

REPORT NO. 505

**INCREASE IN THE RATE OF CUSTOMS DUTY ON ZINC
COATED/GALVANIZED STEEL, ALUMINIUM ZINC COATED STEEL
AND PAINTED STEEL**

The International Trade Administration Commission herewith presents its Report No. 505:
**INCREASE IN THE RATE OF CUSTOMS DUTY ON ZINC COATED/GALVANIZED
STEEL, ALUMINIUM ZINC COATED STEEL AND PAINTED STEEL**, with
recommendations.



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA
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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 505

**INCREASE IN THE RATE OF CUSTOMS DUTY ON ZINC COATED/GALVANIZED
STEEL, ALUMINIUM ZINC COATED STEEL AND PAINTED STEEL**

Synopsis

The South African Coil Coaters Association ("SACCA"), representing ArcelorMittal South Africa Limited ("AMSA") and Safal Steel (Pty) Ltd ("SAFAL"), applied for an increase in the rate of customs duty on zinc coated/galvanised steel, aluminium zinc coated steel and painted steel, classifiable under tariff subheading 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40, from free of duty to 10% *ad valorem*.

The Commission considered the application in light of information at its disposal. In particular, the Commission took the following factors into account:

- The rising level of imports even against a background of a depreciating currency, and concomitant erosion of the market share of the SACU manufacturers;
- The considerable decline in the level of production, sales and capacity utilisation of the domestic manufacturers of zinc-coated/galvanized steel, aluminium zinc steel, and colour-coated steel;
- The significant price disadvantages experienced by the domestic industry vis-à-vis foreign, especially East Asian manufacturers;
- The worsening competitive position of the domestic firms manufacturing the subject products as a result of escalating cost structures;

- Diminishing domestic employment and investment opportunities. The primary steel industry is an important employer and the current situation poses a serious threat to job retention and creation;
- The applicants are in a position to manufacture the subject products for the majority of domestic downstream applications;
- In the medium to long-term, competitiveness constraints in the primary steel industry must be addressed, including equipment upgrading and technology;
- The cyclical nature of the market for primary steel and hence the review of the duty structure recommended below; and
- The strategic nature of the steel industry to the country, given its backward and forward linkages.

The Commission concluded that tariff support should enable the industry manufacturing zinc-coated/galvanized steel, alu-zinc steel, and colour-coated steel to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in security of volumes with a reduction in the marginal cost of production.

The Commission recommended that the rate of customs duty on zinc-coated/galvanized steel, aluminium-zinc coated steel and colour coated steel, classifiable under tariff subheadings 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40, be increased from free of duty to 10% *ad valorem*, subject to the conditions listed on paragraph 39 of this report.

THE APPLICATION AND TARIFF POSITION

1. The South African Coil Coaters Association (SACCA), representing ArcelorMittal South Africa Limited (“AMSA”) and Safal Steel (Pty) Ltd (“SAFAL”), applied for an increase in the rate of customs duty on zinc coated/galvanized steel, aluminium zinc coated steel and painted steel, classifiable under tariff subheadings 7210.41,

7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40, from free of duty to 10% *ad valorem*.

2. The subject products are used as intermediate inputs by downstream industries such as roofing and cladding, appliance manufacturing, road signage and general engineering. According to AMSA, approximately 70% of all galvanised steel products and painted steel products are used in roofing and cladding. An estimated 15% is used in cool room applications. Appliance manufacturing consumes an estimated 10% of the products while 5% is used in road signage.
3. As motivation for the application, the applicant stated the following:
 - There is an oversupply of steel and steel products in the world;
 - As a result of the oversupply, steel products are being sold at low prices in export markets, including the SACU;
 - Countries and regions such as Australia, the United States of America ("USA"), the European Union ("EU"), Colombia, Vietnam, and Mexico have raised their import barriers (by way of unfair trade duties). As a result of those measures, products that would normally be destined for those major markets will be directed to other, more exposed markets, especially those without duty protection (such as South Africa), causing an even greater threat;
 - Almost without exception, countries with a local steel industry (where their WTO bound rates allow) have normal customs duties on the different categories of the subject product: China has 5%-8%, India 5%-7.5%, Vietnam 5%-10%, Nigeria 35%, Tanzania 25%, and Malaysia 20%-50%, to name a few, yet, South Africa remains exposed;
 - Imports of the subject products are on the rise and the local industry is under pressure to compete; and

- The continuation of domestic production of the subject products, job retention and creation, current and future investments, and the international competitiveness of the applicant are under serious threat.

4. The application was published in the Government Gazette on 19 December 2014 for comments by interested parties, as follows:

Increase in the general rate of customs duty on:

“Zinc coated/galvanised steel, aluminium-zinc coated steel and paint coated steel, classifiable under tariff subheadings 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40, from free of duty to 10 % *ad valorem*.”

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

Table 1: Current tariff structure of the subject flat steel products

Zinc Coated Steel/ Galvanised Steel							
Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty			
				General	EU	EFTA	SADC
72.10	7210.41.00	Corrugated	KG	Free	Free	Free	Free
	7210.49.00	Other	KG	Free	Free	Free	Free
	7212.30.00	Otherwise plated or coated with zinc	KG	Free	Free	Free	Free
72.12							
Aluminium Zinc Coated Steel							
72.10	7210.61.00	Plated or coated with aluminium – zinc alloys	KG	Free	Free	Free	Free
	7210.90.00	Other	KG	Free	Free	Free	Free
72.25	7225.99.00	Other	KG	Free	Free	Free	Free
Painted Steel							
72.10	7210.70.00	Painted, varnished or coated with plastics	KG	Free	Free	Free	Free
72.12	7212.40.00	Painted, varnished or coated with plastics	KG	Free	Free	Free	Free

Source: SARS 2014

6. The WTO bound rate for all the eight tariff subheadings under investigation is 10% *ad valorem*. The tariff structure as requested by the applicant is as follows:

Table 2: Requested tariff structure of the subject flat steel products

Zinc Coated Steel/ Galvanised Steel							
Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty			
				General	EU	EFTA	SADC
72.10	7210.41.00	Corrugated	KG	10%	Free	Free	Free
	7210.49.00	Other	KG	10%	Free	Free	Free
72.12	7212.30.00	Otherwise plated or coated with zinc	KG	10%	Free	Free	Free
Aluminium Zinc Coated Steel							
72.10	7210.61.00	Plated or coated with aluminium – zinc alloys	KG	10%	Free	Free	Free
	7210.90.00	Other	KG	10%	Free	Free	Free
72.25	7225.99.00	Other	KG	10%	Free	Free	Free
Painted Steel							
72.10	7210.70.00	Painted, varnished or coated with plastics	KG	10%	Free	Free	Free
72.12	7212.40.00	Painted, varnished or coated with plastics	KG	10%	Free	Free	Free

Source: SARS 2014

INDUSTRY AND MARKET

7. AMSA produces various steel products from its various mills such as Newcastle Works, Vereeniging Works, Vanderbijlpark Works and Saldanha Works. However, the products subject to this investigation are manufactured in the Vanderbijlpark Works, which is the company's largest operation, accounting for nearly two-thirds of the entire company. SAFAL produces coated steel from its mill in the Cato Ridge area of KwaZulu-Natal.

8. The business focus of the two companies is summarised in Table 3 below.

Table 3: Business focus of the applicants

Firm	Subject products	Estimate of production of flat rolled products as % of total production (average for 3 years)
SAFAL	Metal Alu-zinc galvanised flat steel	45%
	Painted flat steel	55%
	Total	100%
ARCELOR MITTAL (AMSA)	Zinc coated/ simple galvanised steel	13.4%
	Painted steel	4.6%
	Total Plates	6.7%
	Total Hot Rolled	44.9%
	Total Hot Rolled P&O	8.7%
	Total Cold Rolled	10.7%
	Total Electrogalvanized	2.8%
	Total Tinned Products	8.0%
	Total Black Plate	0.2%
	TOTAL	100%

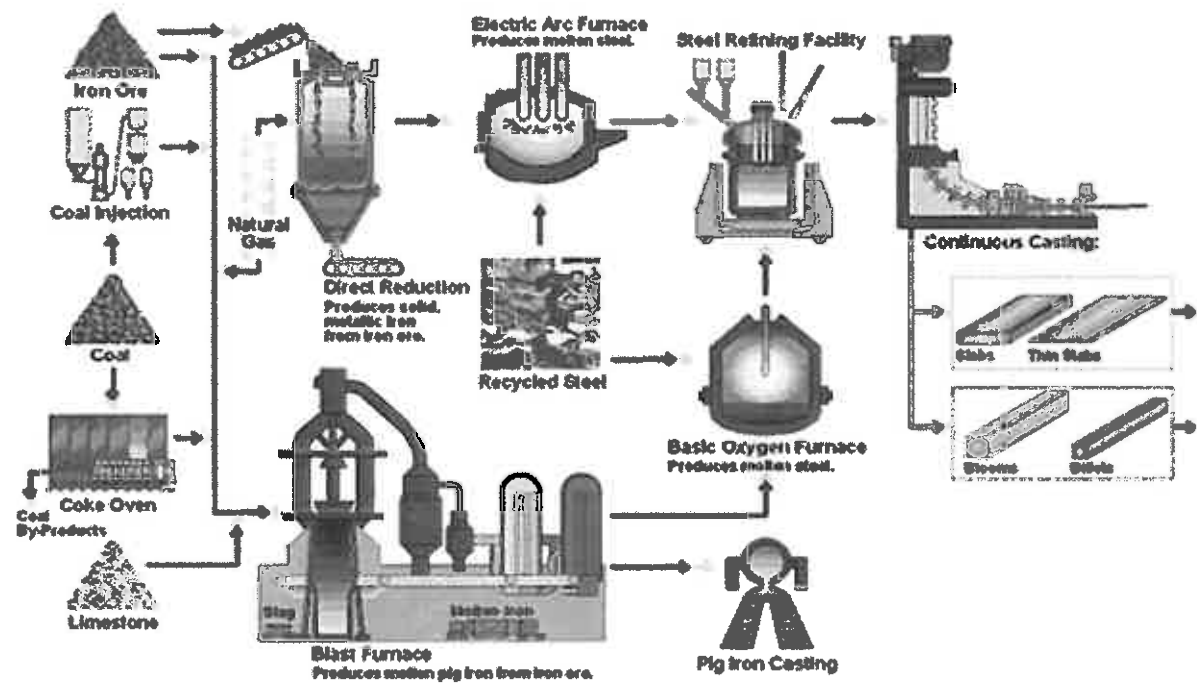
9. Galvanized/ zinc-coated flat steel refers to a flat rolled product of steel, plated or coated with zinc to prevent corrosion.

10. Aluminium-zinc coated steel refers to a flat-rolled product of steel, coated with aluminium-zinc alloys. The aluminium component of the coating provides a physical barrier between extreme atmospheric conditions and the inner core of the steel. The zinc provides sacrificial protection and also prevents corrosion.

11. Painted steel is referred to as a flat rolled product of steel, coated with paint. The main reason for steel painting is to provide corrosion inhibition.

12. Generally, the manufacturing of the subject products begins with the process of steel making. Steel can be made from iron ore and recycled steel (i.e. scrap metal) such as cans.
13. SAFAL does not have facilities for making steel. It imports hot rolled coils of steel, mainly from the East. At times, hot rolled coils are also sourced locally from AMSA.

Figure 1: The process flow in the manufacturing of the subject products



Source: Applicant 2014

14. As shown in figure 1 above, the manufacturing of the subject products begins with the process of steel making. During the manufacturing process of galvanised and painted steel at AMSA, raw materials such as iron ore, coal, dolomite or scrap metal is melted in blast furnaces to produce iron. Iron is then turned into steel in oxygen furnaces which is then cast into steel slabs in a continuous caster.
15. The steel slabs are then rolled into steel coils and pickled into acid to remove any surface imperfections.
16. The steel coils are then entered into cold rolling mills to further reduce the thickness of the steel. The steel coils then go through the annealing process, which is a hot

treatment that alters physical and chemical properties of a material to improve its formability and durability. The annealing process entails coating the steel coils with zinc or paint to protect the product from corrosion.

17. On completion, the finished product undergoes a quality test to check the thickness of the steel and any possible cracks that may have occurred during the process.

18. As already mentioned above, SAFAL buys hot rolled coils as inputs in its manufacturing process. The hot rolled coils are fed into a pickling machine which removes all undesired elements on the surface and trims the coils to the required sizes. The coils then go into the cold rolling mill and are rolled into the required thicknesses. Finally, the steel is coated with zinc/aluminium and/or paint. At this point, the product is packed and sold to the customer.

19. There are three manufacturers of the subject products in the SACU region:

- ArcelorMittal South Africa Limited;
- Safal Steel (Pty) Ltd; and
- Duferco Steel Processing (Pty) Ltd.

20. Duferco Steel Processing (Pty) Ltd is manufacturing the subject products mainly for the export market.

21. The main importers of the subject products include:

- Macsteel South Africa (Pty) Ltd;
- BlueScope Pty Ltd;
- Steel Source Africa Pty Ltd; and
- Steel Bank (Pty) Ltd.

22. The SARS' official import statistics for the subject products indicate that the total import volumes for zinc coated/galvanized steel, alu-zinc steel and colour coated steel increased by an estimated 7%, 12%, and 81%, respectively, over the period

2012 to 2014. Chinese import volumes for zinc coated/galvanized steel, alu-zinc steel and colour coated steel increased by 66%, 61% and 345%, respectively, over the same time period. This illustrates the speed with which Chinese imports are replacing imports from other sources.

23. With regards to local capacity, the applicants stated that the domestic manufacturers' combined capacity is approximately 900 000 tons while the domestic market size is only 50% of this figure. However, the domestic capacity utilization has declined to unsustainable levels, particularly in 2014 when it declined to almost 50%.
24. The market and trade data for the products under investigation is shown in Table 4 below.

Table 4: Market and trade analysis

No	Variable	Nominal values		
		2012	2013	2014
1	Domestic demand (KG)	653 069 841	802 020 521	704 560 765
	• Galve	405 520 499	446 146 768	416 278 399
	• Colour	181 640 846	211 468 014	227 669 292
	• Alu-zinc	65 908 496	144 405 739	60 613 074
2	Total Import volume (KG)	201 804 464	309 503 471	229 328 613
	• Galve	116 634 565	143 563 339	129 038 500
	• Colour	56 365 403	70 734 393	69 685 039
	• Alu-zinc	28 804 496	95 205 739	30 605 074
3	Chinese Import volume (KG)	45 922 721	153 696 453	105 992 778
	• Galve	20 644 385	47 065 502	48 569 235
	• Colour	16 314 017	28611294	41 886 803
	• Alu-zinc	8 964 319	78019656	15 536 740
4	Chinese Import values (R)	373 748 946	1 116 790 254	1 020 645 862
	• Galve	154 088 840	368 378 038	429 855 281
	• Colour	146 324 948	276 579 658	447 431 711
	• Alu-zinc	73 335 158	471 832 558	143 358 870
5	Chinese Import price (R/Ton)	8 205	7 847	9 586
	• Galve	7 464 0	7 826 9	8 850 4
	• Colour	8 969 3	9 666 8	10 681 9
	• Alu-zinc	8 180 8	6 047 6	9 227 1
6	Export volume (KG)	165 603 974	157 283 348	226 471 111
	• Galve	133 339 141	118 440 236	185 324 803
	• Colour	22 396 907	27 605 193	26 051 708
	• Alu-zinc	9 867 926	11 237 919	15 094 600
7	Export values (R)	1 306 212 720	1 591 033 241	2 541 700 200
	• Galve	965 473 646	1 139 599 086	1 824 449 808
	• Colour	227 818 385	328 631 709	340 637 615
	• Alu-zinc	112 920 689	122 802 446	376 612 777
8	Export price (R/Ton)	8 643	10 990	11 283
	• Galve	7240 74	9621.72	9844 61
	• Colour	10171 87	11904.71	13075 44
	• Alu-zinc	8516 22	11443 20	10927 51
9	Applicant's market share			
	• Galve (AMSA)	71 2%	67 8%	69 0%
	• Colour (AMSA)	43 6%	38 5%	43 6%
	• Colour (SAFAL)	25 4%	28 1%	25 8%
	• Alu-zinc (SAFAL)	56 3%	34 1%	49.5%
10	China's Share of Imports			
	• Galve	17 7%	32 8%	37 6%
	• Colour	28.9%	40 4%	60 1%
	• Alu-zinc	31 1%	81 9%	50 8%

COMPETITIVE POSITION

25. The global market has a total capacity of approximately 1.16 billion tons of steel and China accounts for approximately 50%, making China the biggest producer. Over recent years, the global financial crisis has created a challenging trading environment locally and globally. With the slump in Chinese growth, excess steelmaking capacity remains the biggest challenge for the primary steel sector worldwide in achieving sustainable profit margins.
26. SA steel producers are facing cost pressures due to expensive energy which includes electricity, coking coal and gas availability. The coking coal has been one of the biggest cost drivers in recent times due to China's demand dominance and depleting global reserves.
27. The steel plants of the major domestic steel manufacturers, with the exception of Duferco and AMSA's Saldanha plant, were built in the 1940s, 50s and 60s. They have not kept abreast with latest technology trends and have deferred equipment upgrades and delayed preventive maintenance programs. New capacity is required to meet the forecast for future growth in the region.
28. The domestic industry is, on average, not price-competitive against Chinese imports of the subject products and it is experiencing price disadvantages.

COMMENTS RECEIVED

29. Support for the application was received from the South African Iron and Steel Institute, together with a number of companies that supply the applicants with consumables and other input products. These companies include: BASF Coatings (Pty) Ltd, Fresh landscaping cc, Paragon Paints cc, Forwarding African Transport Services (Pty) Ltd t/a FATS, FROMM Systems Africa (Pty) Ltd, Metmar Trading (Pty) Ltd, Afristar Freight Services, CGA Agencies cc, Belting Supply Services (Pty) Ltd, and Becker Industrial Coatings (Pty) Ltd, amongst others.

30. The comments supporting the application centred on the importance of the steel industry to South Africa's economic performance through gross domestic fixed capital formation, exports, infrastructure development and downstream manufacturing.
31. Objections were received from the following downstream manufacturers: Steel Source Africa Pty Ltd, Dezzo Roofing (Pty) Ltd, SuperTec Ceiling & Boards Pty Ltd, Steel Bank, SS Roofing (Pty) Ltd, Steel World Roofing System (Pty) Ltd, Trellidor (Pty) Ltd and Rickford Investments (Pty) Ltd. Objections were also received from importers of the subject products such as Macsteel South Africa (Pty) Ltd, BlueScope Pty Ltd, Steel Source Africa Pty Ltd and Steel Invest (Pty) Ltd.
32. The objections were centred around the following factors: Outdated production facilities and technology, inability to meet the SACU demand, the negative cost-raising impact of duties on downstream industries, import parity pricing, the natural protection of the steel industry, inappropriate trade instruments (i.e. ordinary customs duty protection rather than anti-dumping protection), and perceived poor quality of the locally produced subject products.
33. The National Association of Automobile Manufacturers of South Africa (NAAMSA) also objected to the application, citing that the proposed duty increase will affect specific coated steel products used in the manufacture of automotive components. Such steel, according to NAAMSA, is not manufactured locally and where there is a substitute available, such substitute does not meet the automotive quality standards.
34. Although the Commission has noted the concerns of the downstream industry that some of the product ranges are not manufactured domestically, the applicants are in a position to manufacture the subject products for the majority of domestic downstream applications. In addition, the Commission will consider applications for the creation of rebate provisions for those products not manufactured domestically.
35. With regards to galvanised steel used in the automotive sector, the Commission found that an increase in customs duties on the subject products would not have a significant impact. Steel used in the automotive industry is mainly imported from the

EU and automotive manufacturers are in a position to use the credits generated within the Automotive Production and Development Programme (APDP) to import the high-specification thin-gauged galvanised and cold-rolled steel not manufactured domestically.

FINDINGS

36. The Commission considered the application in light of information at its disposal. In particular, the Commission took the following factors into account:

- The rising level of imports even against a background of a depreciating currency, and concomitant erosion of the market share of the SACU manufacturers;
- The considerable decline in the level of production, sales and capacity utilisation of the domestic manufacturers of zinc-coated/galvanized steel, alu-zinc steel, and colour-coated steel;
- The significant price disadvantages experienced by the domestic industry vis-à-vis foreign, especially East Asian manufacturers;
- The worsening competitive position of the domestic firms manufacturing the subject products as a result of escalating cost structures;
- Diminishing domestic employment and investment opportunities. The primary steel industry is an important employer and the current situation poses a serious threat to job retention and creation;
- The applicants are in a position to manufacture the subject products for the majority of domestic downstream applications;
- In the medium to long-term, competitiveness constraints in the primary steel industry must be addressed, including equipment upgrading and technology;

- The cyclical nature of the market for primary steel and hence the review of the duty structure recommended below; and
- The strategic nature of the steel industry to the country, given its backward and forward linkages.

37. The Commission concluded that tariff support should enable the industry manufacturing zinc-coated/galvanized steel, alu-zinc steel, and colour-coated steel to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in security of volumes with a reduction in the marginal cost of production.

RECOMMENDATION

38. In light of the foregoing, the Commission recommends that the rate of customs duty on zinc-coated/galvanized steel, aluminium-zinc coated steel and colour coated steel, classifiable under tariff subheadings 7210.41, 7210.49, 7212.30, 7210.61, 7210.90, 7225.99, 7210.70 and 7212.40, be increased from free of duty to 10% *ad valorem*.

39. The increase in customs duty will be subject to the following conditions:

- The Commission will conduct a review of the duty structure to determine its impact on the industry value chain, three years from the date of implementation;
- The reciprocity commitments made by the applicants, particularly on pricing and investment, be monitored and adhered to. The dti and the EDD are engaging with the steel sector, including AMSA and the downstream industry, with a view of coming up with a sustainable win-win pricing model that ensures both the short and long term viability of the primary producers and the downstream industry. The applicants are expected to cooperate with government on the development of the new pricing model;
- AMSA will invest an additional R250 million in its colour line and SAFAL will invest an additional R300 million in its metal coating line in 2017;

- Both companies commit to not retrenching over the next three years; and
- ITAC will establish a committee comprising the applicants, downstream users, the dti, EDD and other relevant experts to monitor the impact of the change in tariffs and steel prices on downstream users as well as the performance of the applicants against the commitments that they have made.

40. ITAC will initiate an immediate review of the tariff dispensation in case of default by the steel industry on the above conditions.