Commission found that there has been a technical error with regards to the implementation of BTT Report No. 4082. To give effect to the BTT's recommendation, the rebate provision should have been created for air conditioning machines for use in heavy motor vehicles classifiable under tariff subheading 8415.20.

17. The duty relief, through the creation of an industrial rebate provision, will result in a reduction in production costs and should improve the competitive position for local assembly of air conditioning machines identifiable for use heavy motor vehicle.

RECOMMENDATION

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

- The withdrawal of rebate item 316.01/8415.90/02.06 as the rebate was erroneously implemented; and
- The creation of rebate item 316.01/8415.20/02.06 for the importation of air conditioning machines, having a rated cooling capacity exceeding 3 kW, incomplete or unassembled, for the manufacture of air conditioning machines identifiable for use in heavy vehicles as defined in Note 1 to rebate item 317.07.