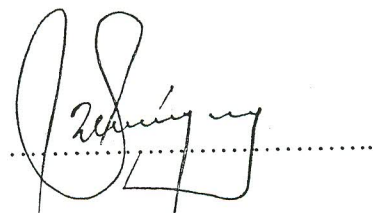


REPORT NO. 270

**REVISION OF THE CUSTOMS DUTIES APPLICABLE TO ALUMINIUM
PRODUCTS CLASSIFIABLE UNDER TARIFF HEADINGS 76.04, 76.05, 76.06 AND
76.07**

The International Trade Administration Commission herewith presents its Report No. 270:
**REVISION OF THE CUTOMS DUTIES APPLICABLE TO ALUMINIUM
PRODUCTS CLASSIFIABLE UNDER TARIFF HEADINGS 76.04, 76.05, 76.06 AND
76.07, with recommendations.**

A handwritten signature in black ink, appearing to read 'Siyabulela Tsengiwe', is written over a horizontal dotted line.

SIYABULELA TSENGIWE

CHIEF COMMISSIONER

PRETORIA

05/08/2008

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 270

REVISION OF THE CUSTOMS DUTIES APPLICABLE TO ALUMINIUM PRODUCTS CLASSIFIABLE UNDER TARIFF HEADINGS 76.04, 76.05, 76.06 AND 76.07

Synopsis

In accordance with the National Industrial Policy Framework (NIPF), the Commission decided that the customs duties applicable to semi-fabricated aluminium extrusions (tariff heading 76.04), aluminium wire (76.05) and aluminium rolled products (76.06 and 76.07) manufactured by the secondary aluminium industry should be investigated for review, as it is the stated aim to reduce input costs into the more labour-intensive value-added tertiary aluminium industries. With the exception of cable rod, the primary aluminium products produced by the aluminium smelters are already at free of duty. The duties on downstream aluminium products such as tubes and pipes, aluminium structures, and household articles have not been made subject to this review.

Although the aluminium semi-fabricators opposed a reduction in the duty on the products concerned, citing imminent and increased competition from China, the Commission found that the duties, in the light of the price advantages experienced by the domestic industry, are not needed to be able to compete and have an unnecessary cost-raising impact on the producers further downstream. The duties provide the leverage to raise prices, adversely affecting the labour-intensive industries further downstream.

The Commission recommended the following:

- (a) A reduction in the general rate of ordinary customs duties on aluminium products classifiable under tariff headings 76.04 (extrusions) and 76.05 (wire), from 5% ad valorem to free of duty;
- (b) A phase-down in the general rate of ordinary customs duties, similar to the EU phase-down, applicable to tariff headings 76.06 and 76.07 (rolled products), from the current 10% ad valorem to 3.8% ad valorem on 1 January 2009, 2.5% ad valorem on 1 January 2010, 1.3% ad valorem on 1 January 2011 and free of duty on 1 January 2012;
- (c) A withdrawal of the rebate provisions under Schedule 3 applicable to the products classifiable under tariff headings 76.04 and 76.05; and
- (d) The EFTA phase down schedule be amended to be similar to the recommended General and existing EU phase-down schedules.

Introduction

1. In accordance with the National Industrial Policy Framework (NIPF), the Commission decided that the customs duties applicable to semi-fabricated aluminium extrusions (tariff heading 76.04), aluminium wire (76.05) and aluminium rolled products (76.06 and 76.07) manufactured by the secondary aluminium industry, should be investigated for review, as it is the stated aim to reduce input costs into the more labour-intensive value-added tertiary aluminium industries. With the exception of cable rod, the primary aluminium products produced by the aluminium smelters are already at free of duty. The duties on downstream aluminium products such as tubes and pipes, aluminium structures, and household articles have not been made subject to this review.

The application and tariff position

2. The duty structure pertaining to the aluminium products under investigation currently is as follows:

Heading	Subheading	Article Description	General	EU	SADC	EFTA
76.04		Aluminium bars, rods and profiles:				
	7604.10	Of aluminium not alloyed:				
	7604.10.35	Bars and rods, of a maximum cross-sectional dimension not exceeding 160 mm	5%	free	free	4,4%
	7604.10.65	Profiles, of a maximum cross-sectional dimension not exceeding 370 mm	5%	free	free	4,4%
	7604.2	Of aluminium alloys:				
	7604.21	Hollow profiles:				
	7604.21.15	Of a maximum outside cross-sectional dimension not exceeding 370 mm	5%	free	free	4,4%
	7604.29	Other:				
	7604.29.15	Bars and rods, of a maximum cross-sectional dimension exceeding 7,5 mm but not exceeding 160 mm	5%	free	free	free
	7604.29.65	Profiles, of a maximum cross-sectional dimension not exceeding 370 mm	5%	free	free	free
76.05		Aluminium wire:				
	7605.1	Of aluminium, not alloyed:				
	7605.11	Of which the maximum cross-sectional dimension exceeds 7 mm:				
	7605.11.05	Circular, in coils without spools, of a mass exceeding 800 kg/coil	5%	2,5%	free	free
	7605.11.80	Other, of a mass exceeding 20kg/coil	5%	2,5%	free	4,4%
	7605.19	Other:				
	7605.19.05	Circular, in coils without spool, of a mass exceeding 800 kg/coil	5%	2,5%	free	4,4%

	7605.19.80	Other, of a mass exceeding 20kg/coil	5%	2,5%	free	4,4%
76.06		Aluminium plates, sheets and strip, 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%	5%	free	8,8%
	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%	5%	free	8,8%
	7606.12	Of aluminium alloys:				
	7606.12.07	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%	5%	free	8,8%
	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%	5%	free	8,8%
	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%	5%	free	10%
	7606.91.17	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%	5%	free	10%
	7606.92	Of aluminium alloys:				
	7606.92.07	Coated or covered on one or on both sides with paint, enamel or	10%	5%	free	10%

		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]				
	7606.92.17	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%	free	free	10%
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%	5%	free	10%
	7607.19	Other:				
	7607.19.90	Other	10%	5%	free	10%
	7607.20	Backed:				
	7607.20.90	Other	10%	5%	free	10%

The industry and market

3. The aluminium value chain consists of the primary, secondary or semi-fabricated, and tertiary aluminium industries.
4. The review of Chapter 76 focused on the semi-fabrication aluminium industry involving tariff headings 76.04, 76.05, 76.06 and 76.07 and covers in total 35 tariff lines of which 15 lines attract no duty. The duty on the other lines range from 5% ad valorem to 10% ad valorem.
5. In the primary industry BHP Billiton with smelters at Richard Bay, is the major player. Although most of the primary aluminium is exported, the smelters are in a position to provide all material input requirements to the semi-fabricators. The main mineral raw material, namely bauxite, has to be imported by the smelters from Australia and other regions. The primary aluminium products involved are classifiable under tariff headings 76.01 to 76.03. The duties are zero. A product manufactured by BHP Billiton that is subject to this investigation, is aluminium wire (cable rod), classifiable under tariff heading 76.05, for the electrical conductor and wire industry.
6. In the semi-fabrication industry, with manufacturing activities such as extrusions and rolling, a number of firms are involved.
7. Regarding aluminium extrusions (76.04), the manufacturers are Hulamin-Hydro Extrusions (Pty) Ltd, Wispeco Aluminium, AGI (Profal) and Lafarge (Macsteel). However, the dominant players are Hulamin-Hydro Extrusions (Pty) Ltd and Wispeco Aluminium with market shares in the region of 40%. Extrusions for strip

ceilings, curtain tracks, office partitions, skirtings, shower cubicles, carpet accessories, blinds, ladders, scaffolding, irrigation equipment, sport and camping equipment and for many other applications are manufactured domestically.

8. Regarding aluminium rolled products (76.06 and 76.07), the only manufacturer in the SACU is Hulamin, with its divisional operations such as Hulamin Rolled Products and Hulamin Foil Products.
9. Hulamin is a leading semi-fabricator and focuses on high specification, high value niche markets such as thin gauge foils, can end stock, heat treated plate, brazing sheet and complex extrusions which require high tolerance manufacturing processes and sophisticated technology. In these markets, customers' supply choice and market flexibility is limited by the decreasing number of suppliers and the dominance of a few major multinational producers.
10. In the tertiary industry, manufacturing involves products that are classifiable under tariff headings 76.10 to 76.16 and other chapters. The manufacturing activities include products made for industries such as the packaging, general engineering, building & construction, automotive and transport industries. In total approximately 840 companies are involved of which some 233 are members of the Aluminium Federation of South Africa (AFSA).

The competitive position

11. Information at the Commission's disposal indicates that as far as rolled products (including foil) are concerned, Hulamin enjoys significant price competitive advantages measured against manufacturers from across the globe. In the field of extrusions, some competition is experienced from China. However, here the SACU industry also experiences price advantages compared to manufacturers abroad, but not as stark or substantial as is the case with rolled products. Import volumes from China represent a minor percentage of the total market. Most of these imports are extrusions of different sizes and shapes that are not manufactured in the SACU region due to low economies of scale. Exports of aluminium rolled products represented 70% of total domestic production, further indicating that Hulamin is a cost-competitive global producer.

Comments on the application

12. Various downstream manufacturers strongly supported a reduction in the duty on semi-fabricated aluminium, as this would have a considerable cost-saving effect on their operations as a result of a consequent downward pressure on input prices.

Findings

13. Although the aluminium semi-fabricators opposed a reduction in the duty on the products concerned, citing imminent and increased competition from China, the Commission found that the duties, in the light of the price advantages experienced by the domestic industry, are not needed to be able to compete and have an unnecessary cost-raising impact on the producers further downstream. The duties

provide the leverage to raise prices, adversely affecting the labour-intensive industries further downstream.

14. The Commission wishes to emphasise that proven injurious subsidised or dumped exports from China should be dealt with through the utilisation of the appropriate instruments, i.e. anti-dumping and countervailing duty applications, and not through the use of ordinary customs duties.

Recommendation

15. In the light of the foregoing, the Commission recommended the following:

- (a) A reduction in the general rate of ordinary customs duties on aluminium products classifiable under tariff headings 76.04 (extrusions) and 76.05 (wire), from 5% ad valorem to free of duty;

- (b) A phase-down in the general rate of ordinary customs duties, similar to the EU phase-down, applicable to tariff headings 76.06 and 76.07 (rolled products), from the current 10% ad valorem to 3.8% ad valorem on 1 January 2009, 2.5% ad valorem on 1 January 2010, 1.3% ad valorem on 1 January 2011 and free of duty on 1 January 2012;

- (c) A withdrawal of the rebate provisions under Schedule 3 applicable to the products classifiable under tariff headings 76.04 and 76.05; and

- (d) The EFTA phase down schedule be amended to be similar to the recommended General and existing EU phase-down schedules.

[T5/2/15/4/1 (37/2007)]