

REPORT NO. 630

**REVIEW OF THE GENERAL RATE OF CUSTOMS DUTY ON
ZINC-COATED / GALVANIZED STEEL, ALUMINIUM-ZINC
COATED STEEL AND PAINTED STEEL**

The International Trade Administration Commission herewith presents its Report No. 630:
**REVIEW OF THE GENERAL RATE OF CUSTOMS DUTY ON ZINC
COATED/GALVANIZED STEEL, ALUMINIUM ZINC COATED STEEL AND PAINTED
STEEL, with recommendations.**


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**MELULEKI NZIMANDE
CHIEF COMMISSIONER**

PRETORIA
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INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 630

REVIEW OF THE GENERAL RATE OF CUSTOMS DUTY ON ZINC-COATED / GALVANIZED STEEL, ALUMINIUM-ZINC COATED STEEL AND PAINTED STEEL

Synopsis

On 23 August 2019, the Commission initiated a review of the general rate of customs duty applicable on Zinc-coated / galvanised steel, Aluminium-Zinc coated steel and painted steel, classifiable under tariff subheadings 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40. The subject products are used as intermediate inputs in a number of downstream industries, mostly the roofing and cladding, appliance manufacturing, road signage and general engineering industries.

The Commission considered all the relevant information at its disposal. In particular, the Commission considered the following factors:

- The continued uncertainty in the global steel trading environment characterised by the weakening global outlook, increase in trade frictions, as well as persistence of excess capacity;
- The subdued South African economic growth rate, mainly attributed to weakened activity in the manufacturing, mining and construction sectors, which are the main market segments interlinked to the steel industry;
- The emerging trend of circumvention that threatens the effectiveness of customs duties as an industrial policy instrument as it undermines the protection that customs duties provide to the domestic steel industry;

- The profitability of the domestic manufacturers of the subject product remains constrained and profit margins remain low and negative;
- The unsustainably low levels of capacity utilisation in a primary steel industry; and
- The significant number of direct and indirect jobs supported by the domestic steel manufacturing industry as well as the declining employment opportunities in the domestic steel manufacturing industry.

The Commission found that the overall trading conditions with regards to steel, both globally and domestically, remain very subdued, causing further strain to an already struggling domestic manufacturing industry.

The Commission considered that following the implementation of customs duties on the subject products, a number of rebate provisions have been created to enable the downstream industry to access steel grades which are not locally manufactured at competitive prices globally. This includes rebate provisions for automotive grade material and white goods (i.e. appliances) material not manufactured domestically.

The Commission found no justification for an amendment in the current duty structure of 10% *ad valorem* on the subject products. Rather, the Commission concluded that any downward revision of an already inadequate duty will likely lead to increased import competition, resulting in further disinvestments and more job losses in an industry already shedding a substantial number of jobs.

In light of the foregoing, the Commission recommended that the general rate of customs duty on Zinc-coated / galvanised steel, Aluminium-Zinc coated steel and painted steel, classifiable under tariff subheadings 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40, be maintained at the current level of 10% *ad valorem*.

BACKGROUND AND TARIFF POSITION

1. In 2015, ITAC recommended an increase in the general rate of customs duty on Zinc-coated / galvanised steel, Aluminium-Zinc coated steel and painted steel, classifiable under tariff subheading 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40, from free of duty to 10% *ad valorem*. The recommendation was implemented on 25 September 2015 as per ITAC's Report No. 505. The application was submitted by the South African Coil Coaters Association ("SACCA"), representing ArcelorMittal South Africa Limited ("AMSA") and Safal Steel (Pty) Ltd ("SAFAL").
2. The subject products are used as intermediate inputs in a number of downstream industries, mostly the roofing and cladding, appliance manufacturing, road signage and general engineering industries.
3. Following ITAC Report 505, the Commission initiated the review of the duty structure on Zinc-coated / galvanised steel, Aluminium-Zinc coated steel and painted steel, classifiable under tariff subheading 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40 in order to determine the impact of tariff on the subject product on the steel value chain.
4. The initiation notice was published in the Government Gazette No. 42657 on 23 August 2019 under Notice 450 of 2019 for four (4) weeks as follows:

"Review of the general rate of customs duty on coated steel, classifiable under tariff subheadings 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40."
5. The current tariff structure for the subject Zinc-coated / galvanised steel, Aluminium-Zinc coated steel and painted steel is as follows:

**Table1: Existing tariff structure of the subject flat steel products
Zinc Coated Steel/ Galvanised Steel**

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty			
				General	EU	EFTA	SADC
72.10	7210.41.00	Corrugated	KG	10%	Free	Free	Free
	7210.49.00	Other	KG	10%	Free	Free	Free
72.12	7212.30.00	Otherwise plated or coated with zinc	KG	10%	Free	Free	Free
Aluminium Zinc Coated Steel							
72.10	7210.61.00	Plated or coated with aluminium - zinc alloys	KG	10%	Free	Free	Free
	7210.90.00	Other	KG	10%	Free	Free	Free
72.25	7225.99.00	Other	KG	10%	Free	Free	Free
Painted Steel							
72.10	7210.70.00	Painted, varnished or coated with plastics	KG	10%	Free	Free	Free
72.12	7212.40.00	Painted, varnished or coated with plastics	KG	10%	Free	Free	Free

Source: SARS 2020

6. The World Trade Organisation ("WTO") bound rate for all the eight tariff subheadings under investigation is 10% *ad valorem*.

INDUSTRY AND MARKET

7. Galvanized / Zinc-coated flat steel refers to a flat rolled product of steel, plated or coated with Zinc to prevent corrosion.
8. Aluminium-zinc coated steel refers to a flat-rolled product of steel, coated with Aluminium-Zinc alloys. The Aluminium component of the coating provides a physical barrier between extreme atmospheric conditions and the inner core of the steel. The Zinc provides sacrificial protection and also prevents corrosion.

9. Painted steel is referred to as a flat rolled product of steel, coated with paint. The main reason for steel painting is to provide corrosion inhibition.
10. Generally, the manufacturing of the subject products begins with the process of steel making. Steel can be made from iron ore and recycled steel (i.e. scrap metal) such as cans.
11. There are three manufacturers of the subject products in the SACU region:
- ArcelorMittal South Africa Limited ("AMSA");
 - Safal Steel (Pty) Ltd ("Safal"); and
 - Duferco Steel Processing (Pty) Ltd ("Duferco").
12. Duferco manufactures the subject products mainly for the export market.
13. AMSA is an integrated steel producer with various mills across the country. However, it manufactures the products subject to this investigation in its Vanderbijlpark works, which is the company's largest operation, accounting for nearly two-thirds of the entire company. Safal produces coated steel from its mill in the Cato Ridge area of KwaZulu-Natal and Duferco manufactures the product in Saldanha, Western Cape.
14. An analysis of import data and the reciprocal commitments that were made by the applicants, particularly on pricing and investment as well as employment, has been conducted in order to assess the performance of the industry post the implementation of the 10% *ad valorem* duty.
15. The SARS' official trade statistics reveal that imports volume of the subject products into the SACU region have recorded a marginal decline of 5% between 2015 and 2018. However, the SARS official trade statistics shows an emerging trend of significant increase in import volumes on other closely related tariff lines which attract zero duty, particularly those of the category "Other" in the customs tariff book. This includes tariff subheading 7225.92, 7210.30, and 7210.69. This may be as a result of possible tariff circumvention by unscrupulous importers.

16. While the domestic industry's production volumes increased marginally during the period following the tariff support, total sales volumes recorded a marginal decline over the same period despite tariff support.
17. Although not in the scale committed upon application for the tariff support, both AMSA and Safal still managed to increase their investments in plant and equipment following the tariff support. This is despite the depressed trading environment which has only worsened since the tariff support.
18. Employment in the domestic industry manufacturing coated steel has declined despite the 10% tariff support.
19. The profitability of the domestic manufacturers of the subject product remains constrained and profit margins remain low and negative.
20. Capacity utilisation remains unsustainably low and has declined over the period following the tariff support, partly due to investments in increased capacity.

COMPETITIVE POSITION

21. According to the information at the Commission's disposal, the domestic industry manufacturing coated steel is not price competitive vis-à-vis similar imported products, particularly from Asian markets.
22. The cost structures of the domestic manufacturing industry remain under pressure, particularly due to regulated prices, including high electricity costs, rail charges, port charges, and primary raw material costs.
23. With regard to coated steel products not manufactured domestically, the Commission found that the creation of a rebate provision on flat coated steel, as was recommended by the Commission in its recent Report No.532, would assist the domestic downstream industry in reducing the cost of its raw material inputs. The cost advantage arising from increased output should further reduce both fixed and variable cost per unit because of operational efficiencies.

COMMENTS RECEIVED

24. The National Employers Association of South Africa ("NEASA") submitted its comments and argued for the complete removal of the duty from 10% *ad valorem* to free of duty. As a reason for this, NEASA argued that the duty is an impediment for growth, leading to contraction and de-industrialisation in the steel sector.
25. The National Association of Automotive Component and Allied Manufacturers ('NAACAM') expressed concerns regarding the continued duty on the subject tariff lines, considering that they also include automotive grade material not manufactured domestically. The Association submits that should the duty be maintained, there should be rebate provisions for automotive material.
26. It should be noted that the Commission, in its Report No.590, has already created a number of rebate provisions for automotive grade material not manufactured domestically. Should the duty be maintained, such rebate provisions will continue and remain available to the automotive sector.

FINDINGS

27. The Commission considered the application in light of the application at its disposal. In particular, the Commission took the following factors into account:
- The continued uncertainty in the global steel trading environment characterised by the weakening global outlook, increase in trade frictions, as well as persistence of excess capacity;
 - The subdued South African economic growth rate, mainly attributed to weakened activity in the manufacturing, mining and construction sectors, which are the main market segments interlinked to the steel industry;
 - The emerging trend of circumvention that threatens the effectiveness of customs duties as an industrial policy instrument as it undermines the protection that customs duties provide to the domestic steel industry;

- The profitability of the domestic manufacturers of the subject product remains constrained and profit margins remain low and negative;
- The unsustainably low levels of capacity utilisation in a primary steel industry; and
- The significant number of direct and indirect jobs supported by the domestic steel manufacturing industry as well as the declining employment opportunities in the domestic steel manufacturing industry.

28. The Commission considered that following the implementation of customs duties on the subject products, a number of rebate provisions have been created to enable the downstream industry to access steel grades which are not locally manufactured at competitive prices globally. This includes rebate provisions for automotive grade material and white goods (i.e. appliances) material not manufactured domestically.

29. The Commission found that the overall trading conditions with regards to steel, both globally and domestically, remain very subdued, causing further strain to an already struggling domestic manufacturing industry.

30. The Commission found no justification for an amendment in the current duty structure of 10% *ad valorem* on the subject products. Rather, the Commission concluded that any downward revision of an already inadequate duty will likely lead to increased import competition, resulting in further disinvestments and more job losses in an industry already shedding a substantial number of jobs.

31. In light of the foregoing, the Commission recommends that the general rate of customs duty on zinc coated/galvanised steel, aluminium zinc coated steel and painted steel, classifiable under tariff subheadings 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40, be maintained at the current level of 10% *ad valorem*.

RECOMMENDATION

32. In light of the foregoing, the Commission recommended that the general rate of customs duty on zinc coated/galvanised steel, aluminium zinc coated steel and painted steel, classifiable under tariff subheadings 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40, be maintained at the current level of 10% *ad valorem*.