

REPORT NO.377

APPLICATION FOR AN INCREASE IN DUTY ON ALUMINIUM ROLLED PRODUCTS

The International Trade Administration Commission of South Africa herewith presents
its Report No.377: **APPLICATION FOR AN INCREASE IN DUTY ON ALUMINIUM
ROLLED PRODUCTS**



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CHIEF COMMISSIONER

PRETORIA

05/08/2011

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA
REPORT NO. 377

APPLICATION FOR AN INCREASE IN DUTY ON ALUMINIUM ROLLED PRODUCTS

Synopsis

The Commission considered an application by Hulamin Operations (Pty) Ltd for an increase in duty on aluminium rolled products.

The Commission found no evidence of a significant change in circumstances since its previous investigation of the industry and subsequent recommendation in 2008. In particular, the Commission found that the cast house at BHP Billiton remains operational. There was no decision to shut it down. The supply agreement between Hulamin and BHP Billiton has been extended and rolling slab supply is stable.

The Commission considered the cost and price information at its disposal and competitive position of the domestic aluminium rolled products industry. It found that the industry's financial position, overall demand, product prices, and export performance, improved appreciably since the height of the recession.

The Commission also considered the level of imports into the SACU. It found that imports of aluminium rolled products are at relatively low levels especially taking into account that the import figures also include certain specialty products that are not produced domestically.

The Commission further took into consideration the cost-raising inflationary impact that higher tariffs on aluminium rolled products would have on the high number of downstream and export-oriented industries.

In light of the foregoing, the Commission could not support the application for an increase in the duty on rolled aluminium products and recommended that the application be rejected.

Introduction

1. In August 2008, in its report No.270, the Commission recommended a gradual phase-out of the general rate of ordinary customs duties applicable to aluminium rolled products of tariff headings 76.06 and 76.07.
2. The Commission found that the then existing duty of 10% **ad valorem**, on aluminium rolled products, in light of the price advantages experienced by Hulamin, had an unnecessary cost-raising impact on the significant number of producers further downstream, and recommended a phase-out of duties by 1 January 2012.

The current application and tariff position

3. Hulamin operations (Pty) Ltd (Hulamin) applied for an increase in the general rate of duty on certain semi-fabricated aluminium rolled products classifiable under tariff headings 76.06 and 76.07, from the existing 1.3% **ad valorem** to 10% **ad valorem**.
4. As reasons for the application, the applicant stated that:
 - The proposed closure of BHP Billiton's Bayside Cast house, and hence, the termination of the supply of rolling slab from domestic sources, would increase input costs and reduce Hulamin's competitive advantage. Rolling slab is an essential raw material and a major cost component in the manufacture of aluminium rolled products;
 - Hulamin would have to find alternative means of sourcing the rolling slab that was previously supplied by BHP Billiton. This includes importing rolling slab at a premium. Hulamin's inability to purchase this critical raw material locally would reduce its ability to offer rolled products at relatively short lead times and at competitive prices;

- The continuous strength of the Rand, lowering Hulamin's profitability;
 - The Eskom tariff increases adversely affecting Hulamin's cost structure; and
 - The support by foreign governments to their manufacturing sectors during the economic downturn.
5. In Table 1 below, the existing tariff structure for the semi-fabricated aluminium rolled products concerned is shown. In Table 2, the requested tariff structure of the products that are the subject of the investigation is shown.

Table 1: Existing tariff position

Heading	Sub heading	Description	Rates of duty			
			General	EU	EFTA	SADC
76.06		Aluminium plates, sheets and strips, of a thickness exceeding 0,2 mm:				
	7606.1	Rectangular (including square):				
	7606.11	Of aluminium, not alloyed:				
	7606.11.07	Containing, by mass, not more than 99,9 per cent of aluminium, laminated or coated on one or on both sides with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate)	1.3%	1.3%	0.7%	free
	7606.11.17	Containing by mass, not more than 99,9 per cent aluminium, not coated or covered with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	1.3%	1.3%	0.7%	free
	7606.11.90	Other	free	free	free	free
	7606.12	Of aluminium alloys:				
	7606.12.07	Coated or covered on one or both sides with paint or plastics, of a thickness exceeding 0.25 mm and a width exceeding 100m (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	1.3%	1.3%	0.7%	free
	7606.12.17	Not coated or covered with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate), those which are perforated, and those containing by mass more than 0,5 per cent of copper, 6 per cent of magnesium or 4 per cent of silicon)	1.3%	1.3%	0.7%	free
	7606.12.90	Other	free	free	free	free

	7606.9	Other:				
	7606.91	Of aluminium, not alloyed:				
	7606.91.07	Containing, by mass, not more than 99,9 per cent of aluminium, coated or covered on one or both sides with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	1.3%	1.3%	1.3%	free
	7606.91.17	Containing, by mass, not more than 99,9 per cent of aluminium, not coated or covered with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	1.3%	1.3%	1.3%	free
	7606.91.90	Other	free	free	free	free
	7606.92	Of aluminium alloys:				
	7606.92.07	Coated or covered on one or on both sides with paint, enamel or plastics, of a thickness exceeding 0,25 mm and a width exceeding 100 mm (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	1.3%	1.3%	1.3%	free
	7606.92.17	Containing, by mass, not more than 99,9 per cent of aluminium, not coated or covered with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	1.3%	free	1.3%	free
	7606.92.90	Other	free	free	free	free
	76.07	Aluminium foil (whether or not printed or backed with paper, paperboard, plastics or similar backing materials) of a thickness (excluding any backing) not exceeding 0,2 mm:				
	7607.1	Not backed:				
	7607.11	Rolled but not further worked	1.3%	1.3%	1.3%	0%
	7607.19	Other:				
	7607.19.10	Etched, of a width not exceeding 105mm	free	free	free	free
	7607.19.25	Other, self-adhesive, coated with glass microspheres	free	free	free	free
	7607.19.90	Other	1.3%	1.3%	1.3%	1.3%
	7607.20	Backed:				
	7607.20.20	Unprinted, of a thickness of 0,1 mm or more but not exceeding 0,15 mm and a width not exceeding 40mm, lacquered on one side only (excluding that laminated to paper or plastics)	free	free	free	free

		and reinforced with glass or sisal fibre)				
	7607.20.25	Other, self-adhesive, coated with glass microspheres	free	free	free	free
	7607.20.90	Other	1.3%	1.3%	1.3%	0%

Table 2: Requested tariff position

Heading	Sub heading	Description	Rates of duty			
			General	EU	EFTA	SADC
76.06		Aluminium plates, sheets and strips, of a thickness exceeding 0,2 mm:				
	7606.1	Rectangular (including square):				
	7606.11	Of aluminium, not alloyed:				
	7606.11.07	Containing, by mass, not more than 99,9 per cent of aluminium, laminated or coated on one or on both sides with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate)	10%	1.3%	0.7%	free
	7606.11.17	Containing by mass, not more than 99,9 per cent aluminium, not coated or covered with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	10%	1.3%	0.7%	free
	7606.11.90	Other	10%	free	free	free
	7606.12	Of aluminium alloys:				
	7606.12.07	Coated or covered on one or both sides with paint or plastics, of a thickness exceeding 0.25 mm and a width exceeding 100m (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	10%	1.3%	0.7%	free
	7606.12.17	Not coated or covered with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate), those which are perforated, and those containing by mass more than 0,5 per cent of copper, 6 per cent of magnesium or 4 per cent of silicon)	10%	1.3%	0.7%	free
	7606.12.90	Other	10%	free	free	free
	7606.9	Other:				
	7606.91	Of aluminium, not alloyed:				

	7606.91.07	Containing, by mass, not more than 99,9 per cent of aluminium, coated or covered on one or both sides with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	10%	1.3%	1.3%	free
	7606.91.17	Containing, by mass, not more than 99,9 per cent of aluminium, not coated or covered with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	10%	1.3%	1.3%	free
	7606.91.90	Other	10%	free	free	free
	7606.92	Of aluminium alloys:				
	7606.92.07	Coated or covered on one or on both sides with paint, enamel or plastics, of a thickness exceeding 0,25 mm and a width exceeding 100 mm (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	10%	1.3%	1.3%	free
	7606.92.17	Containing, by mass, not more than 99,9 per cent of aluminium, not coated or covered with paint, enamel or plastics (excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated)	10%	free	1.3%	free
	7606.92.90	Other	10%	free	free	free
	76.07	Aluminium foil (whether or not printed or backed with paper, paperboard, plastics or similar backing materials) of a thickness (excluding any backing) not exceeding 0,2 mm:				
	7607.1	Not backed:				
	7607.11	Rolled but not further worked	10%	1.3%	1.3%	free%
	7607.19	Other:				
	7607.19.10	Etched, of a width not exceeding 105mm	10%	free	free	free
	7607.19.25	Other, self-adhesive, coated with glass microspheres	10%	free	free	free
	7607.19.90	Other	10%	1.3%	1.3%	1.3%
	7607.20	Backed:				
	7607.20.20	Unprinted, of a thickness of 0,1 mm or more but not exceeding 0,15 mm and a width not exceeding 40mm, lacquered on one side only (excluding that laminated to paper or plastics and reinforced with glass or sisal fibre)	10%	free	free	free
	7607.20.25	Other, self-adhesive, coated with glass microspheres	10%	free	free	free
	7607.20.90	Other	10%	1.3%	1.3%	free

6. The application was published in the Government Gazette on 18 February 2011 for comments by interested parties. The Commission considered all the comments received.

The industry and market

7. Hualamin, the dominant producer of aluminium rolled products in the SACU, manufactures a range of sheet, plate, and foil alloys which it supplies to 340 international and 160 domestic customers in a specific range of end-user markets where factors such as strength to weight ratios and corrosion resistance are of the essence, such as automotive components, domestic and industrial foil containers, building and construction, and beverage can-end and tab stock.
8. Hualamin's rolled products sales volumes and values rose appreciably since 2008. The large majority of its production is exported. Hualamin's dominant SACU market share increased further since 2008.
9. Import volumes and values of aluminium rolled products decreased since 2008 to relatively low levels in 2010. As Hualamin does not produce certain flat rolled products due to capability limitations, a considerably large percentage of imports do not directly compete with Hualamin's product range. Approximately 40% of imports also originate in the EU and are imported in terms of the SA-EU Agreement.
10. The primary aluminium industry, represented by BHP Billiton with smelters at Richards Bay, is in a position to supply Hualamin with its main raw material requirements. The value of the rolling slab produced domestically by BHP Billiton comprises roughly two-thirds of the ex-factory selling price of Hualamin's rolled products. Domestically produced rolling slab is, on average, marginally less expensive than imported rolling slab.
11. The SACU aluminium industry employs about 15 000 people across the entire value chain. Approximately 1700 people are employed by Hualamin at a capital investment of more than R4 billion.

The competitive position

12. The price information at the Commission's disposal indicates that Hulamin does not experience price disadvantages when measured against foreign producers across the globe.

Comments on the application

13. Several importers and downstream manufacturers in the metals and engineering industries objected to the application for an increase in duties. The objections centred on the inflationary impact of increased duties, and that factors such as exchange rates movements and electricity prices and other cost pressures, should not serve to justify higher import duties on aluminium rolled products, especially as such factors affect all import competing industries. A firm, manufacturing automotive components, supported the application, citing Hulamin's competitive prices and relatively short lead times.

Findings

14. The Commission found no evidence of a significant change in circumstances since its previous investigation of the industry and subsequent recommendation in 2008. In particular, the Commission found that the cast house at BHP Billiton remains operational. There was no decision to shut it down. The supply agreement between Hulamin and BHP Billiton has been extended and rolling slab supply is stable.
15. The Commission considered the cost and price information at its disposal and competitive position of the domestic aluminium rolled products industry. It found that the industry's financial position, overall demand, product prices, and export performance, improved appreciably since the height of the recession.
16. The Commission also considered the level of imports into the SACU. It found that imports of aluminium rolled products are at relatively low levels especially taking into account that the import figures also include certain specialty products that are not produced domestically.

17. Lastly, the Commission took into consideration the cost-raising inflationary impact that higher tariffs on aluminium rolled products would have on the high number of downstream and export-oriented industries.

Recommendation

18. In light of the foregoing, the Commission could not support the application for an increase in the duty on rolled aluminium products and recommends that the application be rejected.