

REPORT NO. 482

Increase in the rate of customs duty on uncoated paper and paperboard.

The International Trade Administration Commission of South Africa herewith presents its Report No.482: **Increase in the rate of customs duty on uncoated paper and paperboard.**



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CHIEF COMMISSIONER

PRETORIA
...../19/.....08/2014

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH
AFRICA

REPORT NO. 482

**INCREASE IN THE RATE OF CUSTOMS DUTY ON UNCOATED PAPER AND
PAPERBOARD**

Synopsis

The Paper Manufacturers Association of South Africa (PAMSA) has applied on behalf of SAPPI (Pty) Ltd and MONDI (Pty) Ltd, for an increase in the rate of customs duty on uncoated paper and paperboard, classifiable under tariff subheadings 4802.56.20 and 4802.56.90 (A3 and A4 business paper) be increased from free of duty to 5% *ad valorem* and 20% *ad valorem*, respectively.

The Commission considered the application in the light of the information at its disposal. It took into account the considerable levels of production, employment and investment across the full value chain.

The Commission found that increasing imports of uncoated paper and paperboard into the SACU are threatening the domestic industry's market share; that price disadvantages are experienced by the domestic producer of uncoated paper and paperboard; and that considerably underutilized manufacturing capacity has affected profitability.

The Commission concluded that a moderate increase in the general rate of duty on uncoated paper and paperboard would substantially improve the domestic industry's price-competitive position in the face of fierce lower-priced competition from abroad without having an undue cost-raising impact on downstream industrial consumers.

The Commission recommended that the rate of duty on the subject products be increased from free of duty to 5% *ad valorem* (tariff subheading 4802.56.20) and 10% *ad valorem* (tariff subheading 4802.56.90).

1. THE APPLICATION AND TARIFF POSITION

- 1.1. The Paper Manufacturers Association of South Africa (PAMSA) on behalf of SAPPI (Pty) Ltd (Sappi) and MONDI (Pty) Ltd (Mondi), applied for an increase in the rate of customs duty on uncoated paper and paperboard, classifiable under tariff subheadings 4802.56.20 and 4802.56.90 from free of duty to the WTO-bound rate of 5% *ad valorem* and 20% *ad valorem*, respectively.
- 1.2. SAPPI and MONDI manufacture paper and paper packaging products including newsprint, coated and uncoated fine papers, office and business papers, security and speciality papers, containerboard, packaging paper, and bleached paper

pulp. The application under consideration is for an increase in duty on size A3 (4802.56.20) and A4 (4802.56.90) business paper.

1.3. As reasons for the application, the applicant stated that:

- The main aim of the application for tariff support is to improve Sappi and Mondi's competitive position against producers in low-cost countries. Both Sappi and Mondi are experiencing fierce competition from low-priced imports. Consequent price-undercutting resulted in Sappi and Mondi losing significant market share;
- Tariff support would provide relief to the local industry and would not translate to domestic price increases;
- Tariff support would curb further job losses, as large retrenchments have already taken place;
- Tariff support would provide the opportunity to improve the domestic industry's competitive position in an oversupplied global market;
- The support would encourage the industry to continue to invest in South Africa and create further employment; and
- The support would assist upstream and downstream service and product providers and enable further investment into the industry value chain.

1.4. The existing tariff structure for uncoated paper and paperboard reads as follows:

CHAPTER 48		PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, OF PAPER OR PAPERBOARD					
Head	Sub Head	Article Description	Statistical Unit	General	EU	EFTA	SADC
48.02		Uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, and non-perforated punch cards and punch tape paper, in rolls or rectangular (including square) sheets of any size (excluding paper of heading 48.01 or 48.03); hand-made paper and paperboard					
	4802.56	Of a mass of 40g/m ² or more but not more than 150g/m ² , in sheets with one side not exceeding 435 mm and the other side not exceeding 297 mm in the unfolded state					
	4802.56.20	In rectangular (including square) sheets with one side exceeding 360mm and the other side exceeding 150mm in the unfolded state	kg	free	Free	Free	Free
	4802.56.90	Other	kg	free	free	free	free

- 1.5. The application was published in the Government Gazette on 18 October 2013 for comments by interested parties.

2. INDUSTRY AND MARKET

- 2.1. South Africa has a large plantation forest sector. Sub- sectors include the forestry contractors in silviculture, harvesting, fire-fighting services and others. Plantation forestry provides the raw materials for downstream industries such as pulp milling, paper manufacturing, saw milling and furniture manufacturing.
- 2.2. In South Africa, 600 million trees across 762 000 hectares are specifically grown for use in pulp and paper manufacture and the industry plants in excess of 260 000 trees per day.
- 2.3. The forestry industry has the potential to contribute significantly to rural and economic development and creating job opportunities and income in poor rural communities. The forestry industry is worth R40 billion a year and employs more than 90 000 people.
- 2.4. Sappi and Mondi employ 2 405 people of which 542 and 1 863 respectively are directly involved in the manufacture of A3 and A4 paper.
- 2.5. The main raw material input used in the production of uncoated paper and paperboard is pulp, which is usually a combination of chemical pulp and mechanical pulp.
- 2.6. Business paper, which is also known as uncoated A3 and A4 copy paper, is used for writing, printing and other graphic purposes.
- 2.7. Chemical pulp is a watery fibrous substance made of fresh or recycled cellulose fibres. It is produced by means of a chemical pulping process. In this process, wood is cooked in a digester with chemicals. This breaks down the chemical structure of lignin and renders it soluble in the “cooking” liquor. It is then washed from the cellulose fibres. Because lignin holds the plant cells together, chemical pulping frees the fibres and creates pulp. The pulp must be bleached in order to strengthen the paper and to prevent discolouring during storage or due to exposure to sunlight.
- 2.8. Mechanical pulp is a watery fibrous substance produced by mechanically grinding logs or wood chips. The pulp consists of ground wood that has not been cooked or chemically treated, and therefore consists of fibres separated entirely by mechanical means. Mechanical pulp has a high level of opacity, but its strength is relatively low due to its lignin content.
- 2.9. The paper manufacturing industry has made significant advances in terms of environmental sustainability over recent decades. The use of renewable biomass-based energy has enabled the industry to avoid the use of 1.3 million

tons of fossil fuels such as coal, oil and gas annually and the associated carbon emissions.

2.10. Sappi and Mondi are the only SACU manufacturers of uncoated paper and paperboard at the Enstra mill (Sappi) and the Merebank mill (Mondi). Both mills are currently producing below capacity.

2.11. The current annual market for A3 paper is indicated below:

	2011	2012	2013
Total SACU Market i.t.o volume (tons)	10 365	9 517	6 531
Total SACU Market i.t.o volume (tons)	100%	100%	100%
Total SACU Sales i.t.o volume (tons)	4 301	4 205	4 326
% Total SACU Sales i.t.o volume	41%	44%	66%
Total imports i.t.o volume (tons)	6 064	5 312	2 206
% Total imports i.t.o volume (tons)	59%	56%	34%

2.12. Total imports constituted 34% of the market for A3 paper in 2013, whilst SACU sales constituted 66% of the market in the same year.

2.13. The current annual market for A4 paper is indicated below:

	2011	2012	2013
Total SACU Market i.t.o volume (tons)	163 940	176 544	176 486
% Total SACU Market i.t.o volume	100%	100%	100%
Total SACU Sales i.t.o volume (tons)	153 084	161 995	161 379
% Total SACU Sales i.t.o volume	93.4%	91.8%	91.4%
Total imports i.t.o volume (tons)	10 856	14 549	15 107
% Total imports i.t.o volume (tons)	6.6%	8.2%	8.6%

2.14. Total imports constituted 8.6% of the market share for A4 paper in 2013, whilst SACU sales constituted 91.4% of the market in the same year. The SACU industry is producing significantly below capacity.

2.15. In 2013, 87% of uncoated paper imports were imported from countries under General (MFN) column, 13% was imported from the EU. Imports from Indonesia constituted 42% of total imports in 2013

2.16. In 2013, 93% of uncoated paper imports were imported from countries under the General (MFN) column, 7% was imported from EU. Imports from China constituted 34% of total imports in 2013. Imports from Australia constituted 19% of total imports, and imports from Indonesia constituted 8% of total imports.

3. **COMPETITIVE POSITION**

- 3.1. The Commission found that the applicant is experiencing price disadvantages vis-à-vis foreign producers of uncoated paper and paperboard, especially from those in China, Indonesia and Australia.

4. **COMMENTS ON THE APPLICATION**

- 4.1. Printing SA, IFI Paper cc, Palm Stationery Manufacturers (Pty) Ltd and the Republic of Botswana objected to the application, stating that Sappi and Mondi, do not have sufficient capacity to satisfy the SACU market and that the requested level of customs duty increase of 20% for A4 paper is excessive. An increase in price of business papers to end users will raise the cost of doing business in South Africa. This will also impact on a number of downstream industries reliant on paper, such as duplicating and copying services, document warehousing, and recycling companies.

5. **FINDINGS**

- 5.1. The Commission considered the application in the light of the information at its disposal and found that low-priced imports of business paper into the SACU have eroded the domestic industry's market share and that significant price disadvantages experienced by the domestic producers of business paper combined with considerably underutilized manufacturing capacity has detrimentally affected profitability.
- 5.2. The Commission concluded that a moderate increase in the general rate of duty on uncoated paper and paperboard would substantially improve the domestic industry's price-competitive position in the face of fierce lower-priced competition from abroad without having an undue cost-raising impact on downstream industrial consumers.
- 5.3. The Commission decided that the duty be reviewed after a period of three years, to determine its impact on the industry's further development, competitive position, and on the full industry value chain.

6. **RECOMMENDATION**

- 6.1. In the light of the foregoing, the Commission recommends that the rate of duty on uncoated paper and paperboard classifiable under tariff subheadings 4802.56.20 and 4802.56.90, be increased from free of duty to 5% *ad valorem* and 10% *ad valorem*, respectively.

[09/2013]