

REPORT NO. 478

**INCREASE IN THE RATE OF CUSTOMS
DUTY ON VITRIFIABLE ENAMELS AND
SIMILAR PREPARATIONS**

The International Trade Administration Commission herewith presents its Report
No 478: **Increase in the rate of customs duty on vitrifiable enamels and
similar preparations**, with recommendation.



SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

02 / 07 /2014

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH
AFRICA

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INCREASE IN THE RATE OF CUSTOMS DUTY ON VITRIFIABLE
ENAMELS AND SIMILAR PREPARATIONS

Synopsis

Ferro Industrial Products (Pty) Ltd, applied for an increase in the rate of customs duty on vitrifiable enamels and similar preparations classifiable under tariff subheading 3207.20 from free of duty to the WTO bound rate of 10% ad valorem through the creation of an additional 8-digit tariff subheading.

The tariff support recommended by the Commission would eliminate the price disadvantages experienced by the domestic industry manufacturing vitrifiable enamels, would allow for a fair and reasonable profit for producers and further investment in the industry with a concomitant increase in production and employment and would not have an undue cost-raising impact on consumers. The support should enable the industry to utilise its existing production capacity and reduce the unit cost of production.

The Commission decided that the duty be reviewed after a period of three years, to determine the impact of the duty on the full industry value chain.

The Commission recommends that the general rate of duty on vitrifiable enamels and similar preparations be increased from the current rate of free of duty to 5% ad valorem, through the creation of an eight-digit tariff subheading.

THE APPLICATION AND THE TARIFF POSITION

Ferro Industrial Products (Pty) Ltd, applied for an increase in the rate of customs

duty on vitrifiable enamels and similar preparations classifiable under tariff subheading 3207.20 from free of duty to the WTO bound rate of 10% ad valorem through the creation of an additional 8-digit tariff subheading.

The applicant is the only SACU manufacturer of vitrifiable enamels and similar preparations and is based in Brakpan, Gauteng. The applicant is involved in the production and marketing of powder coatings, ceramic glazes, enamel products, automotive glass pastes, flat glass decorative, and black and white masterbatch.

As reasons for the application, the applicant stated the following:

- It is experiencing increased competition from imports, predominantly from Turkey. These imports land at prices below local and international prices; and
- The industry is running a real risk of closure, because of continuous loss in market share.

The existing tariff position for vitrifiable enamels and similar preparations reads as follows:

Current tariff structure for Vitrifiable enamels and similar preparations

Tariff heading	Tariff sub-heading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
32.07		Prepared pigments, prepared opacifiers and prepared colours, vitrifiable enamels and glazes, engobes (slips), liquid lustres and similar preparations, of a kind used in the ceramic, enamelling or glass industry; glass frit and other glass, in the form of powder, granules or flakes:	kg				
	3207.20	Vitrifiable enamels and glazes, engobes (slips) and similar preparations	kg	free	free	free	free

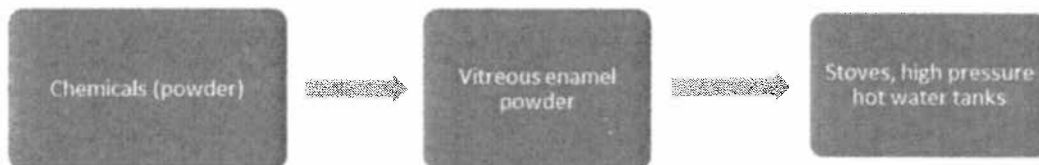
The table above shows that vitrifiable enamels and similar preparations are classifiable under tariff subheading 3207.20, which includes other products that do not form part of this investigation.

The application by Ferro Industrial Products (Pty) Ltd was published in the Government Gazette on 21 February 2014 for comments by interested parties.

INDUSTRY AND MARKET

The product under investigation is a glass coating that is used to coat steel and has properties which allow for the adherence of enamel to steel. The resultant coating prevents rusting and corrosion in the case of high pressure hot water tanks. It also forms heat resistance on stoves and presents an attractive finish which is heat and colour-fade resistant.

Industry value chain



Vitrifiable enamels and similar preparations are produced in a powder form. The powder can either be applied in a wet process, where the powder is mixed with water and is applied by dipping the product into the wet mixture, or electrostatically, where the powder is applied using an electrostatic machine by spraying.

The two largest users of vitrifiable enamels in the SACU are Defy Appliances (Pty) Ltd, the largest manufacturer of a range of stoves and Kwikot (Pty) Ltd, the largest manufacturer of high pressure hot water geysers.

Vitrifiable enamels and similar preparations used by the local market are black and white (used by Defy) and blue (used by Kwikot). However, the applicant only manufactures black and blue powders. According to the applicant, and confirmed by Defy, the white powder is only required in small quantities and it is therefore not

viable to manufacture it locally. As a result the white powder is imported.

The latest information submitted by both Kwikot and Defy states that both companies have ceased the use of the wet powder process in their main manufacturing processes, which leaves the dry powder (electrostatic) process as the primarily used process as of 2014. The reasons provided by both companies were that the wet process is not economical as it generates a high percentage of wastage. The dry powder process has high levels of mechanisation which results in economies of scale.

According to information at the Commission's disposal, Turkey was the biggest exporter of vitreous enamel into the SACU in 2013. In the SACU, the applicant is the sole manufacturer of vitrifiable enamels and similar preparations.

The local market is shared by imports and local production by the applicant. However, the applicant has also confirmed that it had to import some of the black powder used in the electrostatic process by Defy, as it could not meet the quality standards of the imported product.

Market share figures show that the applicant enjoyed a significant share of the total market in 2011, however the applicant's market share has continued to decline in from 2012 to 2013.

The applicant also stated that it has been supplying Kwikot with the blue powder for the past eight years until the penetration of low-priced imports over the last two years.

There are a large number of other manufacturers downstream that make use of vitrifiable enamels in their production processes. However, the applicant has stated that these companies, taken individually, have minimal enamel requirements compared to Kwikot and Defy and that they still source their enamel requirements locally.

The applicant's total production capacity has remained constant from 2010 to 2013,

for the financial year ending 31 December. Actual production is significantly below capacity.

COMPETITIVE POSITION

The Commission found that the applicant is experiencing price disadvantages vis-à-vis foreign producers of vitrifiable enamels.

COMMENTS ON APPLICATION

Defy Appliances, Kwikot and the Government of Botswana objected to the application, mainly stating that the imposition of the duty would have a negative impact on the price charged to end-consumers.

FINDINGS

The current 20% ad valorem duty on the final products, namely stoves and geysers serves as protection against similar imported products. The proposed duty increase on the intermediate product used in the coating of these products would not have an appreciable adverse effect on this sector.

Thus, while a 5% tariff increase would ensure a level playing field, and address the fierce competition experienced by the applicant, and sustain production, investment and employment levels, the downstream manufacturing cost implications for the industry value chain and the ultimate price effects for the end-consumer are marginal.

The tariff support recommended by the Commission would eliminate the price disadvantages experienced by the domestic industry manufacturing vitrifiable enamels, would allow for a fair and reasonable profit for producers and further investment in the industry with a concomitant increase in production and employment and would not have an undue cost-raising impact on consumers. The support should enable the industry to utilise its existing production capacity and reduce the unit cost of production.

The Commission decided that the duty be reviewed after a period of three years, to determine the impact of the duty on the full industry value chain.

RECOMMENDATION

In light of the foregoing, the Commission recommends that the rate of duty on vitrifiable enamels and similar preparations be increased from the current rate of free of duty to 5% ad valorem, through the creation of an eight-digit tariff subheading.