

REPORT NO. 416

**INCREASE IN THE RATE OF DUTY ON LAMINATED SAFETY
GLASS**

The International Trade Administration Commission herewith presents its Report No. 416: **INCREASE IN THE RATE OF DUTY ON LAMINATED SAFETY GLASS**, with recommendations.



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PRETORIA
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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH
AFRICA

REPORT NO. 416

INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON LAMINATED
SAFETY GLASS

Synopsis

ITAC considered an application for an increase in the general rate of customs duty on laminated safety glass (windscreens) for motor vehicles, from 15% *ad valorem* to the WTO bound rate of 30% *ad valorem*.

The Commission considered that the SACU automotive glass industry invested a considerable amount of capital to establish world-class production facilities to supply original equipment manufacturers and a wide range of models in the automotive replacement glass market and that consistently high production volumes are required to achieve cost-competitiveness. The Commission took into account that the SACU industry nevertheless developed flexible manufacturing capabilities to cater for the short-run manufacturing requirements of the SACU market.

The Commission found that the domestic industry experiences considerable price disadvantages, especially *vis-à-vis* East Asian manufacturers of safety glass. It 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 fully utilise its existing production capacity, achieving economies of scale through longer production runs, with a reduction in the marginal cost of production.

The Commission recommended that the general rate of customs duty on laminated safety glass, classifiable under tariff subheading 7007.21, be increased from 15% *ad valorem* to 30% *ad valorem*, through the creation of a separate tariff subheading specifically for laminated safety glass for incorporation into motor vehicles.

INTRODUCTION

1. ITAC received an application for an increase in the general rate of customs duty on laminated safety glass (windscreens) for motor vehicles, from 15% *ad valorem* to the WTO bound rate of 30% *ad valorem*.

2. The application was jointly lodged by 4 local manufacturers of the subject products: National Auto Glass (Pty) Ltd ("NAG"), FGW Safety Glass (Pty) Ltd ("FGW"), Shatterprufe, a division of PG Group (Pty) Ltd ("Shatterprufe") and USG Autoglass CC ("USG").
3. Laminated safety glass is produced for the Original Equipment Manufacturers (OEMs) and for the Automotive Replacement Glass (ARG) market. Only safety glass for the ARG market is subject to this investigation. Tariff subheading 7007.21 caters for imports of laminated safety glass into the ARG market. Safety glass for the original equipment market is classifiable in Chapter 98 of the Customs Tariff.
4. As motivation for the application, the applicants cited the following;
 - Since June 2010, the import volumes at lower average import prices increased to a point where the local industry is being placed in jeopardy;
 - The imported windscreens are used in the ARG market and represent the high volume models which provide economies of scale and fill the production runs of the local industry. Typical examples include Citi Golf models, Toyota Corolla models, Toyota Hi-Lux LDVs and Toyota Hi-Ace mini-buses; and
 - Newly introduced models require an initial investment in tooling and the need for replacement glass grows as sales escalate over time. The local industry is less competitive price-wise when compared with low-priced imported windscreens.
5. The application was published in the Government Gazette on 17 August 2012 for comments by interested parties, as follows:

Increase in customs on:

"Laminated safety glass of a size and shape suitable for incorporation in vehicles, aircraft, spacecraft or vessels, classifiable under tariff subheading 7007.21, from 15% to 30% *ad valorem*".

THE TARIFF POSITION

6. The existing tariff structure for laminated safety glass is as follows:

Table 1: Current tariff structure of laminated safety glass

| Tariff Heading | Tariff Subheading | Description | Statistical Unit | Rate of duty | | | |
|----------------|-------------------|---|------------------|--------------|-----|------|------|
| | | | | General | EU | EFTA | SADC |
| 70.07 | | Safety glass, consisting of toughened (tempered) or laminated glass: | | | | | |
| | 7007.2 | Laminated safety glass: | | | | | |
| | 7007.21 | Of size and shape suitable for incorporation in vehicles, aircraft, spacecraft or vessels | kg | 15% | 15% | 15% | free |

7. The WTO bound rate is 30% *ad valorem*.

INDUSTRY AND MARKET

8. The four applicants are the only manufacturers of laminated safety glass in the SACU. One manufacturer, Shatterprufe, is an integrated manufacturer of safety glass, producing its own major input, float glass.
9. The major importers of laminated automotive safety glass include Grandmark International, Wholesale Motor Glass, Windscreen Distributors and Yi Fa Auto Glass (Pty) Ltd t/a Best Safety Glass.
10. The main inputs used in the manufacturing process of the subject products are float glass and polyvinyl butyral (commonly known as PVB). In the manufacturing process, two pieces of clear and tinted float glass are cut to size and shape of the windscreen to be manufactured and then edge-worked in order to provide a smooth finish.
11. One piece is silkscreened with a ceramic border. The two pieces of glass are then bent to shape in a specially designed furnace, after which the PVB is placed between the two pieces of bent-to-shape glass. This sandwich is then placed in a preheated oven under vacuum and then in an autoclave under controlled temperature and pressure conditions to bond the glass and the PVB. Depending on the manufacturing specifications, the windscreen gets fitted with add-on components such as mirror boss, brackets and/or rain sensors.
12. The SACU market size for automotive replacement safety glass currently is approximately 18 million kilograms to the value of R371 million. The domestic manufacturers have a market share of 59% while 41% is represented by imports.

13. There has been a significant increase in imports of laminated automotive safety glass while exports have been declining, over the period 2009-2011. Although the SACU market for safety glass grew by 13% per annum over the period 2009 and 2011, total domestic production and exports declined by 5% and 14% respectively while total imports mainly originating from East Asia grew by 29% per annum over the same period.

COMPETITIVE POSITION

14. According to information at the Commission's disposal, the domestic industry manufacturing laminated automotive safety glass suffers significant price disadvantages vis-à-vis low-priced imports from abroad, when the average landed cost of imported laminated safety glass is compared to the average ex-factory selling price of the domestically manufactured product.

COMMENTS RECEIVED

15. Support for the application was received from the National Association of Automotive Component and Allied Manufacturers.
16. Objections to the application were received from a number of local importers and OEMs. The objections centred on the cost-raising effect of higher tariffs, in a fragmented SACU automotive market.

FINDINGS

17. The Commission considered that the SACU automotive glass industry invested a considerable amount of capital to establish world-class production facilities to supply original equipment manufacturers and a wide range of models in the automotive replacement glass market; and that consistently high production volumes are required to achieve cost-competitiveness. The Commission took into account that the SACU industry nevertheless developed flexible manufacturing capabilities to cater for the short-run manufacturing requirements of the SACU market.
18. The Commission also considered Government's broader objectives for the automotive sector and its dependence on economies of scale. Longer domestic production runs should create opportunities in the domestic and export ARG market.
19. The Commission found that the domestic industry experiences considerable price disadvantages, especially vis-à-vis East Asian manufacturers of safety glass. It 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 fully utilise its existing production capacity, achieving economies of scale through longer production runs, with a reduction in the marginal cost of production.

20. A review of this new duty structure will be conducted within a period of five years to assess the impact of the duty on the performance of the industry.

RECOMMENDATION

21. In the light of the foregoing, the Commission recommends that the general rate of customs duty on laminated safety glass, classifiable under tariff subheading 7007.21, be increased from 15% to 30% *ad valorem*, through the creation of a separate tariff subheading specifically for laminated safety glass for incorporation into motor vehicles.