

REPORT NO. 359

Creation of a rebate facility for sodium hydroxide (caustic soda) used in the manufacture of hardwood pulp, liner board and newsprint

The International Trade Administration Commission of South Africa herewith presents Report No.359: **Creation of a rebate facility for sodium hydroxide (caustic soda) used in the manufacture of hardwood pulp, liner board and newsprint**



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CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF
SOUTH AFRICA
REPORT NO. 359

Creation of a rebate facility for sodium hydroxide (caustic soda) used in the manufacture of hardwood pulp, liner board and newsprint

Synopsis

Mondi Limited and Mondi Shanduka Newsprint (Pty) Ltd, applied for a rebate of duty on sodium hydroxide (caustic soda), classifiable under tariff subheading 2815.12, for the manufacture of hardwood pulp and liner board classifiable under tariff subheadings 4703.21, 4703.29, 4804.11 and 4804.19, and newsprint classifiable under tariff subheading 4801.00.

The Commission found that the domestic manufacturers of caustic soda are not in a position to meet the full market requirements of the industrial consumers in the SACU. The Commission further found that the applicable rate of customs duty is an onerous burden on the pulp and paper and newsprint industries, as it has a substantive cost-raising effect with a concomitant negative impact on the competitiveness of these firms.

The Commission therefore decided to recommend the creation of a rebate facility for the duty-free importation of caustic soda classifiable under tariff subheading 2815.12, for use in the manufacture of hardwood pulp, liner board and newsprint classifiable under tariff subheadings 4703.21, 4703.29, 4804.11, 4804.19 and 4801.00 in such quantities, at such times and under such conditions as the International Trade Administration Commission of South Africa may allow by specific permit.

THE APPLICATION AND TARIFF POSITION

Mondi Limited and Mondi Shanduka Newsprint (Pty) Ltd applied for a rebate of duty on sodium hydroxide (caustic soda), classifiable under tariff subheading 2815.12 for the manufacture of hardwood pulp and liner board classifiable under tariff subheadings 4703.21, 4703.29, 4804.11 and 4804.19, and newsprint classifiable under tariff subheading 4801.00.

As reasons for the application, the applicants stated that the key raw material of sodium hydroxide (caustic soda) is in short supply domestically and attracts a relatively high 20% ad valorem duty that adversely affects the competitiveness of the firms manufacturing the end products.

Caustic soda is a non-flammable, highly corrosive chemical agent used in various applications as a strong base chemical for the production of pulp and paper, textiles, soaps, cleaning detergents, petroleum products, food preparations, aluminium, and organic chemicals.

The tariff position for liquid caustic soda is as follows:

Tariff Heading	Tariff Sub Heading	Article Description	Rates Of Duty			
			General	EU	EFTA	SADC
28.15		Sodium Hydroxide (Caustic Soda); Potassium Hydroxide (Caustic Potash); Peroxides of Sodium or Potassium:				
	2815.1	Sodium hydroxide (caustic soda):				
	2815.12	In aqueous solution (Soda lye or liquid soda)	20%	20%	20%	Free

The tariff position for hardwood pulp, linerboard and newsprint is shown below:

Tariff position for hardwood pulp:

Tariff Heading	Tariff Sub Heading	Article Description	Rates Of Duty			
			General	EU	EFTA	SADC
47.03		Chemical wood pulp, soda or sulphate, other than dissolving grades:				
	4703.21	-- Coniferous	free	free	free	free
	4703.29	-- Non-coniferous	free	free	free	free

Tariff position for linerboard:

Tariff Heading	Tariff Heading	Article Description	Rates Of Duty			
			General	EU	EFTA	SADC
48.04		Uncoated kraft paper and paper board, in rolls or sheets (excluding that of heading 48.02 or 48.03):				
	4804.11	-- Unbleached	free	free	free	free
	4804.19	-- Other	free	free	free	free

Tariff position for newsprint:

Tariff Heading	Tariff Sub Heading	Article Description	Rates Of Duty			SADC
			General	EU	EFTA	
48.01	4801.00	Newsprint, in rolls or sheets	free	free	free	free

INDUSTRY AND MARKET

Caustic soda is manufactured in the SACU by three companies, namely: Mondi (Pty) Ltd (captive), Sasol Polymers (Pty) Ltd, and NCP Chlorchem (Pty) Ltd (NCP).

The three SACU manufacturers have a combined market share of around 50%. The domestic manufacturers do not produce caustic soda in sufficient quantities to satisfy the SACU market requirements.

Mondi Limited manufactures caustic soda for its own use. However, due to production constraints, it also needs to source additional requirements from abroad.

Mondi directly employs more than 1600 people and has a significant contractor base of around 15 000 people, most of whom are employed in forestry. The number of people involved in the pulp and linerboard manufacturing process is 611.

There are 310 people employed by Mondi Shanduka Newsprint (Pty) Ltd, of which 270 are directly involved in the processing of newsprint.

COMMENTS ON THE APPLICATION

The application was published in the Government Gazette for comment by interested parties. No objections were received during the publication period.

The application was supported by NCP Chlorchem, Sasol Polymers and Sappi on the grounds that caustic soda is not produced in sufficient quantities in the SACU.

FINDINGS

The Commission found that the domestic manufacturers of caustic soda are not in a position to meet the full market requirements of the industrial consumers in the SACU. The Commission further found that the applicable rate of customs duty is an onerous burden on the pulp and paper and newsprint industries, as it has a substantive cost-raising effect with a concomitant negative impact on the competitiveness of these firms.

RECOMMENDATION

In light of the foregoing, the Commission recommends the creation of a rebate facility for the duty-free importation of sodium hydroxide (caustic soda) classifiable under tariff subheading 2815.12, for use in the manufacture of hardwood pulp, classifiable under tariff subheadings 4703.21 and 4703.29, liner board classifiable under tariff subheadings 4804.11 and 4804.19, and newsprint classifiable under tariff subheading 4801.00 in such quantities, at such times and under such conditions as the International Trade Administration Commission may allow by specific permit.