



International Trade Administration Commission of South Africa

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## **REPORT NO. 15**

# **REBATE OF THE FULL CUSTOMS DUTY ON CAUSTIC SODA LYE (SODIUM HYDROXIDE) FOR THE MANUFACTURE OF WOOD FREE COATED PAPER AND TISSUE PAPER**

**The International Trade Administration Commission of South Africa herewith presents its Report No. 15: REBATE OF THE FULL CUSTOMS DUTY ON CAUSTIC SODA LYE (SODIUM HYDROXIDE) FOR THE MANUFACTURE OF WOOD FREE COATED PAPER AND TISSUE PAPER, with recommendations**

  
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**CHIEF COMMISSIONER**

**PRETORIA**

**..10...../...../2003**

**REPUBLIC OF SOUTH AFRICA**

**INTERNATIONAL TRADE ADMINISTRATION COMMISSION**

**REPORT NO. 15**

**REBATE OF THE FULL CUSTOMS DUTY ON CAUSTIC SODA LYE (SODIUM HYDROXIDE) FOR THE MANUFACTURE OF WOOD FREE COATED PAPER AND TISSUE PAPER.**

**Synopsis**

The Commission considered an application from Sappi Fine Paper (Pty) Ltd, for a rebate of the full customs duty on caustic soda lye (sodium hydroxide) for the manufacture of wood free coated paper and tissue paper with retrospective effect to 31 March 2001. The Commission found that a rebate of duty on caustic soda for the manufacture of coated wood free paper would not harm the position of the SACU caustic soda industry. The Commission is of the opinion that the rebate should be subject to permits in order to monitor the quantity allowed and that the general policy should be to issue permits for the quantities required to manufacture coated wood free paper and tissue paper. The caustic soda industry should, in the opinion of the Commission, be consulted to ensure that the quantities allowed do not exceed the shortfall in SACU. The applicant's request that the rebate provision be implemented with retrospective effect cannot be accommodated in terms of the existing tariff policy.

The Commission concluded that a rebate of duty is justified and therefore recommends that a provision be created for a rebate of duty on sodium hydroxide (caustic soda lye), classifiable under tariff subheading 2815.12, for the manufacture of wood free coated paper, classifiable under tariff subheadings 4802.69.90, 4810.14.10 and 4810.14.90 and tissue paper, classifiable under tariff subheadings 4803.00, in such quantities and at such times as the International Trade Administration Commission may allow by specific permits and that the applicant's request that the rebate provision be implemented with retrospective effect to 31 March 2001 not be supported. The Commission further recommends that the general policy should be to issue permits for the quantities required to manufacture coated wood free paper and tissue paper and that the caustic soda industry should be consulted at least once per annum to determine whether the requirements of the industry can be met.

## The application and the tariff position

- 1 Sappi Fine Paper (Pty) Ltd applied for a rebate of the full customs duty on caustic soda lye (sodium hydroxide), classifiable under tariff subheading 2815.12, for the manufacture of wood free coated paper, classifiable under tariff subheadings 4802.69.90, 4810.14.10 and 4810.14.90 and tissue paper, classifiable under tariff subheading 4803.00.
2. The reason given for the application for a rebate of duty on caustic soda lye is that one of the SACU manufacturers' plants, that supplied most of the applicant's caustic soda requirements, was closed down leading to a shortage of caustic soda that forced the applicant to import more caustic soda.
3. The applicant claims that it is highly costly and not economically viable to import caustic soda for various reasons; including the fact that caustic soda is imported in liquid form (consisting of 50 percent caustic soda and 50 percent water) which means, that sea freight is relatively high.
4. The duty on the finished paper and tissue products imported into SACU area is 5% and 8% **ad valorem**, whilst the duty on the raw material (caustic soda) is 20% **ad valorem**. This has a negative effect on the manufacture of the applicant's end product, namely wood free coated paper and tissue paper.
5. As the duty on the input is higher than the duty on the final product combined with the high import costs, and because caustic soda makes up a high percentage of the pulp variable cost; Sappi is finding it difficult to compete with respect to its grades of paper and tissue against imports of similar products.
6. Sodium hydroxide (caustic soda lye) is classifiable as follows:  
  
"Sodium hydroxide (caustic soda), in aqueous solution (soda lye or liquid soda), classifiable under tariff subheading 2815.12, at a rate of duty of 20 percent **ad valorem**."
7. The bound rate of duty in terms of WTO's commitments with respect to sodium hydroxide is 20 percent **ad valorem**.
8. The end products are classifiable as follows:  
  
Toilet or facial tissue, towel or napkin stock and similar paper of a kind used for household or sanitary purposes, cellulose wadding and webs of cellulose fibres, whether or not creped, crinkled, embossed, perforated, surface-coloured, surface-decorated or printed, in rolls or sheets, classifiable under tariff subheading 4803.00 and other 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, classifiable under tariff subheading 4802.69.90, paper and paperboard of a kind used for writing, printing or other graphic purposes, not

containing fibres obtained by a mechanical process or of which not more than 10 percent by mass of the total fibre content consist of such fibres, with one side not exceeding 36 cm and the other side not exceeding 15cm in the unfolded state, classifiable under tariff subheading 4810.14.10 and other paper and paperboard of a kind used for writing, printing or other graphic purposes, not containing fibres obtained by a mechanical process or of which not more than 10 percent by mass of the total fibre content consist of such fibres, classifiable under tariff subheading 4810.14.90.

9. The application was published in the Government Gazette on 18 October 2002 for comment by interested parties.

#### **The industry and the market**

10. The estimated size of the South African market for lithographic coated sheet is approximately 50 000 Metric tons. The overall market capacity for tissue is approximately 157 000 Metric tons. Approximately 11 000 Metric tons are exported.
11. Sappi Stanger mill, the factory that is most affected, is employing approximately 683 people of which 81 are directly involved in the pulp plant for the manufacture of pulp. Pulp is the major raw material in tissue and paper manufacturing.
12. Sappi Stanger is the only manufacturer of coated wood free paper in the SACU area.
13. Sappi needs 16 500 metric tons per annum of caustic soda.

#### **Comments on the application**

14. Comments were received from two SACU manufacturers of caustic soda, Sasol and Sentrachem (NCP). Both firms supported the application on the following conditions:
  - \* that the volume imported into the country is restricted to 26 500 metric tons per annum (which is the quantity agreed upon by the applicant and Sasol and Sentrachem (NCP) to be Sappi's total annual shortage of caustic soda) 100% NaOH, imported by means of six monthly permits.
  - \* that the caustic soda lye is used only for the manufacture of wood-free pulp and paper products.
  - \* that the import volume is reviewed and agreed upon on a six-month basis by both SACU manufacturers and Sappi.

**Consideration and recommendation**

15. The Commission found that a rebate of duty on caustic soda for the manufacture of coated wood free paper will not harm the sales of the SACU caustic soda industry.
16. The Commission would recommend that the rebate should be subject to permits in order to monitor the quantity allowed and that the general policy should be to issue permits for quantities required to manufacture coated wood free paper and tissue paper, and that the permits do not exceed the SACU shortfall.
17. The caustic soda industry should be consulted on a regular basis and at least once per annum to determine whether the requirements of the industries for the manufacture of tissue paper and coated wood free paper, can be met.
18. The applicant's request that the rebate provision be implemented with retrospective effect cannot be accommodated in terms of the existing tariff policy.
19. The Commission concluded that a rebate of duty is justified and therefore recommends that a provision be created for a rebate of the full duty on sodium hydroxide (caustic soda lye), classifiable under tariff subheading 2815.12, for the manufacture of wood free coated paper, classifiable under tariff subheadings 4802.69.90, 4810.14.10 and 4810.14.90 and tissue paper, classifiable under tariff subheading 4803.00, in such quantities and at such times as the International Trade Administration Commission may allow by specific permits; and that the applicant's request that the rebate provision be implemented with retrospective effect to 31 March 2001 not be supported.

**TS/2/4/2/1 (010003)**