ITAC

International Trade Administration Commission of South Africa

Report No. 1

Tariff protection for the industry manufacturing certain liquefied gas containers of iron or steel

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FAIR TRADE

The International Trade Administration Commission herewith presents its Report No. 1: **Tariff protection for the industry manufacturing certain liquefied gas containers of iron or steel**, with recommendation.

CHIEF COMMISSIONER
(MS NOMONDE MAIMELA)

PRETORIA

19/06/2003

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION

REPORT NO. 1

TARIFF PROTECTION FOR THE INDUSTRY MANUFACTURING CERTAIN LIQUEFIED GAS CONTAINERS OF IRON OR STEEL

Synopsis

Cadac South Africa, a Division of MTM Trading (Pty) Ltd, applied for a protective duty on certain liquefied gas containers of iron or steel, at a level of 15% ad valorem. It is the only manufacturer of domestic gas cylinders (1,2 kg to 4,5 kg) and industrial gas cylinders (6,0 kg to 48,0 kg) in the Southern African Customs Union (SACU) region. The Board on Tariffs and Trade, predecessor to the Commission found that the applicant experiences substantial price disadvantages against increased imports from South East Asian countries, especially Thailand, and that its market share of certain gas cylinders has declined significantly since 1996. The imposition of a duty on the fully manufactured products will enable the applicant to increase its competitive position against producers in low-cost countries. The Commission also took into account that the applicant is burdened by import duties on some input materials and components such as steel, at 5% ad valorem, valves at 15% ad valorem and certain paints at 10% ad valorem, while the duty on gas containers, the end product, is currently zero. The Commission therefore recommends that a moderate rate of duty of 15 % ad valorem on certain liquefied gas containers of iron or steel, be implemented. The tariff protection is recommended in the light of the fierce competition experienced by the industry, the negative rate of effective protection experienced by the industry and to give the industry time to improve its competitive position. The Commission is of the opinion that the level of duty should be reviewed after the expiry of a period of four years from the date of implementation of the recommendation.

The application and the tariff position

1 Cadac South Africa applied for an increase in the duty on all liquefied gas containers of iron or steel from free of duty to 15% ad valorem. The firm, situated in Roodepoort, is a leading manufacturer of domestic and industrial gas cylinders and appliances. It is strongly associated with appliances such as barbeques, camping lights, heaters and gas stoves. The application was published in the Gazette of 13 September 2002 for comment by interested parties.

2. As reason for the application, the applicant stated that liquefied gas containers are fully manufactured products and should be afforded a measure of protection as is the case with many similar products. Cadac stated that it has to pay inflated prices for steel, sourced from Iscor and used in the manufacture of the cylinders. In addition Cadac uses imported valves on some cylinders on which it has to pay a customs duty of 15% ad valorem. The applicant experiences fierce competition especially from importers importing gas cylinders of the industrial type from certain South East Asian countries.

3. The existing tariff description of tariff heading 73.11, where these cylinders are classifiable, is as follows:

Heading	Sub-heading	Article Description	Rates of duty		
			General	EU	SADC
73.11	7311.00	Containers for compressed or liquefied gas, of iron or steel	Free	Free	Free

4. The materials and components used in the manufacturing process such as flat rolled products of steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated; valves; and certain paints are classifiable under tariff subheadings 7208.2 at 5% ad valorem, 8481.10.10 at 15% ad valorem and 3814.00 at 10% ad valorem respectively.

5. The application was published as follows:

"Increase in the general rate of duty on: Containers for compressed or liquefied gas, of iron or steel, classifiable under tariff subheading 7311.00, from free of duty to 15 % ad valorem."

The industry and the market

6. Cadac South Africa is divided into 2 main operations – a liquid petroleum gas (LPG) cylinder manufacturing plant and a domestic appliances manufacturing plant. Recently, Cadac also commissioned an LPG refurbishment plant, which is the only fully automated refurbishment line in the country.

7. Over the years, Cadac increased its product range to include tents, sleeping bags, rucksacks, cooler boxes, technical hiking equipment, hiking poles and outdoor furniture. The firm manufactures all the domestic appliances and cylinders at the Roodepoort factory. However, many of the extensions to the product range like tents, sleeping bags and furniture are manufactured by third parties under the Cadac brand.

8. The manufacturing facilities at Cadac have recently been upgraded to cater for increased demand in domestic appliances and cylinders. The factory complies with the international ISO 9001 standards as well as domestic standards. The factory includes a press shop, paint shop, vitreous enamel plant, chrome-plating plant, tool-making shop and final assembly plant.

9. Cadac established an opperation in the United Kingdom in 1999 to manufacture some of the product ranges for the European market. A sales and distribution center was established in 2002 in the Netherlands. Cadac is currently in the process of establishing markets in Australia and New Zealand.

10. The total investment in the firm is R69 million of which approximately R21 million has been allocated to the products under consideration.

11 The total number of employees in the firm, including factory workers, is 323

12. The applicant manufactures domestic gas cylinders (1,2 kg, 3,2 kg and 4,5 kg) as well as industrial gas cylinders (6,0 kg, 9,0 kg, 19,0 kg and 48,0 kg). Cylinders of a water capacity of 1,5 liters or more but not exceeding 150 liters cover the range of gas cylinders with a mass of 1,2 kg, 3,2 kg, 4,5 kg,

6,0 kg, 9,0 kg, 19,0 kg and 48,0 kg. Industrial gas cylinders represent approximately 57% of the total gas cylinders manufactured by the applicant. Total sales of all gas cylinders represent approximately 32% of the applicant's aggregate output, as the firm also manufactures a wide range of other camping products.

13. Currently, the total output of gas cylinders represents approximately 42% of the applicant's total production capacity. By doubling shifts, the output can be increased significantly.

14. The market share that the applicant holds in the SACU region is currently estimated at 85% for domestic cylinders. Regarding industrial cylinders, the applicant's market share declined from a level hovering around 90% in 1996 to 55% in 2002. The growth in the SACU market of gas containers is estimated at 5% per year.

The competitive position

15. The applicant's competitive position is favourable if measured against European producers. However, the applicant experiences substantial price disadvantages against imports originating from South East Asian countries, especially Thailand, varying between 16% on the 1,2 kg gas cylinders to 37% on the 48 kg gas cylinders.

16. The Commission also found that the applicant experiences a negative rate of effective protection as some of the materials and components are dutiable at duty levels varying between 5% ad valorem and 15% ad valorem while the end product can be imported at free of duty. With a duty of 15% ad valorem on the end product, the effective rate of protection is 28%. This is within acceptable limits in terms of the Commission's existing tariff policy. The effective protection measures the rate at which the value added process, i.e. profits and wages, are protected above internationally competitive levels.

Comments on the application

17. Thirteen firms objected to the application and one firm supported it. The objections centred around the cost-raising effect should the duty be increased. Some firms have also expressed concerns surrounding timeous

delivery and have argued that Cadac cannot meet the domestic market requirements. It was also argued that the applicant is not in a position to manufacture all the specialized sizes of gas cylinders classifiable under tariff subheading 73.11. The Southern African Compressed Gases Association proposed that a separate tariff subheading be created for certain LPG gas cylinders manufactured by the applicant at a rate of duty which protected the applicant against imports without having a cost-raising effect for those cylinders not manufactured in SACU.

18. One firm, a manufacturer of pressure vessels used in fire-fighting equipment, compressor tanks and spray painting, supported the application.

Consideration and recommendation

19. Information at the Commission's disposal indicated that the applicant gradually lost market share since 1996 as a result of low-priced imports originating from certain South East Asian countries, especially Thailand.

20. The Commission found that the imposition of a protective duty would allow the applicant to beat back low-priced competition. The Commission decided to recommend that the products manufactured by the industry, namely welded steel construction gas containers with a water capacity of 1,5 liters or more but not exceeding 150 liters, be protected at a moderate rate of duty of 15 % ad valorem. This will prevent price increases in respect of products not manufactured by the industry concerned within SACU.

21. The Commission wishes to emphasize that the tariff protection is recommended in the light of the fierce competition experienced by the industry, the negative rate of effective protection experienced by the industry and to assist the industry to improve its competitive position over time. The Commission is of the opinion that the level of duty should be reviewed after the expiry of a period of four years from the date of implementation of the recommendation.

22. In the light of the foregoing, the Commission recommends that the general rate of duty on liquefied petroleum gas containers of welded construction, indelibly stamped that they have a water capacity of 1,5 liters or more but not exceeding 150 liters, classifiable under tariff subheading 7311.00, be increased from free of duty to 15% ad valorem.

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