

REPORT NO. 667

**CREATION OF TEMPORARY REBATE PROVISIONS FOR THE
IMPORTATION OF PRIMARY FLAT STEEL PRODUCTS**

The International Trade Administration Commission herewith presents its **Report No.667: Creation of temporary rebate provisions for the importation of primary flat steel products**, with recommendations.



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CHIEF COMMISSIONER

PRETORIA
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REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO.667

**CREATION OF TEMPORARY REBATE PROVISIONS FOR THE IMPORTATION OF
PRIMARY FLAT STEEL PRODUCTS**

Synopsis

The Minister of Trade, Industry and Competition (“the Minister”) requested ITAC in terms of Section 16(1)(d)(i) of the International Trade Administration Act, 2002 (Act No. 71 of 2002), to investigate the possibility for the creation of a temporary rebate provisions for the importation of flat steel products, classifiable under tariff headings 72.08, 72.09, 72.10, 72.11, 72.12, 7225.1, 7225.99, and 7226.9.

The International Trade Administration Commission (“ITAC” or the “Commission”) considered the application in light of all the relevant information at its disposal. In particular, the Commission took the following factors into account:

- The subject flat steel products are hot-rolled steel; cold-rolled steel; and coated steel.
- There are three (3) manufacturers of the subject flat steel products in the SACU region namely: Arcelor Mittal South Africa Ltd, Safal Steel (Pty) Ltd and Duferco Steel Processing (Pty) Ltd.
- The subject flat steel products are input material in the manufacturing of products in various downstream sectors, including construction, metal fabrication, automotive, machinery and equipment.
- The economic shock resulting from the Covid-19 pandemic represents a fundamental and exceptional change in the operating environment for both the domestic and global environment and has led disruptions in the domestic and global value chain. In particular, the mismatch in demand and supply resulted in the domestic flat steel producers being unable to timeously service the domestic market after the Covid-19 restriction were eased by government, and economic activities restarted.

- The subject flat steel products constitute a significant component of the domestic flat steel producer's operations in terms of production and sales volumes.
- In terms of downstream steel applications, the subject flat steel product is a critical and a main input material in the production process of most of the value-added products.
- Flat steel products volume security is therefore critical for the sustainability of the domestic primary steel producers' operations and at the same time availability and security of supply is critical for the sustainability of the domestic downstream steel operations.
- The rebate provisions are structured in such a manner that they balance the interests of the entire steel value chain by only accommodating importation of the subject flat steel products in instances where the domestic producers are unable supply.
- Guidelines, rules, and conditions have been developed to ensure the effective and efficient administration of the rebate provisions with measures to mitigate the risk of abuse or misuse of the rebate facilities and to minimise the risk of unintended consequences.

The Commission concluded that duty relief, through the creation of Schedule 4 temporary rebate provisions, will timeously provide customs duty exemption and therefore an availability of duty-free products during periods when such products are not available locally. Tariff protection will remain in place to guard against the erosion of the domestic capacity to produce the subject primary steel products.

In light of the foregoing, the Commission recommended that temporary rebate provisions on both ordinary customs and safeguard duties be created for the importation of flat steel products, classifiable under tariff headings 72.08, 72.09, 72.10, 72.11, 72.12, 7225.1, 7225.99, and 7226.9, for use in the domestic industry, as outlined in paragraph 8 of this report. The Commission further recommended that the rebate provisions be reviewed to determine the impact on the industry value chain after three (3) years from the date of implementation, or as such other period as decided by the Commission.

The temporary rebate provisions will be made available subject to a rebate permit issued at such times, in such quantities, and subject to such conditions as ITAC may allow by specific permit.

THE APPLICATION AND TARIFF POSITION

- 1 The Minister requested ITAC in terms of Section 16(1)(d)(i) of the International Trade Administration Act, 2002 (Act No. 71 of 2002), to investigate the possibility of creating temporary rebate provisions for ordinary customs and safeguard duties applicable on flat steel products, classifiable under tariff headings 72.08, 72.09, 72.10, 72.11, 72.12, 7225.1, 7225.99, and 7226.9. The subject flat steel products are hot-rolled steel; cold-rolled steel; and coated steel.
- 2 There are three manufacturers of the subject flat steel products locally, namely, Arcelor Mittal South Africa Ltd (“AMSA”), Safal Steel (Pty) Ltd (“Safal”) and Duferco Steel Processing (Pty) Ltd (“Duferco”).
- 3 AMSA is the largest manufacturer of flat steel products locally. The company manufactures hot-rolled steel; cold-rolled steel; and coated steel in Vanderbijlpark Works, Gauteng Province. AMSA placed its flat steel manufacturing plant in Saldanah, Western Cape Province, on care and maintenance. Safal manufactures coated steel in Cato Ridge, KwaZulu-Natal Province. Duferco manufactures coated steel in Saldanha, Western Cape Province. Both Safal and Duferco purchase the hot-rolled coils from AMSA or other global suppliers for the manufacture of coated steel products.
- 4 The subject flat steel products are used as an input material in the manufacturing of products in various industries, including construction, metal fabrication, automotive, machinery and equipment. The end-products include, amongst others, containers, mining equipment, automotive components, small and large bore pipes, agricultural implements, earth moving equipment, gas cylinders, truck trailers, water tanks, railway rolling stock, racking & shelving, pressure vessels, overhead cranes, dump trucks, storage tanks and wind towers, roof sheeting, gutters, appliance, and road signage.

5 The Minister cited the following as reasons for the request:

- Concerns received from a number of downstream sectors indicating that there are interruptions in the reliable supply of steel domestically, which has resulted in critical shortage of steel;
- The critical shortage of steel is mainly attributable to unplanned and unforeseen shutdown at AMSA plants, which have worsened due to the company’s decision to postpone the restart its second blast-furnace at its Vanderbijlpark, post the Covid-19 alert level 5 lockdown;
- The reliability of supply by AMSA has been an ongoing issue prior to Covid-19 induced lockdown; and
- The ongoing primary steel shortages and supply challenge of flat steel products are placing the value chain at risk.

6 The current tariff structure of the subject flat steel products is shown in Table 1 below. The subject flat steel products currently attract the World Trade Organisation (“WTO”) Bound rate of 10% (*ad valorem*) when imported under “General” and are free when imported from EU, EFTA, SADC, MERCOSUR and AfCFTA.

Table 1: Flat Steel (Hot-rolled, cold-rolled and coated steel)

Tariff heading/ subheading	Description	Statistical unit	Rate of duty					
			General	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA
72.08	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated:							
7208.10	In coils, not further worked than hot-rolled, with patterns in relief	Kg	10%	Free	Free	Free	10%	8%
7208.2	Other, in coils, not further worked than hot-rolled, pickled:							
7208.25	Of a thickness of 4,75 mm or more	Kg	10%	Free	Free	Free	10%	8%
7208.26	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	10%	Free	Free	Free	10%	8%
7208.27	Of a thickness of less than 3 mm	Kg	10%	Free	Free	Free	10%	8%
7208.3	Other, in coils, not further worked than hot-rolled:							
7208.36	Of a thickness exceeding 10 mm	Kg	10%	Free	Free	Free	10%	8%
7208.37	Of a thickness of 4,75 mm or more but not exceeding 10 mm	Kg	10%	Free	Free	Free	10%	8%
7208.38	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	10%	Free	Free	Free	10%	8%
7208.39	Of a thickness of less than 3 mm	Kg	10%	Free	Free	Free	10%	8%
7208.5	Other, not in coils, not further worked than hot-rolled:							
7208.53	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	10%	Free	Free	Free	10%	8%
7208.54	Of a thickness of less than 3 mm	Kg	10%	Free	Free	Free	10%	8%
7208.90	Other	Kg	10%	Free	Free	Free	10%	8%

72.11	Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, not clad, plated or coated:							
7211.1	Not further worked than hot-rolled:							
7211.13	Rolled on four faces or in a closed box pass, of a width exceeding 150 mm and a thickness of not less than 4 mm, not in coils and without patterns in relief	Kg	10%	Free	Free	Free	10%	8%
7211.14	Other, of a thickness of 4,75 mm or more	Kg	10%	Free	Free	Free	10%	8%
7211.19	Other	Kg	10%	Free	Free	Free	10%	8%
72.25	Flat-rolled products of other alloy steel, of a width of 600 mm or more:							
7225.30	Other, not further worked than hot-rolled, in coils	Kg	10%	Free	Free	Free	10%	8%
7225.40	Other, not further worked than hot-rolled, not in coils	Kg	10%	Free	Free	Free	Free	8%
7225.9	Other:							
7225.99	Other	Kg	10%	Free	Free	Free	Free	8%
72.26	Flat-rolled products of other alloy steel, of a width of less than 600 mm:							
7226.91	Not further worked than hot-rolled	Kg	10%	Free	Free	Free	Free	8%
7226.99	Other	Kg	10%	Free	Free	Free	Free	8%
72.09	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, cold-rolled (cold-reduced), not clad, plated or coated:							
7209.1	In coils, not further worked than cold-rolled (cold-reduced):							
7209.15	Of a thickness of 3 mm or more	Kg	10%	Free	Free	Free	10%	8%
7209.16	Of a thickness exceeding 1 mm but less than 3 mm	Kg	10%	Free	Free	Free	10%	8%
7209.17	Of a thickness of 0,5 mm or more but not exceeding 1 mm	Kg	10%	Free	Free	Free	10%	8%
7209.18	Of a thickness of less than 0,5 mm	Kg	10%	Free	Free	Free	10%	
7209.2	Not in coils, not further worked than cold-rolled (cold-reduced):							8%
7209.25	Of a thickness of 3 mm or more	Kg	10%	Free	Free	Free	10%	8%
7209.26	Of a thickness exceeding 1 mm but less than 3 mm	Kg	10%	Free	Free	Free	10%	8%
7209.27	Of a thickness of 0,5 mm or more but not exceeding 1 mm	Kg	10%	Free	Free	Free	10%	8%
7209.90	Other	Kg	10%	Free	Free	Free	10%	8%
72.10	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated:							
7210.20	Plated or coated with lead, including teme-plate	Kg	10%	Free	free	free	10%	8%
7210.30	Electrolytically plated or coated with zinc	Kg	10%	Free	free	free	10%	8%
7210.50	Plated or coated with chromium oxides or with chromium and chromium oxides	Kg	10%	Free	free	free	10%	8%
7210.6	Plated or coated with aluminium:							
7210.69	Other	Kg	10%	Free	free	free	10%	8%
7212	Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, clad, plated or coated:							
7212.20	Electrolytically plated or coated with zinc	Kg	10%	Free	free	free	10%	8%
7212.50	Otherwise plated or coated	Kg	10%	Free	free	free	10%	8%
7212.60	Clad	Kg	10%	Free	free	free	10%	8%
7225	Flat-rolled products of other alloy steel, of a width of 600 mm or more:							
7225.9	Other:							
7225.91	Electrolytically plated or coated with zinc	Kg	10%	Free	free	free	10%	8%
7225.92	Otherwise plated or coated with zinc							
7225.92.10	Of a thickness of less than 0,45 mm	Kg	10%	Free	free	free	10%	8%
7225.92.90	Other	Kg	10%	Free	free	free	10%	8%

Source: SARS, 2021

7 Currently, a safeguard duty of 8% is applicable on hot-rolled products.

8 The South African Revenue Service (“SARS”) provided the rebate descriptions below for administration purposes:

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated, classifiable in tariff heading 72.08, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the products are not available in the SACU market and that the flat-rolled products are not specifically covered by another rebate provision in Schedule No. 4 for the same industry and purpose;

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, cold-rolled (cold-reduced), not clad, plated or coated, classifiable in tariff heading 72.09, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the products are not available in the SACU market and that the flat-rolled products are not specifically covered by another rebate provision in Schedule No. 4 for the same industry and purpose;

Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated, classifiable in tariff headings 72.10, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the products are not available in the SACU market and that the products are not available in the SACU market and also that the flat-rolled products are not specifically covered by another rebate provision in Schedule No. 4 for the same industry and purpose;

Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, not clad, plated or coated, classifiable in tariff headings 72.11, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the products are not available in the SACU market and that the flat-rolled products are not specifically covered by another rebate provision in Schedule No. 4 for the same industry and purpose;

Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, clad, plated or coated, classifiable in tariff headings 72.12, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the products are not available in the SACU market and that the flat-rolled products are not specifically covered by another rebate provision in Schedule No. 4 for the same industry and purpose;

Flat-rolled products of other alloy steel, of a width of 600 mm or more, of silicon-electrical steel classifiable in tariff heading 7225.1, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the products are not available in the SACU market and that the flat-rolled products are not specifically covered by another rebate provision in Schedule No. 4 for the same industry and purpose;

Other flat-rolled products of other alloy steel, of a width of 600 mm or more, other, classifiable in tariff heading 7225.99, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the products are not available in the SACU market and that the flat-rolled products are not specifically covered by another rebate provision in Schedule No. 4 for the same industry and purpose; and

Other flat-rolled products of other alloy steel, of a width of less than 600 mm, classifiable in tariff heading 7226.9, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the products are not available in the SACU market and that the flat-rolled products are not specifically covered by another rebate provision in Schedule No. 4 for the same industry and purpose.”

9 The application was published in *Government Gazette No.44277* under Notice No.117 of 16 March 2021 for two (2) weeks for interested parties to comment.

INDUSTRY AND MARKET

10 As stated previously, there are three manufacturers of the subject flat steel products locally, namely, AMSA, Safal and Duferco.

- 11 AMSA is the largest manufacturer of flat steel products locally. The company manufactures hot-rolled steel; cold-rolled steel; and coated steel in Vanderbijlpark Works, Gauteng Province. AMSA placed its flat steel manufacturing plant in Saldanah, Western Cape Province, on care and maintenance. Safal manufactures coated steel in Cato Ridge, KwaZulu-Natal Province. Duferco manufactures coated steel in Saldanha, Western Cape Province. Both Safal and Duferco purchase the hot-rolled coils from AMSA or other global suppliers for the manufacture of coated steel products.
- 12 South Africa is one of the largest steel producers on the African continent. According to the World Steel Association, South African steel manufacturers produced 3.9 million metric tons of crude steel in 2020. Egypt being the leading producer of crude steel, produced 8.2 metric tons followed by Algeria with 4.0 metric tons produced in 2020.
- 13 The subject flat steel products are used as an input material in the manufacturing of products in the construction, metal fabrication, automotive, machinery and equipment. The end-products include, amongst others, containers, mining equipment, automotive components, small and large bore pipes, agricultural implements, earth moving equipment, gas cylinders, truck trailers, water tanks, railway rolling stock, racking & shelving, pressure vessels, overhead cranes, dump trucks, storage tanks and wind towers, roof sheeting, gutters, appliance, and road signage.
- 14 The subject products are also used by re-rollers in the manufacture of a wide range of downstream products such as cold-rolled (cold-reduced) steel, galvanized steel, alu-zinc steel, and painted steel, mainly used in the roofing and cladding industry.
- 15 The South African steel industry has not been spared the devastating impact of Covid- 19 as experienced globally. Governments have adopted several forms of non-pharmaceutical intervention to contain the spread of the new coronavirus. One of these measures has been lockdowns that have resulted in disruptions to supply chains, a decline in demand for industrial goods, and the decline of industrial production. The closure of some factories and disruption of supply chains influenced the supply shock. This has led to domestic plants or mills being underutilized.
- 16 The lockdown, particularly at alert level 5, significantly disrupted production in many domestic industries, including the steel industry value chain. This also meant shutting

down the blast furnaces and steel smelters in the primary steel manufacturing industry, an unprecedented act since the inception of the integrated steel industry in the country.

- 17 The result of this has been a sudden and abrupt disruption in the whole internal supply chain, the effects of which the entire domestic steel value chain is continuing to address. The supply disruptions led to a supply backlog which the domestic primary steel producer is still in the process of alleviating. However, it should be noted that generally there is sufficient capacity to supply the domestic re-roller industry and the general market, albeit except for certain product specifications for which rebate provisions already exist.
- 18 According to the information submitted by industry players during the investigation, the product which was most affected by the Covid-19 related supply disruptions and experienced prolonged lead times between 3 to 6 months in the local market were hot-rolled steel followed by coated steel.
- 19 The investigation found that imports were also affected by Covid-19 related supply disruptions, extending delivery times by approximately up to 6 months. According to the United Nations Policy brief (UNCTD, 2021), the global shortage of shipping containers, primarily caused by the Covid-19 pandemic, led to increases in shipping and container prices and increased delay times for companies¹.
- 20 The investigation found that, in the ordinary course of business, stockholding may also serve as a mitigating factor to supply disruptions emanating from other factors such as maintenance, strikes etc. However, it is noted that the challenges of cash flow experienced by the industry may result in industry players not being able to hold sufficient stock to mitigate supply disruption risks.
- 21 The impact of Covid-19 on the domestic steel industry was worsened by the fact that South Africa's economy was already in a recession going into 2020 and the entire domestic steel value chain was experiencing a considerable decline in the level of production, sales, and capacity utilisation.

¹ https://unctad.org/system/files/official-document/presspb2021d2_en.pdf

- 22 In view of the above, the economic shock resulting from the Covid-19 pandemic represents a fundamental and exceptional change in the global and local upstream steel and downstream steel market.
- 23 According to Trade & Industrial Policy Strategies (“TIPS”)², the difference in timing and adjustments post-Covid-19 by different economies poses a risk of opportunistic low-priced imports flooding markets such as the SACU market to its detriment in the long run.
- 24 According to official trade statistics, imports of hot-rolled steel products significantly increased by 86% while imports of cold-rolled steel products and coated steel products decreased by 11% and 15%, respectively, on average during 2020.
- 25 During 2020, European Union (“EU”) countries accounted for the largest share of hot-rolled steel imports, accounting for 56% followed by Asia at 46%. Imports from the EU are exempt from the 10% ordinary customs duty because of the Economic Partnership Agreement (EPA) between SACU and the EU.

COMPETITIVE POSITION

- 26 Several factors contribute to the competitiveness or lack thereof of the domestic primary steel industry (AMSA). Volume throughput is amongst the critical factors contributing to the economic viability and long-term sustainability of the industry.
- 27 Considering the ample domestic capacity to manufacture the flat steel product, the Commission found that temporary rebate provisions will enable the domestic downstream industry to import duty the subject products from international market at such times that the subject products are not available locally. Guidelines, rules, and conditions have been developed to ensure the effective and efficient administration of the rebate provisions with measures to mitigate the risk of abuse or misuse of the rebate facilities and to minimise the risk of unintended consequences..

28 COMMENTS RECEIVED

² <https://www.tips.org.za/policy-briefs/item/3783-covid-19-the-steel-industry>

- 29 Comments in support of the creation of a temporary rebate provisions on ordinary customs and safeguard duties applicable on flat steel products were received from various downstream entities, citing amongst others: the risk associated with a single dominant supplier upstream; recent Covid-19 related supply disruptions which have resulted in backlogs and extended lead times; and lack of and/or insufficient capital investment by AMSA for the production of the subject products which has led to unscheduled maintenance to address unplanned production stoppages and extended lead times.
- 30 Comments also highlighted the importance of preserving primary steel manufacturing capacity locally and the critical and strategic role that a viable primary steel industry places in the future of the domestic industry steel value chain.
- 31 Comments were also received from Safal and Duferco mainly citing, amongst others, that: rebate provisions for the importation of coated steel products would be detrimental to the re-rollers' business; there is a need to open up avenues for alternative sources of supply in cases where there is only one domestic producer who cannot meet its supply obligations; and uninterrupted supply of raw material would allow the re-rollers to continue serving the SACU market and to remain a local competitor in the SACU market contributing to creating sustainable jobs.
- 32 An objection the creation of a temporary rebate provisions on ordinary customs and safeguard duties applicable on flat steel products was received from AMSA citing, amongst others, that: the current supply backlog being experienced is only a temporary occurrence owing to the Covid-19 disruptions and does not warrant a long-term intervention such as the creation of the proposed rebate provisions; the closure of AMSA's Saldanha Steel Works does not hamper the company's ability to supply as its Vanderbijlpark Steel Works plant is capable of making a significantly wider range of products; AMSA's flat steel pricing is established by the "fair price basket calculation" monitored by the Department of Trade, Industry and Competition ("dtic"); and there is no policy rationale for the rebate being sought as there is sufficient domestic capacity to supply the product.

FINDINGS

33 The Commission considered the application in light of all the relevant information at its disposal. In particular, the Commission took the following factors into account:

- The subject flat steel products are hot-rolled steel; cold-rolled steel; and coated steel.
- There are three (3) manufacturers of the subject flat steel products in the SACU region namely: AMSA, Safal and Duferco.
- The subject flat steel products are input material in the manufacturing of products in various downstream sectors, including construction, metal fabrication, automotive, machinery and equipment.
- The economic shock resulting from the Covid-19 pandemic represents a fundamental and exceptional change in the operating environment for both the domestic and global environment and has led disruptions in the domestic and global value chain. In particular, the mismatch in demand and supply resulted in the domestic flat steel producers being unable to timeously service the domestic market after the Covid-19 restriction were eased by government, and economic activities restarted.
- The subject flat steel products constitute a significant component of the domestic flat steel producer's operations in terms of production and sales volumes.
- In terms of downstream steel applications, the subject flat steel product is a critical and a main input material in the production process of most of the value-added products.
- Flat steel products volume security is therefore critical for the sustainability of the domestic primary steel producers' operations and at the same time availability and security of supply is critical for the sustainability of the domestic downstream steel operations.
- The rebate provisions are structured in such a manner that they balance the interests of the entire steel value chain by only accommodating importation of the subject flat steel products in instances where the domestic producers are unable supply.

- Guidelines, rules, and conditions have been developed to ensure the effective and efficient administration of the rebate provisions with measurers to mitigate the risk of abuse or misuse of the rebate facilities and to minimise the risk of unintended consequences.

The Commission concluded that duty relief, through the creation of Schedule 4 temporary rebate provisions, will timeously provide customs duty exemption and therefore an availability of duty-free products during periods when such products are not available locally. Tariff protection will remain in place to guard against the erosion of the domestic capacity to produce the subject primary steel products.

RECOMMENDATION

34 The Commission recommended that a temporary rebate provisions for the importation of flat steel products, classifiable under tariff headings 72.08, 72.09, 72.10, 72.11, 72.12, 7225.1, 7225.99, and 7226.9, as outlined in **Paragraph 8** the Report. The Commission further recommended that the rebate provisions be reviewed to determine the impact on the industry value chain after three (3) years from the date of implementation, or as such other period as decided by the Commission.