

REPORT NO. 438

**INCREASE IN THE RATE OF CUSTOMS DUTY ON GRAPHITE
ELECTRODES**

The International Trade Administration Commission of South Africa herewith presents
Report No. 438: **INCREASE IN THE RATE OF CUSTOMS DUTY ON GRAPHITE
ELECTRODES**, 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. 438

INCREASE IN THE RATE OF CUSTOMS DUTY ON GRAPHITE ELECTRODES

Synopsis

GrafTech South Africa (Pty) Ltd applied for an increase in the rate of customs duty on graphite electrodes classifiable under tariff subheading 8545.11, from free of duty to the WTO bound rate of 10% *ad valorem*.

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

- The high level of imports into the SACU, and concomitant erosion of the market share of the SACU producer of graphite electrodes;
- The considerable level of production, employment, and investment in world-class technology and production facilities by the domestic producer of electrodes;
- The competitive position of the domestic industry and the significant price disadvantages experienced vis-à-vis foreign, especially East Asian producers;
- The cost-raising effects, i.e. electrode costs as a percentage of the total production costs of electric arc furnace mills; and
- The range of electrodes manufactured by the domestic industry in all grades and sizes up to 600mm in diameters and 3m in length.

The Commission recommended that the rate of customs duty on graphite electrodes be increased from free of duty to 10% *ad valorem*.

THE APPLICATION AND THE TARIFF POSITION

1. GrafTech South Africa (Pty) Ltd applied for an increase in the rate of customs duty on graphite electrodes classifiable under tariff subheading 8545.11, from free of duty to the WTO bound rate of 10% *ad valorem*.
2. Graphite electrodes are devices used to conduct electricity in an electric arc furnace that generates sufficient heat to melt metal scrap.
3. As reasons for the application, the applicant stated the following:
 - GrafTech SA is the only manufacturer of graphite electrodes in the SACU region and it is suffering serious injury as a result of rapidly increasing imports at declining import unit prices;
 - While the market has grown significantly over the past 3 years, GrafTech has experienced negative growth over this period and its market share declined precipitously;
 - The low-priced imports have severely affected the profitability of the business;
 - The company's investment in the SACU economy is under threat because of the serious injury being caused by imports; and
 - As the sole SACU manufacturer of graphite electrodes, GrafTech and its products are essential to a number of industries. It is in the best interest of the SACU economy to retain this important investment.
4. The application was published in the Government Gazette on 22 March 2013, for a period of four weeks, for comments by interested parties, as follows:

Increase in the general rate of customs duty on:

“Graphite electrodes classifiable under tariff subheading 8545.11, from free of duty to 10% *ad valorem*.”

5. The tariff structure for graphite electrodes reads as follows:

Table 1: Graphite electrodes tariff structure

Heading/ Sub- heading	Article Description	Statistical Unit	Rate of Duty			
			General	EU	EFTA	SADC
85.45	Carbon electrodes, carbon brushes, lamp carbons, battery carbons and other articles of graphite or other carbon, with or without metal, of a kind used for electrical purposes:					
8545.1	Electrodes:					
8545.11	Of a kind used for furnaces	kg	free	free	3.8%	free

6. The WTO bound rate is 10% *ad valorem*.

INDUSTRY AND MARKET

7. Graphite electrodes are used as electricity conductors in electric arc furnaces, generating sufficient heat to melt scrap metal or other materials such as ferro-alloys used to produce steel or other metals. They are depleted in the smelting process. Pitch and petroleum coke are the major raw materials used in the production of graphite electrodes and are domestically sourced.
8. The production process is rigorous and the indicated lead time is 60 to 90 days. The manufacturing process entails the feeding of the raw materials into a mixing and forming mill. The raw materials are crushed, screened, batched, mixed, and extruded, and the green electrodes are then cooled. The first baking process entails loading of green electrodes into gas-fired furnaces and baked.
9. The baked electrodes are impregnated with pitch and baked for the second time to carbonize the pitch. The baked electrodes are converted to graphite in

electrical graphitization furnaces and are then machined to ultra-fine tolerances. The applicant supplies graphite electrodes with lengths up to 3000mm and diameters ranging from 100mm to 600mm.

10. The applicant is the only manufacturer of graphite electrodes in Africa and supplies various local smelters in the metals and mining industries.
11. The official SARS trade statistics for graphite electrodes are shown hereunder:

Table 2: Graphite electrodes trade data

Description	Volume (kg)	Value (R)
Imports		
2009	7 700 480	279 147 303
2010	8 073 585	202 649 844
2011	13 825 971	283 044 946
2012	51 019 715	547 592 375
Exports		
2009	5 128 499	97 068 024
2010	10 151 531	202 554 190
2011	11 645 456	216 696 647
2012	12 241 840	292 052 906

12. A surge in imports of the subject product occurred between 2009 and 2012. The People's Republic of China (PRC) accounted for approximately 86% of total imports in 2012.
13. The estimated SACU market (by volume) increased from approximately 25 million kg in 2010 to approximately 60 million kg in 2012.
14. In terms of volume, the applicant's production declined by 35% from 2010 to 2012; the market share of the domestic industry declined from approximately 68% in 2010 to 21% in 2012; and its capacity utilisation declined from approximately 51% in 2010 to approximately 36% in 2012.

COMPETITIVE POSITION

15. According to information at the Commission's disposal, the domestic manufacturing industry is experiencing significant price disadvantages vis-à-vis low-priced competition, especially from East Asia.

COMMENTS ON APPLICATION

16. Comments objecting to the application were received from Botswana's Ministry of Trade and Industry, the Scaw Metals Group, Furnops (Pty) Ltd, Thukela Refractories, Vereeniging Refractories (Pty) Ltd, Manor Trading (Pty) Ltd, Innomet CC, Prima Industrial Holdings (Pty) Ltd, Cape Gate (Pty) Ltd, Columbus Stainless (Pty) Ltd, and SGL Carbon South Africa (Pty) Ltd.
17. The objections centred on issues relating to the cost-raising impact of the customs duty on the downstream industry; monopolistic pricing practices by the applicant; the product range, and perceived sub-standard quality.

FINDINGS

18. The Commission considered the application in light of the information at its disposal and the comments received. In particular the Commission took the following factors into account:
- The high level of imports into the SACU, and concomitant erosion of the market share of the SACU producer of graphite electrodes;
 - The considerable level of production, employment, and investment in world-class technology and production facilities, by the domestic producer of electrodes;
 - The competitive position of the domestic industry and the significant price disadvantages experienced vis-à-vis foreign, especially East Asian producers;
 - The cost-raising effects, i.e. electrode costs as a percentage of the total production cost of electric arc furnace mills; and
 - The range of electrodes manufactured by the domestic industry in all grades and sizes up to 600mm in diameters and 3m in length.

19. The Commission found that tariff support for the industry would improve its price-competitive position without an undue cost-raising impact on the industrial consumers of electrodes and would enable it to utilise its installed production capacity and achieve increased economies of scale. Following the tariff support, the Commission will conduct a review of the duty structure, three years from the date of implementation.

RECOMMENDATION

20. The Commission recommends that the rate of customs duty on graphite electrodes, classifiable under tariff subheading 8545.11, be increased from free of duty to the WTO Bound rate of 10% *ad valorem*.