

REPORT NO. 552

**REVIEW OF THE RATE OF CUSTOMS DUTY ON GABIONS OF
WIRE NETTING**

The International Trade Administration Commission herewith presents its Report No. 552:
REVIEW OF THE RATE OF CUSTOMS DUTY ON GABIONS OF WIRE NETTING, with
recommendations.



SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA
09/06/2017

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 552

REVIEW OF THE RATE OF CUSTOMS DUTY ON GABIONS OF WIRE NETTING

Synopsis

In September 2016, ITAC initiated a review of the customs duty on a number of downstream steel industry products as a result of significant number of SACU downstream manufacturers expressing concerns regarding the lack of tariff protection against imports of finished products that enter the country at low prices. The review included gabions of wire netting classifiable under tariff headings 73.26

Following the publication of the review in the Government Gazette, Maccaferri (Pty) Ltd and Gabion Baskets (Pty) Ltd submitted information to the Commission motivating for an increase in customs duty applicable to gabions of wire netting classifiable under tariff subheading 7326.20.10, from free of duty to the WTO bound rate of 30% *ad valorem*.

The Commission considered the information received during the review. In particular, the Commission took the following factors into account:

- The material increase in the level of imports and concurrent erosion of the market share of domestic manufacturers of gabions of wire netting.
- The significant price disadvantages experienced by the domestic industry vis-à-vis imported subject products;
- The domestic industry's sales and capacity utilisation has declined significantly;
- Escalating cost structures combined with low profit margins; and

- Diminishing domestic employment and investment opportunities.

The Commission concluded that tariff support should enable the industry manufacturing gabions of wire netting to utilise its existing under-utilised production capacity thereby achieving cost advantages arising from increased output due to operational efficiencies. This would assist the domestic industry in creating new investment and employment opportunities.

The Commission recommended that the rate of customs duty on gabion of wire netting classifiable under tariff subheadings 7326.20.10 be increased from free of duty to 30% *ad valorem*. It is further recommended that the duties be reviewed after a period of 3 years after implementation.

BACKGROUND AND TARIFF POSITION

1. In September 2016, ITAC initiated a review of the customs duty on a number of downstream steel industry products as a result of a significant number of SACU downstream manufacturers expressing concerns regarding the lack of tariff protection against imports of finished products that enter the country at low prices. The review included gabions of wire netting classifiable under tariff subheading 73.26
2. Following the publication of the review in the Government Gazette, Maccaferri SA (Pty) Ltd and Gabion Baskets (Pty) Ltd submitted information to the Commission motivating for an increase in customs duty applicable to gabions of wire netting classifiable under tariff subheading 7326.20.10, from free of duty to the WTO bound rate of 30% *ad valorem*.
3. As motivation for the increase in the general rate of customs duty, the industry cited, *inter alia*, the following:
 - In its Report 509, ITAC recommended an increase in the rate of customs duty on steel rod (the primary input for the subject products) from free of duty to 10% *ad valorem*. This has put upward pressure on the cost structures of the local downstream manufacturers;

- The gabion industry in South Africa has been under duress, largely due to low priced import competition experienced from East Asian countries;
 - The influx of low-priced imports without any import tariff is having a negative impact on the profitability of the local manufacturers; and
 - The local industry is adversely affected to a point that it is suffering injury in the form of (i) decreased sales volumes, (ii) under-utilised production capacity, (iii) reduction in market share, and (iv) price disadvantages.
4. The review was published in the Government Gazette of 23 September 2016 for interested parties to comment as follows:

Review of the general rate of customs duty on various downstream steel products:

“Steel products classifiable under tariff headings; 73.06, 73.15, **73.26**, and 87.16”

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

Table 1: The subject products' current tariff structure

Heading/ Sub heading	Description	Statistical Unit	Rate of Duty				
			General	EU	EFTA	SADC	MERCOSUR
7326.20	Articles of iron or steel wire:						
7326.20.10	- - Gabions of wire netting	kg	Free	Free	Free	Free	Free

Source: SARS, 2017

6. The requested tariff structure is as follows:

Table 2: The requested tariff structure

Heading/ Sub heading	Description	Statistical Unit	Rate of Duty				
			General	EU	EFTA	SADC	MERCOSUR
7326.20	Articles of iron or steel wire:						
7326.20.10	- - Gabions of wire netting	kg	30%	Free	Free	Free	Free

Source: Applicant, 2017

7. The WTO bound rate for the tariff subheading under investigation is 30% *ad valorem*.

INDUSTRY AND MARKET

8. Figure 1 and 2 below show a graphical representation of the subject product for illustrative purposes.

Figure 1: Graphical illustration of the subject product

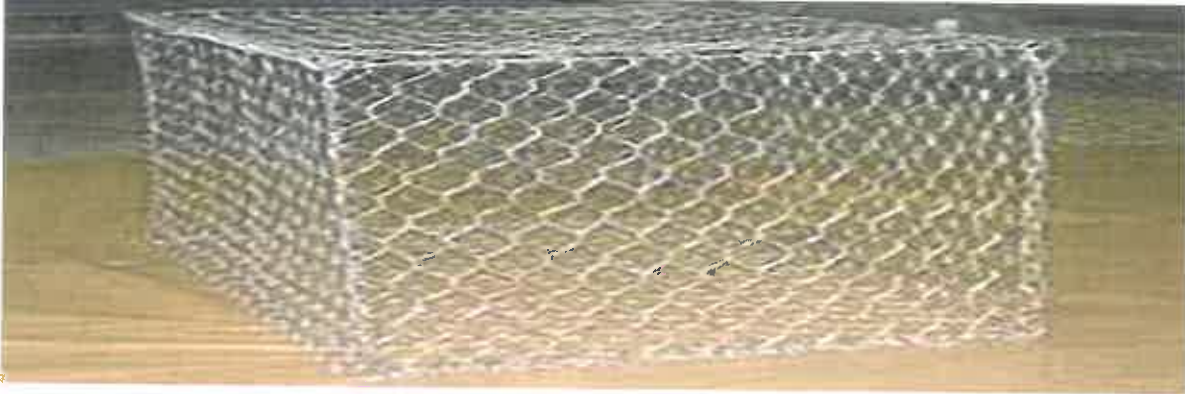
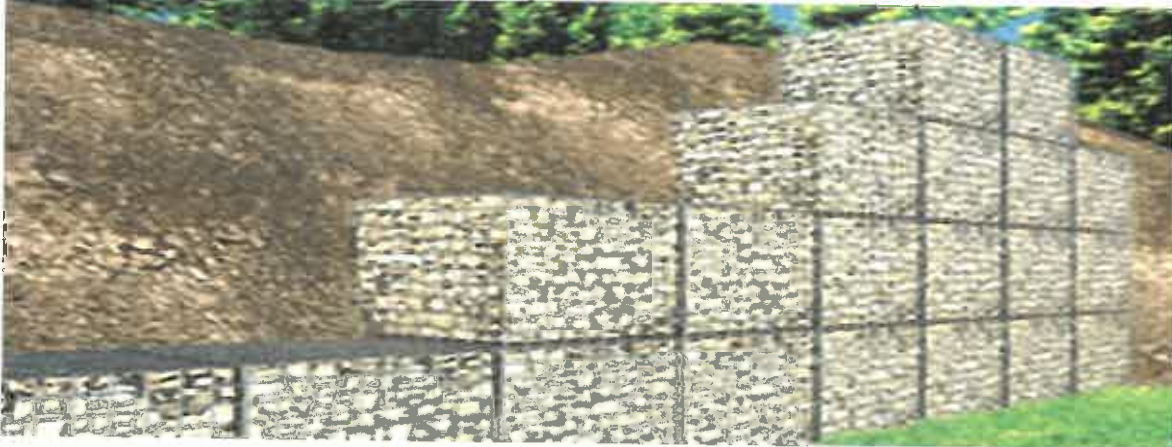


Figure 2: Graphical illustration of the subject product



9. The subject product is made from woven wire mesh, which in turn is made from wire rod.
10. The starting point for the gabion basket process is the coating of wire by hot dip galvanising where the mild steel wire is metallic coated by zinc galvanising or zinc alloy galvanising. Small quantities of cerium-lanthanum rare earths are added to improve the reliability of the coating process.
11. A woven wire mesh is made by twisting continuous pairs of wires through double twist which are then interconnected to adjacent wires to form hexagonal openings.

12. The woven wire mesh is cut, using a finish cut saw and then formed into baskets, to the specified commercial length, depending on the requirements of the customer.
13. The domestic demand of the subject products is mainly driven by engineering projects where it is mainly used for landscaping and erosion control.
14. There are two manufacturers of the subject products in the SACU region namely; Maccaferri (Pty) Ltd and Gabion Baskets SA (Pty) Ltd. The identified importers include De Beers Group Services (Pty) Ltd, Zimmer South Africa (Pty) Ltd and Agrinet Limited.
15. The SARS's official trade statistics reveal that imports of the subject product increased by 96% and 174% during 2015 and 2016, respectively.

COMPETITIVE POSITION

16. According to the information at the Commission's disposal, the domestic industry manufacturing gabions of wire netting is faced with price disadvantages vis-à-vis similar products imported from East-Asian countries.

COMMENTS

17. Comments in support of the increase in customs duty on gabions of wire netting were received from the South African Wire Association. The main reason cited for support was the threat of low-priced imports to the local industry manufacturing gabions of wire netting.
18. No objections were received during the investigation period.

FINDINGS

19. The Commission considered all the comments received during the review. In particular, the Commission took the following factors into account:
- The material increase in the level of imports and concurrent erosion of the market share of domestic manufacturers of gabions of wire netting.

- The significant price disadvantages experienced by the domestic industry vis-à-vis imported subject products;
- The domestic industry's sales and capacity utilisation has declined significantly;
- Escalating cost structures combined with low profit margins; and
- Diminishing domestic employment and investment opportunities.

20. The Commission concluded that tariff support should enable the industry manufacturing gabions of wire netting to fully utilise its existing under-utilised production capacity thereby achieving cost advantages arising from increased output due to operational efficiencies. This would assist the domestic industry in creating new investment and employment opportunities.

RECOMMENDATION

21. In light of the foregoing, the Commission recommends that the rate of customs duty on gabions of wire netting classifiable under tariff subheadings 7326.20.10 be increased from free of duty to 30% *ad valorem*. It is further recommended that the duties be reviewed after a period of three years after implementation.