REPORT NO. 692

AMENDMENT OF REBATE ITEM 316.01 AND REBATE ITEM 316.09 TO ALLOW FOR THE INCLUSION OF ADDITIONAL COMPONENTS FOR COOKING AND COOLING APPLIANCES

The International Trade Administration Commission herewith presents its **Report No.692: Amendment of rebate item 316.01 and rebate item 316.09 in order to allow for the inclusion of additional components for cooking and cooling appliances,** with recommendations.

Mbambo

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Dumisani Mbambo
Deputy Chief Commissioner

PRETORIA
..22..\08\...2022

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO.692

AMENDMENT OF REBATE ITEM 316.01 AND REBATE ITEM 316.09 TO ALLOW FOR THE INCLUSION OF ADDITIONAL COMPONENTS FOR COOKING AND COOLING APPLIANCES

Synopsis

Defy Appliances (Pty) Ltd ("applicant" or "Defy") applied for an amendment of rebate item 316.01 and rebate item 316.09 to allow for the inclusion of additional components for cooking and cooling appliances. These rebate provisions allow for the importation of various components such as hinges of base metal, electric hearing resistors, and other parts, classifiable under tariff subheadings 8302.10, 8418.91, 8418.99, 8516.80, 8516.90 and 8536.90.

The International Trade Administration Commission ("ITAC" or the "Commission") considered the application in light of all the information at its disposal. In particular, the Commission took the following factors into account:

- There are no known domestic manufacturers of the hinges, heating resistors and other parts that are the subject to this application.
- The subject products are used as input material in the manufacturing of various domestic cooking and cooling appliances.
- The white goods sector is one of the strategic industries that require government support because of its performance and potential growth, as identified in the Industrial Policy Action Plan (IPAP).
- The cost-raising effect of the customs duties on the subject products threatens to reverse some of the successes observed in the domestic white goods manufacturing industry.

- Due to ongoing work at the DTIC regarding the supplier development programme on components used in the white goods sector, a rebate provision, should it be created, will be reviewed immediately when the local manufacturing of the components subject to this application commences.

- The proposed amendments to these rebate provisions will assist in solving some of the long-standing issues such as tariff misclassification of certain components and will also assist in simplifying the entire tariff structure.

- Guidelines, rules, and conditions have been developed to ensure the effective and efficient administration of the rebate provisions with safeguard measurers to minimise rebate abuse and/or misuse as well as endeavouring to avoid unintended consequences.

The Commission concluded that the amendment of the rebate provisions, if supported, will enable domestic manufacturers of finished products access to input material that are not available in the SACU region at competitive prices, thereby enhancing the competitive position of the domestic industry and resulting in a (potential?) significant duty saving to consumers and/or end-users.

The Commission recommended that rebate items 316.01 and 316.09 be amended, as outlined in paragraph 23 of this report.

The temporary rebate provision will be made available subject to a rebate permit issued at such times, in such quantities, and sub ject to such conditions as ITAC may allow by specific permit.

THE APPLICATION AND TARIFF POSITION

1 Defy applied for an amendment of rebate item 316.01 and rebate item 316.09 in order to allow for the inclusion of additional components for cooking and cooling appliances. These rebate provisions allow for the importation of various components such as hinges of base metal, electric hearing resistors, and other parts, classifiable under tariff subheadings 8302.10, 8418.91, 8418.99, 8516.80, 8516.90 and 8536.90. The components are used in the manufacture of various domestic appliances.

2 The applicant is one of Southern Africa's largest manufacturers and distributors of major domestic appliances, with distribution centres located in Zambia, Zimbabwe, Mozambique, Malawi, Angola and DRC. The company develops and manufactures a range of large appliances such as refrigerators, gas stoves, tumble dryers and convection ovens.

3 As motivation for the application, the applicant stated, *amongst others,* the following reasons:

- There is currently no local manufacturer of the various components for which a rebate is being sought;
- The duty on the imported components, varying from 5% *ad valorem* to 20% *ad valorem*, has a cost-raising effect on the manufacture of the domestic appliances manufactured by the applicant; and
- The applicant is competing in the SACU market with low priced imports of its final products and a full rebate of the duty on these imported components will assist the domestic manufacturing industry in gaining some competitiveness.

4 On 17 December 2021, the Commission published the application in the Government Gazette No.45649 as Notice No.725 of 2021 for interested parties to comment. However, the notice had erroneously omitted information such as the publication period and the reasons for the application. As such, a correction notice was published in the Government Gazette No.45816 as Notice No.780 of 28 January 2022 for four (4) weeks for interested parties to comment as follows:

AMENDMENT OF REBATE ITEMS 316.01 AND REBATE ITEM 316.09 TO ALLOW FOR THE INCLUSION OF ADDITIONAL COMPONENTS FOR COOKING AND COOLING APPLIANCES, AS FOLLOWS:

- *With regards to Rebate Item 316.01/8302.10/01.06, by insertion of the phrase "refrigerators and freezers of headings 84.18 and" ....and by deletion of the word "heading";*
- *With regards to Rebate Item 316.01/8418.99/01.06, by deletion of the word "evaporators"; the insertion of the phrase "Parts classified under tariff subheadings 8418.99.20 and 8418.90.40"; by deletion of the word "condensers"; and the insertion of the phrase "and freezers classifiable in tariff heading 84.18";*

- *With regards to Rebate Item 316.01/8516.80/01.06, by deletion of the word "and", by insertion of the phrase "and stoves, ovens and hobs" of headings 84.14, 84.50 and "85.16";*

- *With regards to Rebate Item 316.09/8302.10/01.06, by deletion of the words "electric" and "heading" and by insertion of the phrase "headings 73.21 and";*

- *With regards to Rebate Item 316.09/8516.80/01.06, by insertion of the phrases "and solid-plate", by deletion of phrase "glass-top", by insertion of the phrase "solid-plate tabletop cookers"; ... by deletion of the word "heading", and by insertion of the phrase "headings 73.21 and";*

- *The deletion of Rebate Item 316.09/8516.80/03.06 from Schedule 3 of the Customs and Excise Act, 1964; and*

- *Rebate Item 316.09/8516.90/01.06, by deletion of the words "glass top" and insertion of the word ", ovens".*

5 The existing tariff structure of the components subject to this application is shown in Table 1 below:

Table 1: Current tariff structure for the subject products

Tariff Heading/ Subheading	Description	Statistical Unit	Rate of duty					
			General	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA
7321	**Stoves, ranges, grates, cookers (including those with subsidiary boilers for central heating), barbecues, braziers, gas-rings, plate warmers and similar non-electric domestic appliances, and parts thereof, of iron or steel:**							
7321.80	Other appliances:							
7321.90	Parts	Kg	15%	free	15%	free	13.5%	12%
8302	**Base metal mountings, fittings and similar articles suitable for furniture, doors, staircases, windows, blinds, coachwork, saddlery, trunks, chests, caskets or the like; base metal hat-racks, hat-pegs, brackets and similar fixtures; castors with mountings of base metal; automatic door closers of base metal:**							
8302.10	Hinges	Kg	20%	15%	20%	free	20%	16%
8418	**Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; heat pumps (excluding air conditioning machines of heading 84.15):**							
8418.9	**Parts:**							
8418.91	**Furniture designed to receive refrigerating or freezing equipment:**							
8418.91.10	For household refrigerators or freezers	Kg	20%	free	free	free	18%	16%
8418.99	**Other**							
8418.99.20	Other, for household refrigerators or freezers	Kg	10%	free	free	free	5%	8%
8516	**Electric instantaneous or storage water heaters and immersion heaters; electric space heating apparatus and soil heating apparatus; electro-thermic hair-dressing apparatus (for example, hair dryers, hair curlers, curling tong heaters) and hand dryers; electric smoothing irons; other electro-thermic appliances of a kind used for domestic purposes; electric heating resistors (excluding those of heading 85.45):**							
8516.80	**Electric heating resistors:**							
8516.80.10	Identifiable for use solely or principally with domestic stoves, hotplates and ovens	Kg	20%	free	free	free	18%	16%
8516.90	**Parts:**							
8516.90.90	Other	Kg	20%	free	free	free	18%	16%
8536	**Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders, junction boxes), for a voltage not exceeding 1 000 V; connectors for optical fibres, optical fibre bundles or cables:**							
8536.90	**Other apparatus:**							
8536.90.40	Terminals, terminal strips and other metal parts for the reception of conductors or cables, identifiable for use solely or principally with domestic stoves and hot-plates	Kg	10%	free	free	free	5%	8%

Source: SARS, 2021

6 As shown in Table 1 above, the subject products currently attract a customs duty ranging from 5% *ad valorem* to 20% *ad valorem*, depending on the nature of the component and its country of origin.

7 The current rebate structure for the subject products is presented in Table 2 and Table 3 below.

Table 2: Current Rebate Structure for Rebate Item 316.01

Rebate Item	Tariff Heading	Rebate code	Description	Extent of Rebate
316.01	**INDUSTRY: MACHINERY AND MECHANICAL APPLIANCES AND IMPLEMENTS**			
316.01	8302.10	01.06	Hinges of base metal, for the manufacture of automatic washing machines of heading 84.50	Full duty
316.01	8418.99	01.06	Evaporators and condensers, for the manufacture of refrigerators	Full duty
316.01	8516.80	01.06	Electric heating resistors, for the manufacture of automatic washing machines and fan heaters of headings 84.14 and 84.50	Full duty

Source: SARS, 2021

Table 3: Current Rebate Structure for Rebate Item 316.09

Rebate Item	Tariff Heading	Rebate code	Description	Extent of Rebate
316.09	**Industry: Electric Instantaneous Or Storage Water Heaters And Immersion Heaters; Electric Space Heating Apparatus And Soil Heating Apparatus; Electro-Thermic Hair-Dressing Apparatus (For Example, Hair Dryers, Hair Curlers, Curling Tong Heaters) And Hand Dryers; Electric Smoothing Irons; Other Electro-Thermic Appliances Of A Kind Used For Domestic Purposes; Electric Heating Resistors (Excluding Those Of Heading 85.45)**			
316.09	8302.10	01.06	Hinges of base metal, for the manufacture of electric ovens of heading 85.16	Full duty
316.09	8516.80	01.06	Electric heating resistors, for the manufacture of electric smoothing irons, electric frying pans, electric hot trays, sandwich makers, electric coffee makers, glass-top hobs, glass-top stoves and jug kettles with plastic bodies of heading 85.16	Full duty
316.09	8516.80	02.06	Electric heating resistors with a rated heating capacity not exceeding 1 000 Watt, for the manufacture of single or double spiral-plate tabletop cookers of heading 85.16	Full duty
316.09	8516.80	03.06	Electric heating resistors, for the manufacture of solid-plate stoves, solid-plate hobs and solid-plate tabletop cookers of heading 85.16	Full duty
316.09	8516.90	01.06	Parts, for the manufacture of electric hot trays, glass top hobs and glass top stoves, of heading 85.16	Full duty
316.09	8516.90	02.06	Glass lids, for the manufacture of electric frying pans of heading 85.16	Full duty
316.09	8516.90	03.06	Solid plates, for the manufacture of stoves, hobs and tabletop cookers of heading 85.16	Full duty
316.09	8536.90	01.06	Other electrical apparatus, for the manufacture of electric smoothing irons, grillers, solid hot plates, sandwich makers, electric stoves, electric ovens, cooking surface hobs and electric kettles of heading 85.16	Full duty

Source: SARS, 2021

8 The applicant's requested descriptive amendments to the rebate items, as recommended by South African Revenue Service ("SARS") for administration purposes, are outlined below.

- With regards to Rebate Item 316.01/8302.10/01.06, by insertion of the phrase *"refrigerators and freezers of headings 84.18 and"* ....and by deletion of the word *"heading"*;
- With regards to Rebate Item 316.01/8418.99/01.06, by deletion of the word *"evaporators";* the insertion of the phrase *"Parts classified under tariff subheadings 8418.99.20 and 8418.99.40";* by deletion of the word *"condensers";* and the insertion of the phrase *"and freezers classifiable in tariff heading 84.18";*

- With regards to Rebate Item 316.01/8516.80/01.06, by deletion of the word "*and*", by insertion of the phrase "*and stoves, ovens and hobs*" of headings 84.14, 84.50 and "*85.16*";

- With regards to Rebate Item 316.09/8302.10/01.06, by deletion of the words "*electric*" and "*heading*" and by insertion of the phrase "*headings 73.21 and*";

- With regards to Rebate Item 316.09/8516.80/01.06, by insertion of the phrases "and solid-plate", by deletion of phrase " glass-top", by insertion of the phrase "solid-plate tabletop cookers"; ... by deletion of the word "heading", and by insertion of the phrase "headings 73.21 and";

- The deletion of Rebate Item 316.09/8516.80/03.06 from Schedule 3 of the Customs and Excise Act, 1964; and

- With regards to Rebate Item 316.09/8516.90/01.06, by deletion of the words "*glass top*" and insertion of the word "*, ovens*".

INDUSTRY AND MARKET

9 The subject products are various components such as hinges of base metal, electric heating resistors, and other parts, classifiable under tariff subheadings 8302.10, 8418.91, 8418.99, 8516.80, 8516.90 and 8536.90. These components are used in the manufacture of various domestic appliances.

10 The final products manufactured by the applicant are refrigerators, freezers, stoves and ovens, classifiable under tariff headings 7321, 8418, and 8516. These are appliances of the nature used mainly for domestic/household purposes.

11 There are no domestic manufacturers of the hinges, heating resistors and other parts subject to this application.

12 Components manufactured in the domestic market for the manufacture of cooking and cooling appliances include, amongst others, the following: screws, nuts, washers, rivets, plastic hinges, condenser wires, and interior plastic and glass fittings.

13 Domestic manufacturers of the components listed above include, amongst others, the following: Alufab (Pty) Ltd; EIS Engineering & Industrial Supplies CC; General Hinges & Aluminum Frames (Pty) Ltd; Hinge Master Sales (Pty) Ltd; Pretoria Machinery Works; Trifon Industries (Pty) Ltd; Venture Products CC; and Jasco Electrical Manufacturers.

14 There are four known manufacturers of domestic cooling products such as refrigerators and freezers in the SACU region and they are: Defy Appliances (Pty) Ltd - (applicant); Whirlpool South Africa (Pty) Ltd; Hisense SA Manufacturing (Pty) Ltd; and Zero Appliances (Pty) Ltd.

15 The applicant is the only known manufacturer of domestic cooking appliances such as hobs, ovens and stoves in the SACU region.

16 Importers of these finished products in the SACU region include: Samsung Electronics (Pty) Ltd ("Samsung"); BSH Home Appliances (Pty) Ltd ("BSH"); Hisense; Whirlpool; LG Electronics (Pty) Ltd ("LG"); Massmart Holdings ("Massmart"); SMEG South Africa (Pty) Ltd ("SMEG"); and Imperial Air Conditioning (Pty) Ltd t/a Media Fridges ("Imperial Air").

17 According to the applicant, challenges facing the domestic industry at an operational level include, *inter alia*, high manufacturing costs, transport costs, port charges and financing costs. In addition, the continuous increase in electricity as well as labour costs poses a challenge to the domestic industry.

COMPETITIVE POSITION

18 The applicant has been incurring costs on customs duty on the imported components subject to this application. Significant amounts have been paid in customs duty on all components used in the manufacture of refrigerators, freezers and cooking appliances. This has a significant bearing on the competitiveness of the applicant's final products. The duty on imported components not manufactured domestically also has an unnecessary cost raising effect on final products manufactured by the domestic industry.

COMMENTS RECEIVED

19 Following the initial publication of the application in the Government Gazette No.45649 under Notice No.725 of 17 December 2021, BSH Home Appliances (Pty) Ltd submitted its comments, citing its concerns about the omission of the publication period and the reasons for the application in the notice. A correction notice to this effect was published in the Government Gazette No.45816 under Notice No.780 of 28 January 2022 for four

(4) weeks for interested parties to comment. No further comments were received from interested parties.

FINDINGS

20 The Commission considered the application in light of all the relevant information at its disposal. In particular, the Commission took the following factors into account:

- There are no known domestic manufacturers of the hinges, heating resistors and other parts that are the subject to this application.
- The subject products are used as input material in the manufacturing of various domestic cooking and cooling appliances.
- The white goods sector is one of the strategic industries that require government support because of its performance and potential growth, as identified in the Industrial Policy Action Plan (IPAP).
- The cost-raising effect of the customs duties on the subject products threatens to reverse some of the successes observed in the domestic white goods manufacturing industry.
- Due to ongoing work at the DTIC regarding the supplier development programme on components used in the white goods sector, a rebate provision, should it be created, will be reviewed immediately when the local manufacturing of the components subject to this application commences.
- The proposed amendments to these rebate provisions will assist in solving some of the long-standing issues such as tariff misclassification of certain components and will also assist in simplifying the entire tariff structure.
- Guidelines, rules, and conditions have been developed to ensure the effective and efficient administration of the rebate provisions with safeguard measurers to minimise rebate abuse and/or misuse as well as endeavouring to avoid unintended consequences.

21 The temporary rebate provision will be made available subject to a rebate permit issued at such times, in such quantities, and subject to such conditions as ITAC may allow by specific permit.

22 The Commission concluded that the amendment of the rebate provisions, if supported, will enable domestic manufacturers of finished products access to input material that are not available in the SACU region at competitive prices, thereby enhancing the competitive position of the domestic industry and resulting in a potential duty saving to consumers and/or end-users.

RECOMMENDATION

23 The Commission recommended that rebate items 316.01 and 316.09 be amended to allow for the inclusion of additional components for cooking and cooling appliances, as follows:

- With regards to Rebate Item 316.01/8302.10/01.06, by insertion of the phrase *"refrigerators and freezers of headings 84.18 and"* ....and by deletion of the word *"heading";*
- With regards to Rebate Item 316.01/8418.99/01.06, by deletion of the word *"evaporators";* the insertion of the phrase *"Parts classified under tariff subheadings 8418.99.20 and 8418.99.40";* by deletion of the word *"condensers";* and the insertion of the phrase *"and freezers classifiable in tariff heading 84.18";*
- With regards to Rebate Item 316.01/8516.80/01.06, by deletion of the word "*and*", by insertion of the phrase "*and stoves, ovens and hobs*" of headings 84.14, 84.50 and "*85.16*";
- With regards to Rebate Item 316.09/8302.10/01.06, by deletion of the words "*electric*" and "*heading*" and by insertion of the phrase "*headings 73.21 and*";
- With regards to Rebate Item 316.09/8516.80/01.06, by insertion of the phrases "and solid-plate", by deletion of phrase " glass-top", by insertion of the phrase "solid-plate tabletop cookers"; ... by deletion of the word "heading", and by insertion of the phrase "headings 73.21 and";
- The deletion of Rebate Item 316.09/8516.80/03.06 from Schedule 3 of the Customs and Excise Act, 1964; and
- With regards to Rebate Item 316.09/8516.90/01.06, by deletion of the words "*glass top*" and insertion of the word "*, ovens*".