

REPORT NO. 631

**INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON CERTAIN
COATED OR PLATED FLAT- ROLLED STEEL, CLASSIFIABLE UNDER
TARIFF HEADINGS 7210, 7212 AND 7225**

The International Trade Administration Commission herewith presents its Report No. 613: **APPLICATION FOR AN INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON CERTAIN COATED OR PLATED FLAT- ROLLED STEEL, CLASSIFIABLE UNDER TARIFF HEADINGS 7210, 7212 AND 7225**, with recommendations.



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DEPUTY CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

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INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON CERTAIN COATED OR PLATED FLAT- ROLLED STEEL, CLASSIFIABLE UNDER TARIFF HEADINGS 7210, 7212 AND 7225

Synopsis

The Southern Africa Coil Coaters Association (“SACCA”, or “applicant”), representing ArcelorMittal South Africa Ltd (“AMSA”) and Safal Steel (Pty) Ltd (“Safal”), applied for an increase in the general rate of customs duty on certain coated or plated flat-rolled steel, classifiable under tariff subheadings 7210.20, 7210.30, 7210.50, 7210.69, 7212.20, 7212.50, 7212.60, 7225.91, and 7225.92, from free of duty to the World Trade Organisation (“WTO”) bound rate of 10% *ad valorem*.

The International Trade Administration Commission (“ITAC” or the “Commission”) considered all the relevant information at its disposal. In particular, the Commission considered the following factors:

- The strategic nature of the steel industry to the country given its backward and forward linkages;
- The global excess steelmaking capacity remains the biggest challenge for the primary steel sector in achieving sustainable profit margins;
- There exists an anomaly in the tariff structure as the locally manufactured galvanised, electro-galvanised, aluminium-zinc and painted steel attracts a 10 per cent *ad valorem* duty whilst the imported subject products are free of duty;

- The imported subject products are direct substitutes for locally manufactured galvanised, electro-galvanised, aluminium-zinc and painted steel as they are used in similar roofing and cladding applications;
- The subject products unfairly compete with the locally manufactured products and thus create a loophole which undermines the existing tariff protection afforded and threaten the sustainability of the domestic steel manufacturing industry. This would have a detrimental effect on production, investment and employment in the domestic industry;
- The overall imports of the subject products have dramatically increased since the duties were imposed on the similar products manufactured locally;
- The significant price disadvantages experienced by the domestic industry manufacturing galvanised, electro-galvanised, aluminium-zinc and painted steel vis-à-vis imported subject products; and
- The worsening competitive position of the domestic firms manufacturing galvanised, electro-galvanised, aluminium-zinc and painted steel as a result of escalating cost structures.

The Commission found that there are certain products covered by this investigation which are currently not manufactured locally and do not compete directly with those manufactured by the domestic industry. In this regard, the Commission recommended the creation of rebate provisions in order to reduce production costs and improve the competitive position of the downstream steel industry.

The Commission concluded that tariff support on the subject product would close the loopholes in the tariff structure and should enable the industry manufacturing galvanised, electro-galvanised products, aluminium-zinc and painted steel to utilise its existing under-utilised production capacity and reduce marginal cost of production as a result of increased economies of scale.

The Commission recommended that the rate of customs duty on certain coated or plated flat-rolled steel, classifiable under tariff subheadings 7210.20, 7210.30, 7210.50, 7210.69 7212.20, 7212.50, 7212.60, 7225.91, and 7225.92, be increased from free of duty to 10% *ad valorem*. The Commission further recommended the creation of rebate

provisions for the importation of certain products that are not manufactured locally as outlined in section 33 of this report.

Finally, the Commission recommended that the proposed duty be reviewed after at least one (1) year following the introduction of tariff support (unless determined otherwise by the Commission) to monitor the performance of the domestic industry

THE APPLICATION AND TARIFF POSITION

1. SACCA, representing AMSA and Safal applied for an increase in the general rate of customs duty on certain coated or plated flat-rolled steel, classifiable under tariff subheadings 7210.20, 7210.30, 7210.50, 7210.69, 7212.20, 7212.50, 7212.60, 7225.91, and 7225.92, from free of duty to 10% *ad valorem*.
2. The subject products are currently not manufactured locally. However, the subject products directly compete with the locally manufactured galvanised, electro-galvanised, aluminium-zinc and painted steel which is currently classifiable under tariff subheadings 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40. The relevant locally manufactured products currently attract a 10 per cent *ad valorem* duty whilst the imported subject products are free of duty.
3. As motivation for the increase in the general rate of customs duty the applicant cited, *inter alia*, the following:
 - The locally manufactured galvanised, electro-galvanised, aluminium-zinc and painted steel attract a 10 per cent *ad valorem* duty;
 - The imported subject products are direct substitutes for locally manufactured galvanised and electro-galvanised products, aluminium-zinc and colour coated steel as they are used in similar applications in the roofing and cladding industry;
 - Following an increase in duty on the corrosive protection flat-rolled steel products that were covered under Report 505, several other tariff subheadings which are flat-rolled products of iron or non-alloy steel or other alloy steel did not attract any customs duty due to an oversight with regard to the initial tariff increase application and they have now become open to abuse;
 - The subject products imported under the relevant tariff headings unfairly compete with the locally manufactured products as they are imported free of duty

and create a loophole, threatening the sustainability of the domestic industry;
and

- The increase in customs duty on these tariff subheadings will be in line with the current customs duty of 10 per cent that is already applicable on the tariff subheadings as set out in Report No. 505, which would prevent the abuse thereof.

4. The application was published in the Government Gazette No. 42536 on 21 June 2019 under Notice 334 of 2019 for four (4) weeks as follows:

INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON:

“Certain coated or plated flat-rolled steel products, classifiable under tariff subheadings 7210.20, 7210.30, 7210.50, 7210.69, 7212.20, 7212.50, 7212.60, 7225.91 and 7225.92, from free of duty to 10% ad valorem”.

5. The existing tariff structure for the subject products is as follows:

Table 1: The current tariff structure for the subject products

Tariff Heading / Subheading	Description	Stats unit	Rate of duty				
			GENERAL	EU	EFTA	SADC	MERCOSUR
7210	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	free	free	free	free	free
7210.30	Electrolytically plated or coated with zinc	kg	free	free	free	free	free
7210.50	Plated or coated with chromium oxides or with chromium and chromium oxides	kg	free	free	free	free	free
7210.6	Plated or coated with aluminium:						
7210.69	Other	kg	free	free	free	free	Free
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	free	free	free	free	free
7212.50	Otherwise plated or coated	kg	free	free	free	free	free
7212.60	Clad	kg	free	free	free	free	free
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	free	free	free	free	free
7225.92	Otherwise plated or coated with zinc						

7225.92.10	Of a thickness of less than 0,45 mm	kg	free	free	free	free	free
7225.92.90	Other	kg	free	free	free	free	free

Source: SARS, 2019

6. Table 2 below, shows the tariff structure of the locally manufactured products:

Table 2: Tariff structure of the locally manufactured products

Tariff Heading / Subheading	Description	Stats unit	Rate of duty				
			GENERAL	EU	EFTA	SADC	MERCOSUR
Zinc Coated Steel/ Galvanised Steel							
7210	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated:						
7210.41.00	Otherwise plated or coated with zinc - Corrugated	kg	10%	Free	Free	Free	Free
7210.49.00	Otherwise plated or coated with zinc - Other	kg	10%	Free	Free	Free	Free
7212.30.00	Otherwise plated or coated	kg	10%	Free	Free	Free	Free
Aluminium Zinc Coated Steel							
7210	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated:						
7210.61.00	Plated or coated with aluminium; Plated or coated with aluminium-zinc alloys	kg	10%	Free	Free	Free	Free
7210.90.00	Other coated	kg	10%	Free	Free	Free	Free
7225	Flat-rolled products of other alloy steel, of a width of 600 mm or more:						
7225.99.90	Flat rolled products of other alloy steel, of a width of 600 mm or more: Other	kg	10%	Free	Free	Free	Free
Painted Steel							
7210	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated:						
7210.70.00	Painted or coated with aluminium: Painted, varnished or coated with plastics	kg	10%	Free	Free	Free	Free
7212	Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, clad, plated or coated:						
7212.40.00	Painted, varnished or coated with plastics < 600 mm wide	kg	10%	Free	Free	Free	Free

Source: SARS, 2019

7. The requested tariff position is depicted in Table 3 below:

Table 3: The requested tariff structure

Tariff Heading / Subheading	Description	Stats unit	Rate of duty				
			GENERAL	EU	EFTA	SADC	MERCOSUR
7210	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%
7210.30	Electrolytically plated or coated with zinc	kg	10%	free	free	free	10%
7210.50	Plated or coated with chromium oxides or with chromium and chromium oxides	kg	10%	free	free	free	10%
7210.6	Plated or coated with aluminium:						
7210.69	Other	kg	10%	free	free	free	10%
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%
7212.50	Otherwise plated or coated	kg	10%	free	free	free	10%
7212.60	Clad	kg	10%	free	free	free	10%
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%
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%
7225.92.90	Other	kg	10%	free	free	free	10%

Source: SARS, 2019

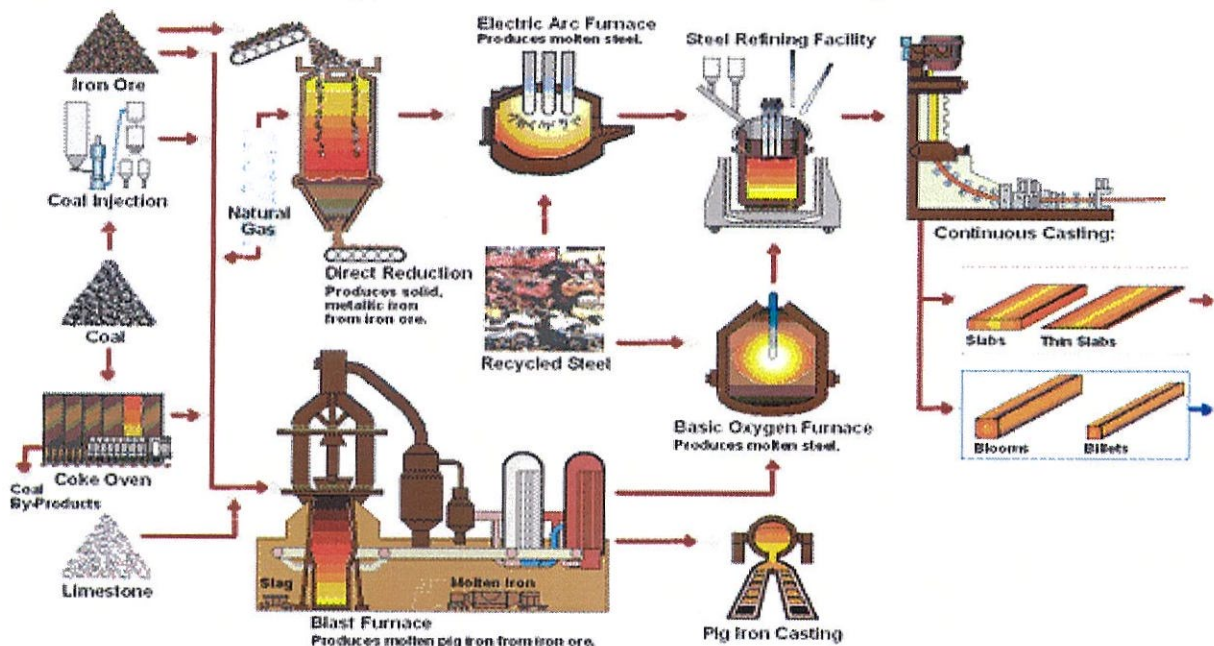
8. The applicant requested an increase in the general rate of customs duty on the subject products from free of duty to the WTO bound rate of 10% *ad valorem*.

INDUSTRY AND MARKET

9. Galvanized flat steel refers to a flat rolled product of iron, non-alloy, and alloy steel, plated or coated with zinc to prevent rusting/corrosion. Aluminium-zinc coated steel refers to a flat rolled product of steel, coated with both aluminium and zinc. The aluminium component of the coating provides a tough physical barrier between the extreme atmosphere conditions and the inner core of the steel. The zinc, on the other hand, provides superficial protection and also prevents rusting/corrosion.

10. Painted steel is a flat-rolled product of steel coated with paint. The steel painting is a process usually done to meet industrial environmental requirements and in response to customer's demand for improved durability performance. The main reason for steel painting required by end users is to provide corrosion inhibition.
11. There are three known manufacturers of certain coated and painted flat-rolled steel products in the SACU region namely, AMSA, Safal and Duferco Steel Processing (Pty) Ltd ("Duferco").
12. AMSA produces various steel products from its various mills such as Newcastle Works, Vanderbijlpark Works and formerly, Saldanha Works. The substitute products which are alleged to be directly competing with the products subject to this investigation are manufactured in the Vanderbijlpark Works, which is the company's largest operation, accounting for nearly two-thirds of the entire company's production.
13. Safal manufacturing under the BIEC license is the only producer of Aluminium-Zinc coated steel and its steel mill is in the Cato Ridge area of KwaZulu-Natal. Safal does not have facilities for making steel. It sources its input, the hot-rolled coils, locally from AMSA as well as from other global suppliers.

Figure 1: The manufacturing process of the locally manufactured products



Source: AMSA, 2019

14. As shown in figure 1 above, the manufacturing process of the locally manufactured products begins with the process of steel manufacturing. During the manufacturing

process, raw materials such as iron ore, coal, and dolomite or scrap metal are melted in blast furnaces to produce iron. Iron is then turned into steel in oxygen furnaces which is then cast into steel slabs in a continuous caster.

15. The steel slabs are then rolled into steel coils and pickled into acid to remove any surface imperfections.
16. The steel coils are then entered into cold rolling mills to further reduce the thickness of the steel. The steel coils then go through the annealing process, which is a hot treatment that alters physical and chemical properties of a material to improve its formability and durability. The annealing process entails coating the steel coils with zinc or paint to protect the product from corrosion.
17. On completion, the finished product undergoes a quality test to check the thickness of the steel and any possible cracks that may have occurred during the process.
18. In the case of Safal, the hot-rolled coils are fed into the pickling machine which removes all undesired elements on the surface and trims the coils to the required sizes. The coils then go into the cold rolling mill and are rolled into the required thicknesses. Finally, the steel is coated with zinc/aluminium and/or paint. At this point, the product is packed and sold to the customer.
19. The other local manufacturer of coated and painted steel in SACU is Duferco, which is situated at Industrial Park, Saldanha. Duferco manufactures its products mainly for the export market.
20. The domestic industry is also characterised by a number of merchants who import the subject products for distribution. These include Steelbank Merchants (Pty) Ltd ("Steelbank") and Macsteel Services Centres.
21. The SARS' official trade statistics revealed that the overall import volume of the subject products increased by 22% during the investigation period. Tariff subheadings 7212.50, 7212.60 and 7225.92 showed the most significant increase of approximately 135%, 90% and 91%, respectively, during the same period. The subject products were mainly imported from China during the investigation period.
22. The Commission noted that the dramatic increase in imports of the subject products coincides with the implementation of duties on locally manufactured galvanised, electro-galvanised, aluminium-zinc and painted steel.

23. The Bill of Entry (BOE) information was obtained to determine which companies imported under the relevant tariff lines and whether they supply steel to the roofing and cladding industry. It was found that there are steel grades which are imported through the relevant tariff lines, which are used in similar applications as roofing and cladding.

24. It was also found that there are steel grades that are imported under the relevant tariff subheadings which are not manufactured locally. These are steel grades that are used in the bakeware, automotive and packaging applications.

COMPETITIVE POSITION

25. The global excess steelmaking capacity remains the biggest challenge for the primary steel sector in achieving sustainable profit margins.

26. The domestic industry manufacturing the coated and painted flat steel products is, on average, not price-competitive against Asian imports of the subject products and is experiencing significant price disadvantages.

COMMENTS RECEIVED

27. Comments in support for the increase in customs duty on the subject products were received from Duferco. The support centred on the following:

- The sustainability of the entire steel value chain in light of the volatile global trade caused by the excess supply of steel;
- The primary steel industry is a strategic contributor to the regional economic performance through employment, investment, exports, infrastructure development;
- The primary steel industry contributes an intermediate input to the local downstream roof and cladding industry; and
- The tariff increase will limit the importation of unspecified corrosive products under tariff codes that are free of duty which have seen a significant increase in imports since duties were implemented on coated and painted steel in terms of ITAC's Report No. 505.

28. Comments objecting the application were received from various interested parties which included the following: National Employer's Association of South Africa ("NEASA"); Nampak DivFood, Webber Wentzel representing Steelbank Merchants (Pty) Ltd, National Association of Automotive Component and Allied Manufacturers ("NAACAM"), The National Association of Automobile Manufacturers of South Africa ("NAAMSA"), Aveng Trident Steel, Alison Van Den Berg Attorney Incorporated representing Steel Import International (Pty) Ltd; Steel Import Solutions (Pty) Ltd; and Limit Way Trade and Invest (Pty) Ltd. The reasons cited for objecting centred around the following:

- The local manufacturers do not have the technology and capacity to produce ultra-thin gauge material and certain steel grades used in the bakeware, automotive, construction and packaging applications;
- An increase in customs duty on steel grades not manufactured locally will result in an unnecessary cost-raising effect and impact negatively on the international competitiveness of the downstream steel industry;
- AMSA has increased prices of its flat-rolled steel even though its operating margins are much lower than the world's operating margins; and
- AMSA's average raw material basket margin is lower than that of China and therefore has a price advantage in the market.

FINDINGS

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

- The strategic nature of the steel industry to the country given its backward and forward linkages;
- The global excess steelmaking capacity remains the biggest challenge for the primary steel sector in achieving sustainable profit margins;
- There exists an anomaly in the tariff structure as the locally manufactured galvanised, electro-galvanised, aluminium-zinc and painted steel attracts a 10 per cent *ad valorem* duty whilst the imported subject products are free of duty;

- The imported subject products are direct substitutes for locally manufactured galvanised, electro-galvanised, aluminium-zinc and painted steel as they are used in similar roofing and cladding applications;
- The subject products unfairly compete with the locally manufactured products and thus create a loophole which undermines the existing tariff protection afforded and threaten the sustainability of the domestic industry. This would have a detrimental effect on production, investment and employment in the domestic industry;
- The overall imports of the subject products have dramatically increased since the duties were imposed on the similar products manufactured locally;
- The significant price disadvantages experienced by the domestic industry manufacturing galvanised, electro-galvanised, aluminium-zinc and painted steel vis-à-vis imported subject products; and
- The worsening competitive position of the domestic firms manufacturing galvanised, electro-galvanised, aluminium-zinc and painted steel as a result of escalating cost structures.

30. The Commission found that there are certain products covered by this investigation which are currently not manufactured locally and do not compete directly with those manufactured by the domestic industry. In this regard, the Commission recommended the creation of rebate provisions in order to reduce production costs and improve the competitive position of the downstream industry.

31. The Commission concluded that tariff support on the subject product would close the loophole in the tariff structure and should enable the industry manufacturing galvanised, electro-galvanised products, aluminium-zinc and painted steel to utilise its existing under-utilised production capacity and reduce marginal cost of production as a result of increased economies of scale.

RECOMMENDATION

32. In the light of the foregoing, the Commission recommended that the rate of customs duty on certain coated or plated flat-rolled steel, classifiable under tariff subheadings 7210.20, 7210.30, 7210.50, 7210.69 7212.20, 7212.50, 7212.60, 7225.91, and 7225.92, be increased from free of duty to 10% *ad valorem*.

33. The Commission further recommended the creation of Schedule 4 rebate provisions to cater for certain products that are not manufactured locally, as follows:

- *Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, plated or coated with lead, including terne-plate, for use in the automotive industry, classifiable under tariff subheading 7210.20, 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 SACU;*
- *Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, electrolytically plated or coated with zinc, for use in the automotive industry, classifiable under tariff subheading 7210.30, 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 SACU;*
- *Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, plated or coated with aluminium-silicon alloy but not containing zinc, for use in the manufacture of parts for industrial bakery ovens or for use in the automotive industry, classifiable under tariff subheading 7210.69, 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;*
- *Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, plated or coated with chromium oxide or chromium and chromium oxide, classified under tariff subheading 7210.50, for use in the manufacture of base metal stops, caps and lids, classified under tariff subheading 83.09, 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;*
- *Other flat-rolled products of other alloy steel, of a width of 600 mm or more, electrolytically plated or coated with zinc, for use in the automotive industry, classifiable under tariff subheading 7225.91, 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 SACU; and*
- *Other flat-rolled products of other alloy steel, of a width of 600 mm or more, otherwise plated or coated with zinc, other, with a thickness of 0,45 mm or more but not exceeding 1.6 mm, for use in the automotive industry, classifiable under tariff subheading 7225.92.90, 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.*

34. Finally, the Commission recommended that the proposed duty be reviewed after at least one (1) year following the introduction of tariff support (unless determined otherwise by the Commission) to monitor the performance of the domestic industry.