

REPORT NO.465

**INCREASE IN THE RATE OF CUSTOMS DUTY ON
HEAT EXCHANGE UNITS**

The International Trade Administration Commission of South Africa herewith presents its Report No.465: **INCREASE IN THE RATE OF CUSTOMS DUTY ON HEAT EXCHANGE UNITS**, with recommendations.



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SIYABULELA TSENGWE
CHIEF COMMISSIONER

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 465

INCREASE IN THE RATE OF CUSTOMS DUTY ON HEAT EXCHANGE UNITS

Synopsis

GEA Aircooled Systems (Pty) Ltd, applied for an increase in the rate of customs duty on heat exchange units, classifiable under tariff subheading 8419.50, from free of duty to the WTO bound rate of 15% *ad valorem*.

The Commission considered the application in light of the information at its disposal.

- The Commission found that increasing imports of heat exchange units have eroded the domestic industry's market share; that price disadvantages are experienced by the domestic producers; and that considerably under-utilised production capacity has affected the industry's profitability;
- The Commission concluded that tariff support for the industry would improve its price-competitiveness and enable it to utilise its production capacity and achieve economies of scale; and
- The recommendation below would also rectify an anomaly in the tariff structure in that intermediate inputs required for the manufacture of heat exchange units are dutiable, resulting in the domestic industry currently experiencing a negative rate of effective protection.

The Commission recommended that the rate of customs duty on heat exchange units be increased from free of duty to the WTO bound rate of 15% *ad valorem*.

THE APPLICATION AND TARIFF POSITION

1. GEA Aircooled Systems (Pty) Ltd applied for an increase in the rate of customs duty on heat exchange units, classifiable under tariff subheading 8419.50, from free of duty to the WTO bound rate of 15% *ad valorem*.
2. A heat exchange unit is a machine designed for the efficient transfer of thermal energy from one fluid to another in a process to either conserve energy or to achieve a desirable outcome such as heating a fluid to a specified temperature.
3. As reasons for the application, the applicant stated the following:
 - Materials required for the manufacture of the subject product are subject to customs duty, whereas the imports of the final product are currently classifiable at free of duty;
 - Engineering project contractors are increasingly sourcing the product from Asian countries that offer bargain prices because of government subsidies, funding packages etc;
 - Tariff support would enable the domestic manufacturer to be competitive against low-priced imports, and subsequently assist in job retention and job creation; and
 - Other countries apply tariffs on heat exchange units and this affects South African exports destined for these countries.

4. The application was published in the Government Gazette for comments by interested parties, as follows:

Increase in the rate of customs duty on:

“Heat exchange units, classifiable under tariff subheading 8419.50, from free of duty to the WTO bound rate of 15% *ad valorem*.”

5. The tariff structure for heat exchange units is as follows:

Table 1: Tariff position for Heat exchangers units

Tariff heading	Tariff subheading	Description	Unit	Rate of duty			
				General	EU	EFTA	SADC
84.19		Machinery, plant or laboratory equipment, whether or not electrically heated (excluding furnaces, ovens and other equipment of heading 85.14), for the treatment of materials by a process involving a change of temperature such as heating, cooking, roasting, distilling, rectifying, sterilising, pasteurising, steaming, drying, evaporating, vaporising, condensing or cooling (excluding machinery or plant of a kind used for domestic purposes); instantaneous or storage water heaters, non-electric:					
8419.3		Dryers:					
	8419.31	For agricultural products	U	Free	Free	Free	Free
	8419.32	For wood, paper pulp, paper or paperboard	U	Free	Free	Free	Free
	8419.40	Distilling of rectifying plant		Free	Free	Free	Free
	8419.50	Heat exchange units	U	Free	Free	Free	Free
	8419.60	Machinery for liquefying air or other gases		Free	Free	Free	Free

6. The WTO Bound rate is 15% *ad valorem*.

INDUSTRY AND MARKET

7. Heat exchange units are built for efficient heat transfer from one medium to another and are used in many applications as energy saving devices. They are used in space heating, refrigeration, air conditioning, power plants, chemical plants, petrochemical plants, petroleum refineries, natural gas processing, mining, motor vehicle radiators, food processing, and sewage treatment.
8. The manufacturing of heat exchange units typically requires cutting and welding of header boxes from steel plate. The header boxes are then integrally welded to nozzles that connect the air cooler to the rest of the plant's piping. Fins are added to the tubes either by winding a thin metal strip onto the tube, using machinery, or by attaching small separate and individual metal plates by means of hot-deep galvanising. The tubes are then set into holes drilled into header boxes either by welding or expansion.
9. During the manufacturing process, tests by means of various non-destructive methods (such as X-ray, dye penetration and magnetic particle testing) are conducted. Finally, a support structure consisting of structural steel and formed panels is bolted together, as well as to the rest of the unit.
10. According to the Pressure Equipment Manufacturers Association, the local industry has the capacity to manufacture heat exchange units of all sizes.
11. There are approximately 30 known manufacturers of the subject product in the SACU region. These include Carbon Steel Fabricators (Pty) Ltd; DB Thermal; Elgin Engineering; Engski Manufacturing; GEA Aircooled System (Pty) Ltd (the applicant); Turnmill Proquip Engineering (Pty) Ltd; Cooler Engineering Pty (Ltd) and Stainless Steel Fabricators.

12. The official SARS trade statistics for heat exchange units are shown hereunder:

Figure 1: Import Statistics (Units)

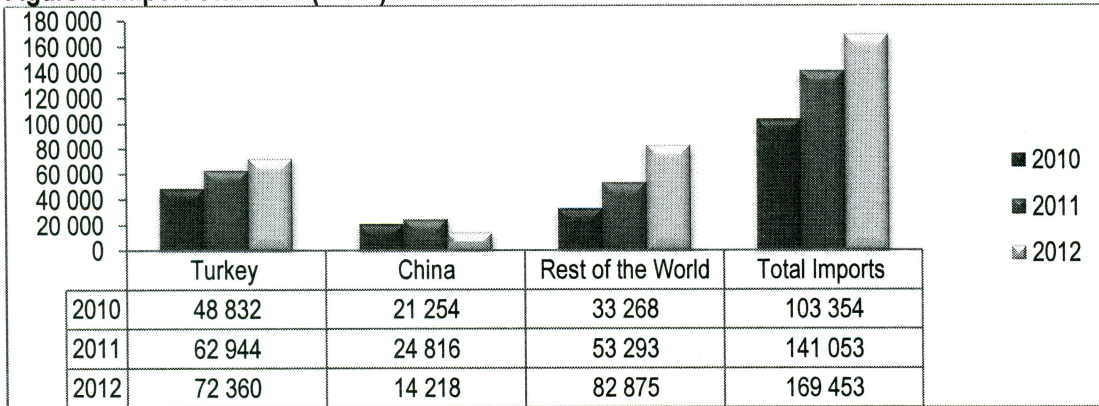
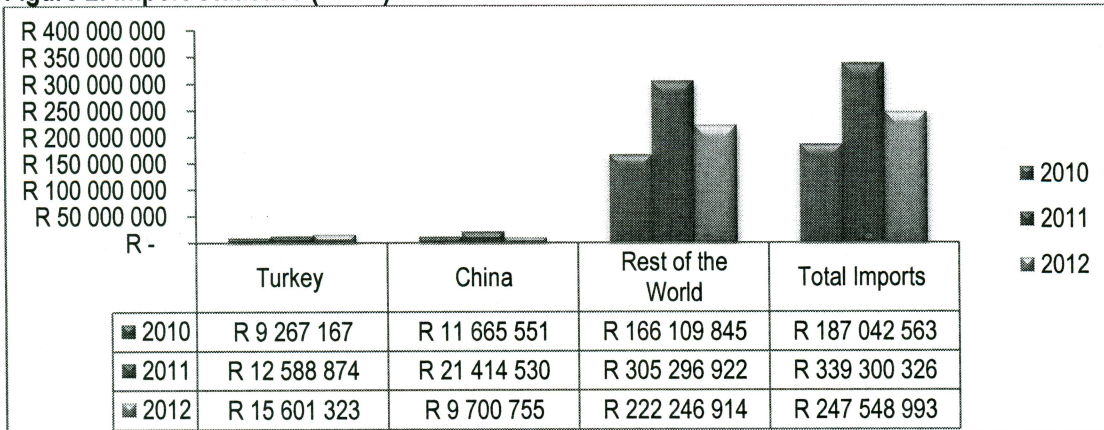


Figure 2: Import Statistics (Value)



13. Following an increase in the imports of the subject product, the industry's production volume, market share, and employment declined, and two domestic manufacturers ceased manufacturing the subject product.

COMPETITIVE POSITION

14. According to information at the Commission's disposal, the domestic industry manufacturing heat exchange units is experiencing significant price disadvantages vis-à-vis low priced imports from abroad.

COMMENTS RECEIVED

15. Comments supporting the application were received from the Pressure Equipment Manufacturing Association and Carbon Steel Fabricators (Pty) Ltd stating that tariff support would stimulate domestic investment and job creation.
16. Comments objecting to the application were received from Botswana's Ministry of Trade and Industry and Mechinox South Africa CC, stating that there is a need to allow industries adequate choice between domestically manufactured and imported products.

FINDINGS

17. The Commission considered the application in light of the information at its disposal.
18. The Commission found that increasing imports of heat exchange units have eroded the domestic industry's market share; that price disadvantages are experienced by the domestic producers; and that considerably under-utilised production capacity has affected the industry's profitability.
19. The Commission concluded that tariff support for the industry would improve its price-competitiveness and enable it to utilise its production capacity and achieve economies of scale.
20. The recommendation below would also rectify an anomaly in the tariff structure in that intermediate inputs required for the manufacture of heat exchange units are dutiable, resulting in the domestic industry currently experiencing a negative rate of effective protection.

RECOMMENDATION

21. In light of the foregoing, the Commission recommends that the rate of customs duty on heat exchange units classifiable under tariff subheading 8419.50, be increased from free of duty to 15% *ad valorem*.