

REPORT NO. 487

**INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN WIRE
PRODUCTS**

The International Trade Administration Commission herewith presents its Report No. 487:
INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN WIRE PRODUCTS, with
recommendations.



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CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 487

INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN WIRE PRODUCTS

Synopsis

Hendok Wire (Pty) Ltd, applied for an increase in the rate of customs duty on galvanised wire, barbed wire, welded wire mesh and hexagonal wire netting, classifiable under tariff subheadings 7217.20, 7313.00, 7314.31 and 7314.41. The application is for an increase in the customs duty from free of duty to 10% *ad valorem* on galvanised wire and from 5% *ad valorem* to 15% *ad valorem* on barbed wire, wire mesh, and hexagonal wire netting.

The Commission considered that galvanised wire is widely used as an intermediate input in a diverse range of industries, including the manufacture of value-added wire products. The Commission found that import volumes for galvanised wire declined while export volumes increased over the three year period under investigation. During the same period, the applicant's production and sales volumes increased. The Commission also found that the industry is price-competitive vis-à-vis foreign, especially East Asian manufacturers of galvanised wire. Also in the light of the objections received and the unnecessary cost-raising impact of an increased duty on galvanised wire, the Commission recommends below that the duty on galvanised wire be maintained at the existing free of duty level.

With regard to barbed wire, welded wire mesh, and hexagonal wire netting, the Commission found that import volumes for these products increased significantly during the three year period from 2011 to 2013 and that the domestic industry is not price competitive against imports of these products.

The Commission concluded that additional tariff support for the industry manufacturing barbed wire, wire mesh, and hexagonal wire netting would significantly improve the

competitive position of the domestic industry in the face of low-priced competition from abroad.

The support should enable the industry to utilise its existing under-utilised production capacity and achieve economies of scale through longer production runs, resulting in security of volumes with a reduction in the marginal cost of production.

The Commission recommended that:

- The rate of customs duty on galvanised wire (i.e. wire of iron or non-alloy steel: Plated or coated with zinc), classifiable under tariff subheading 7217.20, be maintained at the existing free of duty level.
- The rate of customs duty on the other subject products, classifiable under tariff subheadings 7313.00 (i.e. wire of iron or non-alloy steel: Barbed wire of iron or steel; twisted hoop or single flat wire, barbed or not, and loosely twisted double wire, of a kind used for fencing, of iron or steel), 7314.31 (i.e. other grill, netting and fencing, welded at the intersection: Plated or coated with zinc), and 7314.41 (i.e. other cloth, grill, netting and fencing: Plated or coated with zinc), be increased from 5% *ad valorem* to 15% *ad valorem*.

THE APPLICATION AND TARIFF POSITION

1. Hendok Wire (Pty) Ltd, applied for an increase in the rate of customs duty on galvanised wire, barbed wire, welded wire mesh and hexagonal wire netting, classifiable under tariff subheadings 7217.20, 7313.00, 7314.31 and 7314.41. The application is for an increase in the customs duty from free of duty to 10% *ad valorem* on galvanised wire and from 5% *ad valorem* to 15% *ad valorem* on barbed wire, wire mesh, and hexagonal wire netting.
2. Galvanized wire refers to steel wire coated with a thin layer of zinc to provide corrosion resistance. It is used, among others, in the manufacture of other wire

products such as barbed wire, wire mesh and wire netting. Barbed wire refers to strands of wire twisted together with small pieces of sharply pointed wire at short intervals, mainly used for fencing. Wire mesh is widely used in many fields for its inherent characteristics. It can be used as residential protection (fencing) and in construction. Similarly to wire mesh, hexagonal wire netting is used in many fields, such as poultry farming, landscape protection and residential protection. In engineering, it protects and supports the seawall, hillsides, bridges, etc.

3. As motivation for the application, the applicant cited the following:

- The subject wire products are imported at or below the production cost of domestic manufacturers. This is impacting negatively on the Southern African Customs Union (“SACU”) industry that invested in the SACU economy and that is creating decent and sustainable jobs.
- The cost drivers affecting the domestic industry’s ex-factory costs are primarily labour, electricity and the domestic price of steel. All these costs have increased over the last few years, leaving the SACU industry vulnerable to extremely low-priced imports from abroad.
- The SACU industry cannot compete with the imports on the SACU market and is losing sales and market share as it is unable to sell at the required levels to recover costs and achieve a reasonable profit level to be able to reinvest.

4. The application was published in the Government Gazette on 18 July 2014 for comments by interested parties, as follows:

Increase in the general rate of customs duty on:

- “Wire of iron or non-alloy steel: Plated or coated with zinc, classifiable under tariff subheading 7217.20, from free of duty to 10% *ad valorem*.”

- “Barbed wire of iron or steel; twisted hoop or single flat wire, barbed or not, and loosely twisted double wire, of a kind used for fencing, of iron or steel, classifiable under tariff subheading 7313.00, from 5% *ad valorem* to 15% *ad valorem*.”
- “Other grill, netting and fencing, welded at the intersection: Plated or coated with zinc, classifiable under tariff subheading 7314.31, from 5% *ad valorem* to 15% *ad valorem*.”
- “Other cloth, grill, netting and fencing: Plated or coated with zinc, classifiable under tariff subheading 7314.41, from 5% *ad valorem* to 15% *ad valorem*.”

THE TARIFF POSITION

5. The existing tariff structure for the subject products is as follows:

Table 1: Current tariff structure of the subject wire products

Tariff heading	Tariff subheading	Description	SU	Rate of Duty			
				General	EU	EFTA	SACU
72.17		Wire of iron or non-alloy steel:					
	7217.20	-Plated or coated with zinc	Kg	Free	Free	Free	Free
73.13	7313.00	Barbed wire of iron or steel; twisted hoop or single flat wire, barbed or not, and loosely twisted double wire, of a kind used for fencing, of iron or steel	Kg	5%	Free	Free	Free
73.14		Cloth (including endless bands), grill, netting and fencing, of iron or steel wire, expanded metal of iron or steel:					
	7314.31	- - Plated or coated with zinc	Kg	5%	Free	Free	Free
	7314.4	- Other cloth, grill, netting and fencing:					
	7314.41	- -Plated or coated with zinc	Kg	5%	Free	Free	Free

6. The WTO bound rate for tariff subheading 7217.20 is 10% *ad valorem* and the bound rate for tariff subheadings 7313.00; 7314.31; and 7314.41 is 15% *ad valorem*.

7. The tariff structure as requested by the applicant is as follows:

Table 2: Requested tariff structure of the subject wire products

Tariff heading	Tariff subheading	Description	SU	Rate of Duty			
				General	EU	EFTA	SACU
72.17		Wire of iron or non-alloy steel:					
	7217.20	-Plated or coated with zinc	Kg	10%	Free	Free	Free
73.13	7313.00	Barbed wire of iron or steel; twisted hoop or single flat wire, barbed or not, and loosely twisted double wire, of a kind used for fencing, of iron or steel	Kg	15%	Free	Free	Free
73.14		Cloth (including endless bands), grill, netting and fencing, of iron or steel wire, expanded metal of iron or steel:					
	7314.31	- - Plated or coated with zinc	Kg	15%	Free	Free	Free
	7314.4	- Other cloth, grill, netting and fencing:					
	7314.41	- -Plated or coated with zinc	Kg	15%	Free	Free	Free

INDUSTRY AND MARKET

8. The main material input, wire rod, used by the applicant in the manufacture of galvanized wire is mainly sourced locally.
9. The manufacturing process of the wire products under investigation begins with the drawing of the wire rod into the required size by the use of a wire drawing machine. The wire rod is typically stretched from either 5.50mm or 8mm to 2.50mm by a single machine and the resultant product is referred to as hard drawn wire.
10. The hard drawn wire is then transferred to the in-house galvanizing plant where it is coated with zinc to prevent oxidisation. This process involves the black hard drawn wire undergoing several lead baths to increase the wire temperature in order to relieve the stresses that have built up within the molecular structure of the wire during the drawing process.
11. The wire then enters an acid bath that cleans the surface of the wire and is then rinsed in a water tank followed by being submerged in a molten zinc bath where the

zinc coating is applied to the wire. The finished product is now referred to as galvanised wire.

12. The galvanised wire is then sent into a barbed wire, wire mesh or hexagonal wire netting making machine and converted into the respective products. The finished rolls are then removed from the machine and packed onto pallets ready for dispatch to the customer/end user.

13. Apart from the applicant, other major domestic manufacturers of the subject products are:

- Sharon Wire Mill (Pty) Ltd (a division of Gape Gate (Pty) Ltd);
- Consolidated Wire Industries (Pty) Ltd;
- Independent Wire Pty Ltd;
- Barnes Fencing (Pty) Ltd;
- The Scaw Metals Group; and
- Wire Force Steelbar (Pty) Ltd.

14. Trade statistics for galvanised wire show that total import volumes for galvanised wire have declined by an approximate 5 448 tons over the three year period 2011-2013.

15. With regard to barbed wire, wire mesh and hexagonal wire netting, total import volumes over the period 2011 to 2013 increased by 1 295 tons, 574 tons and 3 017 tons respectively.

COMPETITIVE POSITION

16. According to information at the Commission's disposal, the domestic industry experiences a price advantage vis-à-vis imports of galvanised wire.

17. With regard to barbed wire, wire mesh, and hexagonal wire netting, the domestic industry is not in a favourable price-competitive position vis-à-vis low-priced imports from abroad.

COMMENTS RECEIVED

18. Support for the application was received from a number of interested parties, including the South African Wire Association and local manufacturers such as Consolidated Wire Industries (Pty) Ltd, and Cape Gate (Pty) Ltd. The Botswana Ministry of Trade and Industry also supported the application.

19. Objections to a possible increase in the level of customs duty on the subject products were received from Thunderbolt Solutions (Pty) Ltd, Aluminium and Chemical Resources (Pty) Ltd, Graphica Supplies (Pty) Ltd, Nemtek (Pty) Ltd, Ferrostaal Equipment Solutions (Pty) Ltd and Silcom (Pty) Ltd. The objections centred on a possible duty increase on imported galvanised wire not manufactured domestically for specialised applications.

FINDINGS

20. The Commission considered that galvanised wire is widely used as an intermediate input in a diverse range of industries, including the manufacture of value-added wire products. The Commission found that import volumes for galvanised wire declined while export volumes increased over the three year period under investigation. During the same period, the applicant's production and sales volumes increased. The Commission also found that the industry is price-competitive vis-à-vis foreign, especially East Asian manufacturers of galvanised wire. Also in the light of the objections received and the unnecessary cost-raising impact of an increased duty on galvanised wire, the Commission recommends below that the duty on galvanised wire be maintained at the existing free of duty level.

21. With regard to barbed wire, welded wire mesh, and hexagonal wire netting, the Commission found that import volumes for these products increased significantly during the three year period from 2011 to 2013 and that the domestic industry is not price competitive vis-à-vis imports.
22. The Commission concluded that additional tariff support for the industry manufacturing barbed wire, wire mesh, and hexagonal wire netting would significantly improve the competitive position of the domestic industry in the face of low-priced competition from abroad.
23. The support should enable the industry to utilise its existing under-utilised production capacity and achieve economies of scale through longer production runs, resulting in security of volumes with a reduction in the marginal cost of production.

RECOMMENDATION

24. In the light of the foregoing, the Commission recommends that:
 - The rate of customs duty on galvanised wire (i.e. wire of iron or non-alloy steel: Plated or coated with zinc), classifiable under tariff subheading 7217.20, be maintained at the existing free of duty level.
 - The rate of customs duty on the other subject products, classifiable under tariff subheadings 7313.00 (i.e. wire of iron or non-alloy steel: Barbed wire of iron or steel; twisted hoop or single flat wire, barbed or not, and loosely twisted double wire, of a kind used for fencing, of iron or steel), 7314.31 (i.e. other grill, netting and fencing, welded at the intersection: Plated or coated with zinc), and 7314.41 (i.e. other cloth, grill, netting and fencing: Plated or coated with zinc), be increased from 5% *ad valorem* to 15% *ad valorem*.