

# **REPORT NO. 357**

## **INCREASE IN THE RATE OF DUTY ON ALUMINIUM EXTRUSIONS**

The International Trade Administration Commission herewith presents its Report No. 357: **INCREASE IN THE RATE OF DUTY ON ALUMINIUM EXTRUSIONS**, with recommendations.



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**CHIEF COMMISSIONER**

**PRETORIA**

**15/12/2010**

## REPUBLIC OF SOUTH AFRICA

### INTERNATIONAL TRADE COMMISSION OF SOUTH AFRICA

#### REPORT NO. 357

### INCREASE IN THE RATE OF DUTY ON ALUMINIUM EXTRUSIONS

#### Synopsis

The Aluminium Extruders Association (AEA) applied for an increase in the general rate of customs duty on aluminium extrusions (bars, rods and profiles) classifiable under tariff subheadings 7604.10.35, 7604.10.65, 7604.21.15, 7604.29.15 and 7604.29.65, from free of duty to 15% *ad valorem*.

During its consideration of the application, the Commission took the following factors into account:

- The impact of the closure of BHP Billiton's billet casting unit on the cost and price structure of the aluminium extruders;
- Price information relating to the competitive position of the domestic extruders vis-à-vis that of foreign producers exporting similar products to SACU; and
- The undue cost-raising impact that a duty in excess of the previously existing 5% *ad valorem* would have on the competitive position of the significant number of aluminium final product fabricators higher up the value chain; and

The Commission found that a duty of 5% *ad valorem* would provide adequate support to the industry in the wake of the closure of the billet casting facility.

The Commission recommended that:

- The general rate of customs duty applicable to aluminium extrusions classifiable under tariff subheadings 7604.10.35, 7604.10.65, 7604.21.15, 7604.29.15 and 7604.29.65, be increased from free of duty to 5% *ad valorem*.

- Rebate item 316.01/7604.21/01.04 that covered profiles of aluminium alloys for the motor vehicle original equipment manufacturers, be reinstated.

## **Background**

1. In 2008, the Commission investigated the domestic industry manufacturing aluminium extrusions and made the recommendation that the duty on aluminium extrusions be reduced from the existing 5% *ad valorem* to free of duty. The recommendations were implemented in mid-2009.
2. The Commission based its recommendation on the finding that the industry experienced price advantages compared to manufacturers abroad.
3. The Commission concluded that the duty, in the light of the price advantages experienced by the domestic industry, provided the leverage to raise prices, adversely affecting the labour-intensive industry further downstream.

## **The current application**

4. The Aluminium Extruders Association (AEA) applied for an increase in the general rate of customs duty on aluminium extrusions (bars, rods and profiles) classifiable under tariff subheadings 7604.10.35, 7604.10.65, 7604.21.15, 7604.29.15 and 7604.29.65, from free of duty to 15% *ad valorem*.
5. As reason for the application, AEA cited the following:
  - There has been a significant change of circumstances and, consequently, the cost structure of the semi-fabricated aluminium industry since ITAC recommended the removal of the general rate of duty of 5% on aluminium extrusions;
  - BHP Billiton closed its billet casting unit (an important input into the aluminium extrusion industry) at its Bayside cast house in Richards Bay during October 2009. This has meant that the extrusion manufacturers in SACU are now dependent on imported billets, depriving the SACU extruders of a competitively priced source of billet which has resulted in an increase in the manufacturing costs of extrusions and exposure to risk in terms of lead times;
  - Re-establishing local billet production will take approximately 2 years to complete. The preferred option, with the co-operation of BHP Billiton, is to build a casting house in Richards Bay and to transfer primary molten metal from the smelter to it, to be alloyed and cast into billet. This will re-create the jobs which were lost at the Bayside cast house and will end the cycle of South Africa exporting an

unbeneficiated material (aluminium ingot) and then importing a beneficiated material (extrusion billet);

- Some SACU Extruders have billet casting capability which is utilised to convert aluminium scrap into billet. However, they do not produce sufficient quantities to meet either the SACU or their own billet requirements;
  - The Rand strength and the Eskom tariff increase;
  - As a consequence of the global economic downturn, the size of the SACU market contracted by approximately 23%. Imports have worsened the situation, taking away market share; and
  - Failure to assist the SACU extrusions manufacturers will lead to SACU extrusions manufacturers going out of business, which will result in significant job losses.
6. The application was published in the Government Gazette of 20 August 2010 for comment by interested parties.

### **The industry and market**

7. The SACU manufacturers of aluminium extrusions are as follows:
- Hulamin Extrusions (Pty) Ltd;
  - Wispeco (Pty) Ltd;
  - AGI Manufacturing (Pty) Ltd t/a Profal;
  - Lafarge Gypsum (Pty) Ltd; and
  - Aluden CC
8. The dominant firms are Hulamin and Wispeco.
9. The applicant and its members are semi-fabricators of aluminium extrusions and are not involved in primary production. They purchase their raw materials (mainly aluminium billet) from primary producers. BHP Billiton has been the main source until it closed down its installation.
10. The billet cost as a percentage of the total manufacturing cost of a finished extrusion is between 50 – 70 per cent.
11. The manufacturing process of aluminium extrusions is quite capital intensive: A heated billet is located in a heated container at high temperatures where the flow stress is very low. When pressure is applied by means of a ram to one end of the billet, the metal flows through the steel die located at the other end of the container to produce a section whose cross-sectional shape is defined by the shape of the die. A typical extrusion press would have 10 to 15 die change per 8 hour shift.

12. The applicant and its members employ approximately 1500 people.
13. There are roughly 1000 mostly small and medium sized final product manufacturers further up the value chain employing on average approximately 30 employees each, that manufacture products for the automotive, building, leisure and other markets.
14. The size of the SACU market of the aluminium extrusions under consideration shrank by almost 14 000 tons from 59 475 tons in 2008 to approximately 45 673 tons in 2009 (23%), of which the applicants produced approximately 40 398 tons in 2009. This can be ascribed to the effects of the economic recession on the architectural sector. In 2009, the architectural sector (i.e building and construction in the residential and commercial sectors) which accounts for a significant percentage of sales of the applicant's members experienced a sharp decline. The market increased incrementally to a projected 48 000 tons for 2010.
15. Total imports of aluminium extrusions declined from more than 9 000 tons in 2008 to roughly 5 800 tons in 2009, but increased to a projected 11 000 tons in 2010, an estimated 23% of the market up from 15% in 2008 and 13% in 2009. It should be pointed out that, included in the import figures, are extrusions of a certain composition and dimension that the domestic firms do not manufacture for economic reasons.
16. Imports from China represent roughly one quarter of total imports.
17. Total exports by the domestic industry decreased from 2 675 tons in 2008 to 1 577 tons in 2009.

### The tariff position

18. The aluminium extrusions under consideration are currently classifiable under tariff subheadings 7604.10.35, 7604.10.65, 7604.21.15, 7604.29.15 and 7604.29.65 as follows:

**Table 1: Current Tariff Position of the Aluminium Extrusions:**

Tariff Heading	Tariff Subheading	Article Description	Rates of duty			
			Gen	EU	EFTA	SADC
76.04	7604.10.35	Bars and rods, of a maximum cross-sectional dimension not exceeding 160 mm	free	free	free	free
	7604.10.65	Profiles, of a maximum cross-sectional dimension not exceeding 370 mm	free	free	free	free
	7604.21.15	Of a maximum outside cross-sectional dimension not exceeding 370 mm	free	free	free	free
	7604.29.15	Bars and rods, of a maximum cross-sectional dimension exceeding 7,5 mm but not exceeding 160 mm	free	free	free	free
	7604.29.65	Profiles, of a maximum cross-sectional dimension not exceeding 370 mm	free	free	free	free

## **Competitive position**

19. Information at the Commission's disposal indicates that the price advantages that the domestic industry experienced over its foreign competitors in 2008 have been eroded, in the main due to the higher priced imported extrusion billets.

## **Comments on the application**

20. Comments were received from 36 downstream manufacturers that objected to an increase in the customs duty on aluminium extrusions. The objections centred on market concentration and the pricing practices of the semi-fabricated extrusion industry, quality and delivery times, product range and specifications, manufacturing efficiencies, own imports by applicants, and the cost-raising impact on downstream value-added manufacturing.

## **Findings**

21. In arriving at its recommendations, the Commission took the following factors into consideration:
  - The impact of the closure of BHP Billiton's billet casting unit on the cost and price structure of the aluminium extruders;
  - Price information relating to the competitive position of the domestic extruders vis-à-vis that of foreign producers exporting similar products to SACU; and
  - The undue cost-raising impact that a duty in excess of the previously existing 5% *ad valorem* would have on the competitive position of the significant number of aluminium final product fabricators higher up the value chain.
22. Having considered all the price and related information at its disposal, the Commission found that a duty of 5% *ad valorem* would provide adequate support to the industry in the wake of the closure of the billet casting facility.

## **Recommendation**

23. In the light of the foregoing, the Commission recommends that:

- The general rate of customs duties applicable to aluminium extrusions (bars, rods and profiles), classifiable under tariff subheadings 7604.10.35, 7604.10.65, 7604.21.15, 7604.29.15 and 7604.29.65, be increased from free of duty to the previously existing 5% *ad valorem*; and
- The previously existing rebate item 316.01/7604.21/01.04 that covered certain profiles of aluminium alloys used by the motor vehicle original equipment manufacturers be reinstated, as these industry-specific extrusions are not manufactured domestically.

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