

**REPORT NO. 432**

**INCREASE IN THE RATE OF CUSTOMS DUTY ON WIRE NAILS**

The International Trade Administration Commission herewith presents its Report No. 432: **INCREASE IN THE RATE OF CUSTOMS DUTY ON WIRE NAILS**, with recommendations.



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**CHIEF COMMISSIONER**

**PRETORIA**

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## REPUBLIC OF SOUTH AFRICA

### INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

#### REPORT NO. 432

#### INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON WIRE NAILS

##### Synopsis

Dunrose Trading 57 (Pty) Ltd, trading as Abracon, applied for an increase in the general rate of customs duty on wire nails classifiable under tariff subheading 7317.00.10, from 5% *ad valorem* to the WTO bound rate of 15% *ad valorem* through the creation three tariff sub-headings.

The Commission found that the domestic production of wire nails, as well as aggregate domestic production capacity, has declined sharply and that the industry is experiencing price disadvantages, especially vis-à-vis East Asian manufacturers of wire nails.

The Commission concluded that additional tariff support would significantly improve the competitive position of the domestic industry in the face of low-priced competition from abroad, that has eroded its market share. The support should enable the industry to better utilise its existing production capacity and achieve economies of scale through longer production runs, with a reduction in the marginal cost of production.

The Commission recommended an increase in duty on wire nails from 5% *ad valorem* to 15% *ad valorem*.

## INTRODUCTION

1. Dunrose Trading 57 (Pty) Ltd, trading as Abracon, applied for an increase in the general rate of customs duty on wire nails classifiable under tariff subheading 7317.00.10, from 5% *ad valorem* to the WTO bound rate of 15% *ad valorem*, through the creation of three new 8-digit tariff sub-headings.
2. Wire nails are best described as slim, pointed pieces of metal hammered into material as a fastener. They are typically classified into three categories, namely: round wire nails, collated nails; and roof nails. Collated nails are described as wire nails that are joined together by wire or paper to be used with a nail gun. Roof nails are nails that have a barbed or ring shank and a comparatively large flat head. These nails are typically used to secure roofing felt or shingles to a roof-deck or roof boards.
3. As motivation for the application, the applicant cited the following:
  - The imports of the subject products have increased substantially since 2009;
  - The cost of the raw material has also increased, rendering local manufacturers uncompetitive;
  - The SACU industry has lost a substantial number of clients due to the fact that imports are undercutting local manufacturers' selling prices. This has had a negative impact on economies of scale and the gross profit margin, making it difficult for the industry to operate effectively and reinvest; and
  - In 2011, there was no other alternative but to retrench 21 employees due to the decline in sales volumes and declining profit levels.
4. The application was published in the Government Gazette on 22 February 2013 for comments by interested parties, as follows:

**Increase in customs duty on:**

- “Wire nails with shanks pointed at one end, presented in strips” classifiable under tariff subheading 7317.00.10, from 5% ad valorem to the WTO Bound rate of 15% ad valorem;
- “Pointed screw-nails with twisted shanks and unslotted heads” classifiable under tariff subheading 7317.00.10, from 5% ad valorem to the WTO Bound rate of 15% ad valorem; and
- “Other wire nails” classifiable under tariff subheading 7317.00.10, from 5% ad valorem to the WTO Bound rate of 15% ad valorem.

**THE TARIFF POSITION**

5. The existing tariff structure for the subject products is as follows:

**Table 1: Current tariff structure of wire nails**

Tariff heading	Tariff subheading	Description	Unit	Rate of duty			
				General	EU	EFTA	SADC
7317.00		<b>Nails, tacks, drawing pins, corrugated nails, staples (excluding those of heading 83.05) and similar articles, of iron or steel, whether or not with heads of other material (excluding such articles with heads of copper):</b>					
	<b>7317.00.10</b>	<b>Wire nails</b>	<b>Kg</b>	<b>5%</b>	<b>Free</b>	<b>Free</b>	<b>Free</b>
	7317.00.15	Drawing pins; corrugated nails	Kg	10%	free	10%	Free

	7317.00.40	Staples	Kg	10%	Free	10%	Free
	7317.00.90	Other	kg	free	free	free	free

6. The WTO bound rate is 15% *ad valorem*.

### **INDUSTRY AND MARKET**

7. The applicant is a major manufacturer of wire nails in the SACU region. Other known manufacturers are:

- Forest Wire (Pty) Ltd;
- Green Steel Products (Pty) Ltd;
- Cape Gate (Pty) Ltd;
- Hendok (Pty) Ltd;
- Meshrite (Pty) Ltd; and
- Consolidated Wire Industries (CWI)

8. Of the manufacturers listed above, Meshrite (Pty) Ltd, CWI and Hendok (Pty) Ltd ceased the manufacturing of wire nails.

9. The SACU market declined from 42.5 million kg in 2010 to 24.2 million kg in 2012, due to depressed domestic economic conditions. In 2010, the combined market share of the (then) domestic manufacturers was approximately 75%. Since then the market share of the remaining manufacturers declined steeply.

10. The main input used in the manufacturing process of the subject products, namely steel coil (wire), is mainly sourced from Arcelor Mittal.

11. The decline in the SACU and export demand of the subject product since 2009 forced a number of domestic firms to cease manufacturing. Domestic capacity utilization also declined while total imports, mainly originating from East Asia, have grown significantly.

12. Total imports increased from approximately 64.4 million kg in 2009 to approximately 96.4 million kg in 2012 while exports declined from approximately 1.7 million kg to approximately 1.1 million kg over the same period.

### **COMPETITIVE POSITION**

13. According to information at the Commission`s disposal, the domestic industry manufacturing wire nails is experiencing significant price disadvantages vis-à-vis low-priced imports from abroad.

### **COMMENTS RECEIVED**

14. Support for the application was received from a number of interested parties, including the South African Wire Association, local manufacturers such as Green Steel Products (Pty) Ltd, Consolidated Wire Industries, Qwa Qwa Wire Products, Stanley Bostitch South Africa, and Arcelor Mittal, the supplier of the main intermediate input.

15. Objections to a possible increase in the level of customs duty on the subject products were received from Avlock International and Tuftex Distributors (Pty) Ltd. The objections to the imposition of customs duties centred on the possible cost-raising effect of higher tariffs on the downstream users of those products.

### **FINDINGS**

16. The Commission found that the domestic production of wire nails, as well as aggregate domestic production capacity, has declined sharply and that the industry is experiencing price disadvantages especially vis-à-vis East Asian manufacturers of wire nails.

17. The Commission concluded that additional tariff support would significantly improve the competitive position of the domestic industry in the face of low-priced competition from abroad, that has eroded its market share. The support should enable the industry to better utilise its existing production capacity and achieve economies of scale through longer production runs, with a reduction in the marginal cost of production.

### **RECOMMENDATION**

18. In the light of the foregoing, the Commission recommends that the general rate of customs duty on wire nails, classifiable under tariff subheading 7317.00.10, be increased from 5% *ad valorem* to the WTO bound rate of 15% *ad valorem*, through the creation of three 8-digit tariff subheadings as follows:

- *“Wire nails with shanks pointed at one end, presented in strips”, at 15% ad valorem;*
- *“Pointed screw-nails with twisted shanks and unslotted heads”, at 15% ad valorem; and*
- *“Other wire nails”, at 15% ad valorem.*