

REPORT NO. 606

INCREASE IN THE RATE OF CUSTOMS DUTY ON TINPLATE

The International Trade Administration Commission herewith presents its Report No. 606:
INCREASE IN THE RATE OF CUSTOMS DUTY ON TINPLATE, 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

REPORT NO. 606

INCREASE IN THE RATE OF CUSTOMS DUTY ON TINPLATE

Synopsis

The South African Iron and Steel Institute representing ArcelorMittal South Africa Limited, applied for an increase in the rate of customs duty on flat-rolled products of iron or non-alloy steel, clad, plated or coated with tin, classifiable under tariff subheadings 7210.11, 7210.12.10, 7210.12.90, and 7212.10, from free of duty to 10% *ad valorem*.

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

- The rising level of imports and the erosion of the market share of the only SACU manufacturer;
- The considerable decline in the level of production, sales and capacity utilisation of the domestic tinplate manufacturing industry;
- The worsening competitive position of the domestic manufacturing industry as a result of escalating cost structures;
- Diminishing domestic employment and investment opportunities; and
- The strategic nature of the steel industry to the country, given its backward and forward linkages.

The Commission concluded that tariff support should enable the industry manufacturing tinplate to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in security of volumes with a reduction in the marginal cost of production.

The Commission recommended that the rate of customs duty on flat-rolled products of iron or non-alloy steel, plated or coated with tin, classifiable under tariff subheadings 7210.11, 7210.12.10, 7210.12.90, and 7212.10, be increased from free of duty to 10% *ad valorem*, subject to the conditions listed on paragraph 25 of this report.

THE APPLICATION AND TARIFF POSITION

1. The South African Iron and Steel Institute ("SAISI"), representing ArcelorMittal South Africa Limited ("AMSA"), applied for an increase in the rate of customs duty on flat-rolled products of iron or non-alloy steel, clad, plated or coated with tin ("tinplate"), classifiable under tariff subheadings 7210.11, 7210.12.10, 7210.12.90, and 7212.10, from free of duty to 10% *ad valorem*.
2. As motivation for the application, the applicant stated the following:
 - Recent developments in terms of the volumes and value of imports into the SACU market have rendered the current tariff structure untenable in relation to the subject products;
 - Imports have substantially increased over the last five years from Asian countries, making domestic production static;
 - The domestic industry is experiencing intense price competition on the subject products vis-à-vis imported products; and
 - The tariff increase requested will prevent imports from entering the country at impermissible low prices.

3. The application was published in the Government Gazette on 23 November 2018 for comments by interested parties, as follows:

Increase in the general rate of customs duty on:

"Flat-rolled products of iron or non-alloy steel, plated or coated with tin ("tinplate"), classifiable under tariff subheadings 7210.11, 7210.12.10, 7210.12.90, and 7212.10, from free of duty to 10% *ad valorem*."

4. The existing tariff structure for the subject product is as follows:

Table 1: Current tariff structure of the tinplate

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
72.10		Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated:						
	7210.1	Plated or coated with tin:						
	7210.11	Of a thickness of 0,5 mm or more	kg	Free	Free	Free	Free	Free
	7210.12	Of a thickness of less than 0,5 mm:						
	7210.12.10	Other, of a thickness less than 0,3 mm	kg	Free	Free	Free	Free	Free
	7210.12.90	Other	kg	Free	Free	Free	Free	Free
72.12		Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, clad, plated or coated:						
	7212.10	Plated or coated with tin	kg	Free	Free	Free	Free	Free

Source: SARS 2019

5. The WTO bound rate for the four tariff subheadings under investigation is 10% *ad valorem*.

6. The tariff structure as requested by the applicant is as follows:

Table 2: Requested tariff structure of the tinplate

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
72.10		Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, clad, plated or coated:						
	7210.1	Plated or coated with tin:						
	7210.11	Of a thickness of 0,5 mm or more	kg	10%	Free	Free	Free	Free
	7210.12	Of a thickness of less than 0,5 mm:						
	7210.12.10	Other, of a thickness less than 0,3 mm	kg	10%	Free	Free	Free	Free
	7210.12.90	Other	kg	10%	Free	Free	Free	Free
72.12		Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, clad, plated or coated:						
	7212.10	Plated or coated with tin	kg	10%	Free	Free	Free	Free

Source: Applicant 2018

INDUSTRY AND MARKET

7. The subject products are flat-rolled products of iron or non-alloy steel, clad, plated or coated with tin. The subject product is flat-rolled non-alloy steel, plated on coated with tin. The applicant is the only manufacturer of tinplate in SACU and it produces tinplate material ranging from 0.19mm to 0.45mm in thickness and ranging from 650mm to 950mm in width.
8. Tinplate is a technically sophisticated product, predominantly used for the production of packaging materials i.e. food cans, can ends, larger containers and a range of closures for food processing.
9. AMSA produces various steel products from its various mills such as Newcastle Works, Vereeniging Works, Vanderbijlpark Works and Saldanha Works. However, the product

subject to this investigation is manufactured in the Vanderbijlpark Works, which is the company's largest operation, accounting for nearly two-thirds of the entire company.

10. Generally, the manufacturing of the subject product begins with the process of steel making. Steel can be made from iron ore and from recycled steel (i.e. scrap metal).

11. In the beginning of the manufacturing process, raw materials such as iron ore, coal, dolomite or scrap metal are melted in a blast furnace to produce iron. Iron is then turned into steel in an oxygen furnace which is then cast into steel slabs in a continuous caster.

12. The steel slabs are then rolled into steel coils and pickled into acid to remove any surface imperfections. 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 the physical and chemical properties of a material to improve its formability and durability. The final stage is what distinguishes tinned material from normal cold-rolled material. This final stage is the electrolytic tinning process.

13. AMSA is the only manufacturer of the subject product in the SACU region and the main buyers and users of tinsplate in the SACU include, amongst others, the following companies:

- Nampak Divfood, a division of Nampak Products Limited;
- Rheem South Africa (Pty) Ltd;
- SA Steel Pack Solutions (Pty) Ltd;
- Golden Era Packaging; and
- Metcan Manufacturing CC

14. Aggregate import statistics for the four tariff subheadings subject to this investigation indicate that the total import volumes for tinsplate increased from 35 893 tons in 2016 to 94 732 tons in 2018. Chinese import volumes of the subject product increased from 12 484 tons in 2016 to 44 332 tons in 2018. This illustrates that import volumes of the subject product have more than doubled over the three year period under investigation and that Chinese imports are increasingly replacing imports from other sources.

15. In line with the increase in import volumes, AMSA's production and sales volumes have declined significantly, adversely affecting the industry's capacity utilization. As a result, capacity utilisation has declined to unsustainable levels, rendering the manufacturing industry uncompetitive.
16. Due to the slowdown in production and sales, the applicant's employment in its tinplate line declined by 15 per cent over the three year period.

COMPETITIVE POSITION

17. SA steel producers are facing cost pressures due to expensive energy which includes electricity, coking coal and gas availability. Coking coal has been one of the biggest cost drivers in recent times due to China's demand dominance and depleting global reserves.
18. The domestic manufacturing industry's cost structure is further escalated by high labour costs.
19. The domestic industry manufacturing tinplate is not price-competitive against Asian imports of the subject products and it is currently selling the product at suppressed prices and incurring losses.

COMMENTS RECEIVED

20. Objections to the application were received from the following downstream manufacturers: Nampak Divfood, a division of Nampak Products Limited; Tiger Brands Limited; the South Africa Fruit & Vegetable Canners Association (SAFVCA); Lucky Star Limited, a division of Oceana Group Limited; Rhodes Food Group (Pty) Ltd; Aerosol Manufacturers' Association NPC; and Metcan Manufacturing CC.
21. The main reasons for the objections included, but were not limited to, the following factors:

- **AMSA does not produce certain specifications of tinplate (i.e. thicknesses below 0.17mm and widths above 950mm);**
- **The surge in import volumes of tinplate is partly as a result of AMSA's own aggressive pricing policy;**
- **Can manufacturers and canned food producers will not be able to absorb the duty increase, meaning that a duty increase will flow to the consumer in the form of higher food prices; and**
- **The downstream food processing industry employs thousands of people whose jobs would be in jeopardy should the duty be increased.**

22. Although the Commission has noted the concerns of the downstream industry that some of the product ranges are not manufactured domestically, the applicant is in a position to manufacture the subject product for the majority of domestic downstream applications. In addition, after consultations with the Commission and some interested parties, the applicant decided to withdraw the specific tariff subheading for tinplate material wider than 950mm as it is not manufactured locally.

FINDINGS

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

- **The rising level of imports and the erosion of the market share of the only SACU manufacturer;**
- **The considerable decline in the level of production, sales and capacity utilisation of the domestic tinplate manufacturing industry;**
- **The worsening competitive position of the domestic manufacturing industry as a result of escalating cost structures;**
- **Diminishing domestic employment and investment opportunities; and**

- The strategic nature of the steel industry to the country, given its backward and forward linkages.

24. The Commission concluded that tariff support should enable the industry manufacturing tinsplate to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in security of volumes with a reduction in the marginal cost of production.

RECOMMENDATION

25. In light of the foregoing, the Commission recommended that the rate of customs duty on tinsplate, classifiable under tariff subheadings 7210.11, 7210.12.10, 7210.12.90, and 7212.10, be increased from free of duty to 10% *ad valorem*.

26. The Commission further recommended that the duty structure be reviewed to determine its impact on the industry value after three years from the date of implementation.