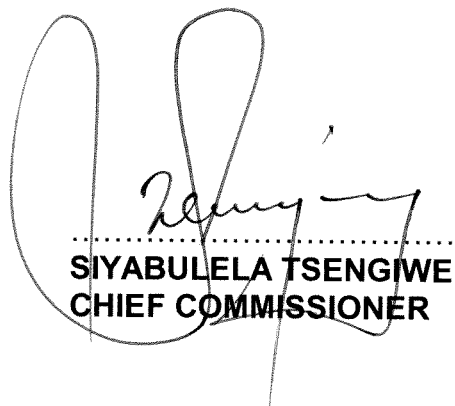


REPORT NO. 356

**INCREASE IN THE CUSTOMS DUTY ON TOWERS AND LATTICE MASTS FOR
TELEGRAPH LINES OR ELECTRIC POWER LINES**

The International Trade Administration Commission of South Africa herewith presents its Report No.356 **Increase in customs duty on towers and lattice masts for telegraph lines or electric power lines, with recommendations.**



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

14.....*12*/... 2010

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 356

**INCREASE IN THE CUSTOMS DUTY ON TOWERS AND LATTICE MASTS FOR
TELEGRAPH LINES OR ELECTRIC POWER LINES**

Synopsis

The Southern African Institute of Steel Construction (SAISC), applied for an increase in the general rate of customs duty on towers and lattice masts for telegraph lines or electric power lines.

In arriving at its recommendation, the Commission took into consideration that:

- (i) The labour-intensive metals fabrication industry, such as the industry manufacturing towers and lattice masts for telegraph lines or electric power lines, is well-placed to significantly contribute to the industrial policy objectives;
- (ii) The Commission considered the competitive position of the applicant in the face of fierce foreign competition. The Commission found that the applicant is experiencing substantive price disadvantages vis-à-vis foreign manufacturers;
- (iii) Having considered the price and related information at its disposal, the Commission found that a duty of 15% *ad valorem* (WTO bound rate) would provide adequate support to the industry, enabling it to

meet foreign competition and achieve improved economies of scale;

- (iv) With improved economies of scale, the recommended rate of duty would not have an undue cost-raising effect for the telecommunications and the electricity generation and distribution industries; and
- (v) Currently, the effective rate of protection for the industry is negative. The recommendation of the Commission would rectify this anomalous situation by eliminating the negative rate of effective protection.

The Commission recommended an increase in the general rate of customs duty on towers and lattice masts for telegraph lines or electric power lines, classifiable under tariff subheading 7308.20.10, from free of duty to 15% *ad valorem*.

The application

2. The Southern African Institute of Steel Construction (SAISC), applied for an increase in the general rate of customs duty on towers and lattice masts for telegraph lines or electric power lines, from free of duty to 25% *ad valorem*.
3. The products are power pylons and cellular communication masts. Power pylons and cellular masts are manufactured using steel angles, sections, plates, bolts, and nuts which the fabricators source locally. The materials are then fabricated using structural steel fabrication equipment such as computer numerically controlled (CNC) machine tools and labour.
4. As motivation for the application, the applicant stated the following:

- (i) The tower and lattice mast manufacturing industry is fast approaching a crisis point where practically all local fabricators and contractors will be facing a situation of reduced activity in 2010;
- (ii) The reduced activity in 2010 emanates from the fact that contracts for supply and installation of power lines to meet Eskom's current and future requirements are placed with foreign contractors based on lower supply prices, particularly from countries such as India;
- (iii) During the past decade increased competition from foreign countries was experienced which was often based on subsidised or low labour cost pricing coupled with comprehensive financial packages and /or assistance;
- (iv) Despite considerable local capacity and capabilities in light of Eskom's capacity expansion programme, some 20 000 tons of power pylon steelwork as well as 10 000 tons of cellular tower steelwork have in the past two years been imported from India;
- (v) There exist export opportunities for South Africa on the back of electricity grid expansion programs by Eskom as well as expansion of cellular phone networks in Africa; and
- (vi) The increase in customs duty on these products will save many decent jobs and give the industry an opportunity to improve its competitiveness and to participate in the many export opportunities in Africa and elsewhere.

5. The application was published in the Government Gazette on 1 October 2010 for comments by interested parties.

The tariff position

6. The existing tariff position for lattice masts for telegraph lines or electric power lines, is as follows:

Table 1: Tariff structure of towers and lattice masts

Tariff heading	Tariff subheading	Description	Unit	Rate of duty			
				General	EU	EFTA	SADC
7308.20		Towers and lattice masts					
	7308.20.10	Lattice masts for telegraph lines or electric power lines	KG	FREE	FREE	FREE	FREE
	7308.20.90	Other	KG	15%	3.75%	9.5%	FREE

7. The current tariff structure for the inputs used in the manufacturing process of the subject products, is as follows:

Table 2: Tariff structure of inputs for towers and lattice masts

Tariff heading	Tariff subheading	Description	Unit	Rate of duty			
				General	EU	EFTA	SADC
7216		Angles, shapes & sections of iron & non-alloy steel	KG	FREE	FREE	FREE	FREE
7318	7318.15.90	Other bolts made of steel with hexagonal head	KG	10%	5%	8.8%	FREE
7318	7318.16.90	Other hexagonal nuts made of steel	KG	10%	5%	10%	FREE

The industry and market

8. The local manufacturers of towers and lattice masts are Babcock International Group plc - Ntuthuko Powerlines (which has ceased production since the application was lodged), IMAB Engineering (Pty) Ltd, Africa Cellular Towers Ltd, Tricom Structures CC, Cosira Towers (Pty) Ltd and Mast Engineering (Pty) Ltd.
9. The tower and lattice mast manufacturing industry is vertically integrated. Major firms operate their own bolt manufacturing facility as well as galvanising plants. All inputs for the manufacture of towers and lattice masts are sourced locally. The current production capacity of the domestic manufacturers is 146 400 tons per annum. For the first nine months of 2010, the SACU manufacturers produced only 37 614 tons, down from 56 643 tons in 2009.
10. The SACU market contracted by 31% during 2009 due to the economic downturn, declining from 37 043 tons to 25 408 tons. For the year 2010 (Jan to Sept), the SACU market declined marginally by approximately 5% to 24 098 tons.
11. Imports of towers and lattice masts increased from 615 tons in 2009 to 3632 tons for the first nine months of 2010. India and China accounted for 78% and 22% respectively of the imports during this period. In contrast, exports have been on a sharp downward trend, declining from 31 849 tons in 2009 to 17 148 tons for the first nine months of 2010.
12. The market share of the local manufacturers currently stands at 85%, down from 98% in 2009. The applicant expects the market share of the local industry to decline to 62% in 2011 due to high imports from South and East Asia, should the application for increased import duties not be successful.
13. In response to Eskom's capacity expansion programme and growing demand for steel towers in Africa, the industry has invested R158 million in new production

equipment and new galvanising facilities in the past 3 years. The industry employs approximately 6000 people of whom 60% are skilled.

Competitive position

14. According to price information at the Commission's disposal, domestic manufacturers of towers and lattice masts suffer significant price disadvantages against Indian and Chinese manufacturers when the landed cost of imported products are compared to the ex-factory selling price of the domestic manufacturers of similar products.
15. Despite a relatively high SACU market share, margins of local manufacturers are depressed and under severe threat from low-priced imports.

Comments received

16. During the publication period, comments were received from Eskom and ArcelorMittal.
17. The application was supported by ArcelorMittal, citing that its business depends on the steel demand from the local manufacturers of the subject products.
18. Eskom objected to the requested increase of duty on towers and lattice masts, citing that an increase would lead to electricity price inflation and cost-raising effects for downstream consumers.

Findings

19. In arriving at its recommendation, the Commission took into consideration that the labour-intensive metals fabrication industry, such as the industry manufacturing towers and lattice masts for telegraph lines or electric power lines, is well-placed to significantly contribute to the industrial policy objectives.
20. The Commission considered the competitive position of the applicant in the face of fierce foreign competition. The Commission found that the applicant is experiencing substantive price disadvantages vis-à-vis foreign manufacturers.
21. Having considered the price and related information at its disposal, the Commission found that a duty of 15% *ad valorem* (WTO bound rate) would provide adequate support to the industry, enabling it to meet foreign competition and achieve improved economies of scale.
22. With improved economies of scale, the recommended rate of duty would not have an undue cost-raising effect for the telecommunications and the electricity generation and distribution industries.
23. Currently, the effective rate of protection for the industry is negative. The recommendation of the Commission would rectify this anomalous situation by eliminating the negative rate of effective protection.

Recommendation

24. In light of the foregoing, the Commission recommends an increase in the general rate of customs duty on towers and lattice masts for telegraph lines or electric power lines, classifiable under tariff subheading 7308.20.10, from free of duty to 15% *ad valorem*.