REPORT NO. 590

CREATION OF A REBATE PROVISION ON ORDINARY CUSTOMS AND SAFEGUARD DUTIES APPLICABLE ON CERTAIN FLAT STEEL USED IN THE AUTOMOTIVE INDUSTRY, CLASSIFIABLE UNDER TARIFF SUBHEADINGS 7208.25, 7208.39, 7209.16, 7209.17, 7210.49, 7225.30, 7225.50, 7225.99 AND 7226.99
The International Trade Administration Commission herewith presents its Report No. 590: CREATION OF A REBATE PROVISION ON ORDINARY CUSTOMS AND SAFEGUARD DUTIES APPLICABLE ON CERTAIN FLAT STEEL USED IN THE AUTOMOTIVE INDUSTRY, CLASSIFIABLE UNDER TARIFF SUBHEADINGS 7208.25, 7208.39, 7209.16, 7209.17, 7210.49, 7225.30, 7225.50, 7225.99 AND 7226.99, with recommendations.

PRETORIA
21 December 2018

DUMISANI MBAMBO
DEPUTY CHIEF COMMISSIONER
CREATION OF A REBATE PROVISION ON ORDINARY CUSTOMS AND SAFEGUARD DUTIES APPLICABLE ON CERTAIN FLAT STEEL USED IN THE AUTOMOTIVE INDUSTRY, CLASSIFIABLE UNDER TARIFF SUBHEADINGS 7208.25, 7208.39, 7209.16, 7209.17, 7210.49, 7225.30, 7225.50, 7225.99 AND 7226.99

Synopsis

On 20 October 2017, the Commission initiated a review into the creation of rebate provisions on ordinary customs and safeguard duties applicable to certain primary steel products classifiable under Chapter 72, not manufactured locally.

Following the publication of the review in the Government Gazette, Toyota Tsusho South Africa Processing (Pty) Ltd ("Toyota Tsusho"), on behalf of all the seven domestic automotive Original Equipment Manufacturers (OEMs), submitted information in support of the creation of a temporary rebate provision on both ordinary customs and safeguard duties applicable on certain flat steel used in the automotive industry, classifiable under tariff subheadings 7208.25, 7208.39, 7209.16, 7209.17, 7210.49, 7225.30, 7225.50, 7225.99 and 7226.99.

The Commission considered all the relevant information at its disposal. The Commission found that the subject products are not manufactured locally. As such, the applicable ordinary and safeguard duties have an unnecessary cost-raising effect on the domestic industry manufacturing automotive components.

The duty relief, through the creation of a rebate provision, will contribute to the reduction in production cost and improvement in the competitive position of the
domestic industry manufacturing automotive body panels and various other components used in the assembly of vehicles.

The rebate provision will be made subject to an ITAC permit issued in terms of guidelines, rules and conditions.

In light of the foregoing, the Commission recommended the creation of a temporary rebate provision on ordinary customs and safeguard duties applicable on certain flat steel used in the automotive industry, classifiable under tariff subheadings 7208.25, 7208.39, 7209.16, 7209.17, 7210.49, 7225.30, 7225.50, 7225.99 and 7226.99.

THE APPLICATION AND TARIFF POSITION

1. In response to the review initiated by the Commission, Toyota Tsusho South Africa Processing (Pty) Ltd ("Toyota Tsusho") submitted information in support of the creation of a temporary rebate provision on both ordinary customs and safeguard duties applicable on certain flat steel used in the automotive industry, classifiable under tariff subheadings 7208.25, 7208.39, 7209.16, 7209.17, 7210.49, 7225.30, 7225.50, 7225.99 and 7226.99.

2. Toyota Tsusho is a steel processing company that processes and supplies automotive grade steel to Toyota South Africa Motors ("TSAM"), who in turn assembles Toyota vehicles such as the Corolla, Hilux and Fortuner.

3. The applicant’s production facility is located in Durban, KwaZulu Natal Province.

4. The subject products are flat coated steel, hot rolled steel coils and cold rolled steel coils of various grades and specifications of the kind used in the automotive industry. These include coated steel material with the following properties:

   - Improved Surface Finish (ISF);
   - Galvannealed Coating (GA);
   - Hot dipped galvanised coating (GI); and
   - Electrogalv coating (ZE).
5. The subject products are imported in coils. Toyota Tsusho then de-coils the material, cuts it to various sizes and profiles as required by TSAM. The latter then uses these in its manufacture of body panels and various other components used in the assembly of vehicles.

6. As motivation for the creation of a temporary rebate provision on ordinary and safeguard duties applicable to the subject products, the respondent cited that there are no manufacturers of the subject products in the SACU region.

7. The existing ordinary customs duty structure for the subject products is as follows:

<table>
<thead>
<tr>
<th>Tariff Heading</th>
<th>Tariff Subheading</th>
<th>Description</th>
<th>Statistical Unit</th>
<th>Rate of duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>72.08</td>
<td>7208.2</td>
<td>Other, in coils, not further worked than hot-rolled, pickled:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7208.25</td>
<td>Of a thickness of 4,75 mm or more</td>
<td>kg</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>7208.3</td>
<td>Other, in coils, not further worked than hot-rolled:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7208.39</td>
<td>Of a thickness of less than 3 mm</td>
<td>kg</td>
<td>10%</td>
</tr>
<tr>
<td>72.09</td>
<td>7209.1</td>
<td>In coils, not further worked than cold-rolled (cold-reduced):</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7209.18</td>
<td>Of a thickness exceeding 1 mm but less than 3 mm</td>
<td>kg</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>7209.17</td>
<td>Of a thickness of 0,5 mm or more but not exceeding 1 mm</td>
<td>kg</td>
<td>10%</td>
</tr>
<tr>
<td>72.10</td>
<td>7210.4</td>
<td>Otherwise plated or coated with zinc:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>7210.49</td>
<td>Other</td>
<td>kg</td>
<td>10%</td>
</tr>
<tr>
<td>72.25</td>
<td>7225.1</td>
<td>Of silicon-electrical steel:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. The subject products attract a general rate of ordinary customs duty of 10% ad \textit{valorem}. The WTO bound rate is 10% ad \textit{valorem}.

9. The existing safeguard duty structure for the subject products is as follows:

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|c|c|c|c|}
\hline
Item & Tariff Heading & Code & CD & Description & Rate & Rate & Rate & Rate & Rate & Rate \\
\hline
200.00 & BASE METALS AND ARTICLES OF BASE METAL &  &  &  &  &  &  &  &  &  \\
200.03 & IRON AND STEEL &  &  &  &  &  &  &  &  &  \\
\hline
200.00 & BASE METALS AND ARTICLES OF BASE METAL &  &  &  &  &  &  &  &  &  \\
200.03 & IRON AND STEEL &  &  &  &  &  &  &  &  &  \\
\hline
200.00 & BASE METALS AND ARTICLES OF BASE METAL &  &  &  &  &  &  &  &  &  \\
200.03 & IRON AND STEEL &  &  &  &  &  &  &  &  &  \\
\hline
\end{tabular}
\end{table}

\textbf{Table 2: Current safeguard duty structure for the subject products}

<table>
<thead>
<tr>
<th>Item</th>
<th>Tariff Heading</th>
<th>Code</th>
<th>CD</th>
<th>Description</th>
<th>Rate of Safeguard</th>
</tr>
</thead>
<tbody>
<tr>
<td>200.00</td>
<td>BASE METALS AND ARTICLES OF BASE METAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200.03</td>
<td>IRON AND STEEL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200.00</td>
<td>BASE METALS AND ARTICLES OF BASE METAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200.03</td>
<td>IRON AND STEEL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Item</th>
<th>Tariff Heading</th>
<th>Code</th>
<th>CD</th>
<th>Description</th>
<th>Rate of Safeguard</th>
</tr>
</thead>
<tbody>
<tr>
<td>200.00</td>
<td>BASE METALS AND ARTICLES OF BASE METAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200.03</td>
<td>IRON AND STEEL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200.00</td>
<td>BASE METALS AND ARTICLES OF BASE METAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>200.03</td>
<td>IRON AND STEEL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

301.00-389.00; 401.00-489.00 All countries 12%
Other, not further worked than hot-rolled, not in coils(excluding that imported from or originating in: Afghanistan, Albania, Algeria, American Samoa, Angola, Argentina, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Benin, Bhutan, Bolivia (Plurinational State of), Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, Chile, Chinese Taipei (Taiwan) Colombia, Comoros, Congo (Democratic Republic of the), Congo, Republic, Costa Rica, Côte d'Ivoire, Cuba, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, Arab Republic, El Salvador, Eritrea, Ethiopia, Fiji, Gabon, Gambia, Georgia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Indonesia, Iran, Islamic Republic, Iraq, Jamaica, Jordan, Kazakhstan, Kenya, Kiribati, Korea, Democratic People's Republic of, Kosovo, Kyrgyz Republic, Lao People's Democratic Republic, Latvia, Lebanon, Lesotho, Liberia, Libya, Lithuania, Macedonia, the Former Yugoslav Republic of, Madagascar, Malawi, Malaysia, Maldives, Mali, Marshall Islands, Mauritania, Mauritius, Mexico, Micronesia, Federated States of, Moldova, Mongolia, Montenegro, Morocco, Mozambique, Myanmar, Namibia, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Palau, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Romania, Russian Federation, Rwanda, Samoa, Sao Tome and Principe, Senegal, Serbia, Seychelles, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sri Lanka, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sudan, Suriname, Swaziland, Syrian Arab Republic, Tajikistan, Tanzania, United Republic of, Thailand, Timor-Leste, Togo, Tonga, Turkmenistan, Tuvalu, Uganda, Ukraine, Uruguay, Uzbekistan, Vanuatu, Venezuela, Bolivarian Republic of, Vietnams, West Bank and Gaza, Yemen, Zambia, Zimbabwe)
10. The subject products currently attract a 12% safeguard duty. The safeguard duty will be liberalised to 10% on 11 August 2018, to 8% on 11 August 2019, and free of duty on 11 August 2020.

11. The application was published in the Government Gazette on 20 October 2017 for comments by interested parties, as follows:

"Creation of temporary rebate provisions on ordinary customs and safeguard duties applicable on primary flat steel not manufactured locally, classifiable under chapter 72"

12. Toyota Tsusho submitted the description for the rebate provision as provided by the South Africa Revenue Services (SARS), as follows:

**Automotive Grade Steel:**

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, not clad, plated or coated, other, in coils, not further worked than hot-rolled, pickled, of a thickness of 4,75 mm or more, classifiable in tariff subheading 7208.25, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, in coils, not further worked than hot-rolled, of a thickness of less than 3 mm, classifiable in tariff subheading 7208.39,
for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, in coils, not further worked than cold-rolled (cold-reduced), of a thickness exceeding 1 mm but less than 3 mm, classifiable in tariff subheading 7209.16, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, in coils, not further worked than cold-rolled (cold-reduced), of a thickness of 0.5 mm or more but not exceeding 1 mm, classifiable in tariff subheading 7209.17, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, otherwise plated or coated with zinc, classifiable in tariff subheading 7210.49, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of other alloy steel, of a width of 600 mm or more, other, not further worked than hot-rolled, in coils, classifiable in tariff subheading 7225.30, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of other alloy steel, of a width of 600 mm or more, other, not further worked than cold-rolled (cold-reduced), classifiable in tariff subheading 7225.50, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of other alloy steel, of a width of 600 mm or more, other, classifiable in tariff subheading 7225.99, for use in the automotive industry, at such times, in such quantities, and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the goods are not available in the SACU market; and

Other flat-rolled products of other alloy steel, of a width of less than 600 mm, other, classifiable in tariff subheading 7226.98, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market.

INDUSTRY AND MARKET

13. There are no local manufacturers of the subject product in the SACU region.

14. While the domestic industry does manufacture a wide range of coated steel, hot rolled steel and cold rolled steel, it does not manufacture the products subject to this investigation as required by the automotive industry. There are, however, certain grades of steel that the domestic industry supplies to the automotive
industry, albeit not part of this investigation. This depends on the qualities of the steel required for a specific purpose.

15. The applicant procures the coils and processes them as follows:
   - Cut to length (rectangular parts and trapezoid parts);
   - Blanking (blank parts, rectangular parts or trapezoid parts); and
   - Guillotines (small parts).

16. The sheets and parts are then packed and dispatched to the OEM for further processing.

17. The final users of automotive steel are the OEMs, a comprehensive list of which is provided below:
   - Mercedes-Benz South Africa Limited;
   - Ford Motor Company of Southern Africa (Pty) Ltd;
   - Toyota South Africa Motors (Pty) Ltd;
   - Volkswagen Group South Africa;
   - Nissan South Africa;
   - BMW (South Africa) (Pty) Ltd; and
   - Isuzu Motors South Africa.

**COMPETITIVE POSITION**

18. The rebate provision on the relevant ordinary customs duty and safeguard duty will contribute to the reduction in the costs of production and improvement in the competitive position of the domestic industry manufacturing automotive components, together with the automotive OEMs.

**COMMENTS RECEIVED**

19. ArcelorMittal South Africa Limited ("AMSA"), the largest domestic steel producer, submitted comments in support of the the creation of a rebate provision for the subject products, citing that it does not currently produce the automotive grade
steel subject to this application.

20. Support for the application was also received from the National Association of Automobile Manufacturers of South Africa ("NAAMSA") and the National Association of Automotive Component and Allied Manufacturers ("NAACAM"). As reasons for their support, both associations cited that the application is an industry initiative and is aimed at maintaining the competitiveness of the entire industry.

FINDINGS

21. The Commission found that the subject products are not manufactured locally. As such, the applicable ordinary and safeguard duties have an unnecessary cost-raising effect on automotive components manufacturers and OEMs.

22. The duty relief, through the creation of a rebate provision, will contribute to reducing production costs and will improve the competitive position of the domestic industry manufacturing automotive components.

23. The rebate provision will be made subject to an ITAC permit issued in terms of guidelines, rules and conditions.

RECOMMENDATION

24. In light of the foregoing, the Commission recommended the creation of a temporary rebate provision on ordinary customs and safeguard duties applicable on certain flat steel used in the automotive industry, classifiable under tariff subheadings 7208.25, 7208.39, 7209.16, 7209.17, 7210.49, 7225.30, 7225.50, 7225.99 and 7226.99, as follows:

Automotive Grade Steel:

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, not clad, plated or coated, other, in coils, not further worked than hot-rolled, pickled, of a thickness of 4.75 mm or more, classifiable in tariff subheading 7208.25, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the goods are not available in the SACU market;
Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, in coils, not further worked than hot-rolled, of a thickness of less than 3 mm, classifiable in tariff subheading 7208.39, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, in coils, not further worked than cold-rolled (cold-reduced), of a thickness exceeding 1 mm but less than 3 mm, classifiable in tariff subheading 7209.16, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, in coils, not further worked than cold-rolled (cold-reduced), of a thickness of 0.5 mm or more but not exceeding 1 mm, classifiable in tariff subheading 7209.17, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, otherwise plated or coated with zinc, classifiable in tariff subheading 7210.49, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of other alloy steel, of a width of 600 mm or more, other, not further worked than hot-rolled, in coils, classifiable in tariff subheading 7225.30, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the goods are not available in the SACU market.

Flat-rolled products of other alloy steel, of a width of 600 mm or more, other, not further worked than cold-rolled (cold-reduced), classifiable in tariff subheading 7226.50, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market;

Flat-rolled products of other alloy steel, of a width of 600 mm or more, other, classifiable in tariff subheading 7225.99, for use in the automotive Industry, at such times, in such quantities, and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the goods are not available in the SACU market; and

Other flat-rolled products of other alloy steel, of a width of less than 800 mm, other, classifiable in tariff subheading 7226.99, for use in the automotive industry, at such times, in such quantities and subject to such conditions as the International Trade Administration Commission May allow by specific permit, provided the goods are not available in the SACU market.