

REPORT NO. 517

INCREASE IN THE RATE OF CUSTOMS DUTY ON SEMI-FINISHED STEEL, STEEL PLATES, COLD-ROLLED STEEL AND STEEL SECTIONS

The International Trade Administration Commission herewith presents its **Report No. 517: INCREASE IN THE RATE OF CUSTOMS DUTY ON SEMI-FINISHED STEEL, STEEL PLATES, COLD-ROLLED STEEL AND STEEL SECTIONS**, with recommendations.



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA
15/12/2015

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 517

**INCREASE IN THE RATE OF CUSTOMS DUTY ON SEMI-FINISHED STEEL,
STEEL PLATES, COLD-ROLLED STEEL AND STEEL SECTIONS**

Synopsis

ITAC received applications from ArcelorMittal South Africa Limited for an increase in the rate of customs duty on Semi-finished Steel, Steel Plates, Cold-rolled Steel and Steel Sections, classifiable under tariff subheadings 7207.11, 7207.12, 7207.19, 7207.20, 7208.40, 7208.51, 7208.52, 7216.10, 7216.21, 7216.22, 7216.40, 7216.69, 7225.40, 7209.15, 7209.16, 7209.17, 7209.18, 7209.25, 7209.26, 7209.27, 7209.90, 7211.23, 7211.29, 7211.90, 7225.50, 7226.92, 7226.99 and 7228.70, from free of duty to 10% *ad valorem*.

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

- Imports have increased significantly over the last three years posing a threat to the domestic manufacturing industry;
- There is a significant global oversupply of steel which has had the effect of depressing global prices;
- The SACU steel industry cannot sustain operations at current prices;
- The rising level of imports and concomitant erosion of the market share and low capacity utilisation of the SACU manufacturers;

- The significant price disadvantages experienced by the domestic industry vis-à-vis foreign, especially East Asian manufacturers;
- The diminishing investment opportunities and the declining profitability of the domestic industry as a result of a relatively high production cost structure;
- A significant number of jobs have already been lost and there is a real threat of further job losses;
- The primary steel industry is a major employer and the current situation poses a serious threat to job retention and creation;
- 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 found that the vast majority of products classifiable under the relevant tariff subheadings are manufactured domestically. However, the Commission will consider applications by the industry for tariff relief for products that are not manufactured locally.

The Commission concluded that the tariff support should enable the industry manufacturing Semi-finished Steel, Steel Plates, Cold-rolled Steel and Steel Sections 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 Semi-finished Steel, Steel Plates, Cold-rolled Steel and Steel Sections, classifiable under tariff subheadings 7207.11, 7207.12, 7207.19, 7207.20, 7208.40, 7208.51, 7208.52 7216.10, 7216.21, 7216.22,

7216.40, 7216.69, 7225.40, 7209.15, 7209.16, 7209.17, 7209.18, 7209.25, 7209.26, 7209.27, 7209.90, 7211.23, 7211.29, 7211.90, 7225.50, 7226.92, 7226.99 and 7228.70, be increased from free of duty to 10% *ad valorem*, subject to the conditions listed on paragraph 48 of this report.

THE APPLICATION AND TARIFF POSITION

1. ITAC received applications from ArcelorMittal South Africa Limited (AMSA) for an increase in the rate of customs duty on Semi-finished steel, Steel Plates, Cold-rolled Steel and Steel Sections, classifiable under tariff subheadings 7207.11, 7207.12, 7207.19, 7207.20, 7208.40, 7208.51, 7208.52, 7216.10, 7216.21, 7216.22, 7216.40, 7216.69, 7225.40, 7209.15, 7209.16, 7209.17, 7209.18, 7209.25, 7209.26, 7209.27, 7209.90, 7211.23, 7211.29, 7211.90, 7225.50, 7226.92, 7226.99 and 7228.70, from free of duty to 10% *ad valorem*.
2. As motivation for the applications, the applicant stated, among others, 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;
 - The domestic primary steel manufacturers have been at a significant price disadvantage compared to the imported product, thereby incurring significant injury due to low-priced imports;
 - The imposition of tariff protection will assist in restoring the competitive position of the local manufacturers of Semi-finished Steel, Steel Plates, Cold-rolled Steel and Steel Sections. Also, it will curb job losses and restore economic and financial stability within the steel value chain; and
 - The steel value chain cannot exist without a primary steel producer. It is essential for SACU to have the benefits of a fully integrated value chain. Without a primary

steel producer, iron ore will be exported unbeneficiated and the downstream industry will be exposed to international price fluctuations and supply uncertainties.

3. The applications for an increase in customs duty on Semi-finished Steel, Steel Plates, Cold-rolled Steel and Steel Sections were published in the Government Gazette on 23 October 2015, for comments by interested parties, as follows:

Increase in the general rate of customs duty on:

"Semi-finished products of iron or non-alloy steel, classifiable under tariff subheadings 7207.11, 7207.12, 7207.19 and 7207.20, from free of duty to 10% *ad valorem*".

"Flat rolled products of iron, non-alloy and alloy steel, not further worked than hot-rolled, not in coils, classifiable under tariff subheadings 7208.40, 7208.51, 7208.52 and 7225.40, from free of duty to 10% *ad valorem*".

"Flat-rolled products of iron or non-alloy steel, and flat-rolled products of other alloy steel other than stainless steel, cold-rolled, not clad, plated or coated, not further worked than cold-rolled, classifiable under tariff subheadings 7209.15, 7209.16, 7209.17, 7209.18, 7209.25, 7209.26, 7209.27, 7209.90, 7211.23, 7211.29, 7211.90, 7225.50, 7226.92, and 7226.99, from free of duty to 10% *ad valorem*".

"Angles, shapes and sections of iron, non-alloy and alloy steel, classifiable under tariff subheadings 7216.10, 7216.21, 7216.22, 7216.40, 7216.69 and 7228.70, from free of duty to 10% *ad valorem*".

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

Table 1: Current tariff structure for the subject products

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
SEMI-FINISHED STEEL							
7207	Semi-finished products of iron or non-alloy steel:						
	7207.1	- Containing by mass less than 0,25 per cent of carbon:					
	7207.11	- - Of rectangular (including square) cross-section, the width measuring less than twice the thickness	Kg	Free	Free	Free	Free
	7207.12	- - Other, of rectangular (excluding square) cross-section	Kg	Free	Free	Free	Free

	7207.19	-- Other	Kg	Free	Free	Free	Free
	7207.20	- Containing by mass 0,25 per cent or more of carbon	Kg	Free	Free	Free	Free
STEEL PLATES							
72.08	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated:						
	7208.40	Not in coils, not further worked than hot-rolled, with patterns in relief	Kg	Free	Free	Free	Free
	7208.5	Other, not in coils, not further worked than hot-rolled:					
	7208.51	Of a thickness exceeding 10 mm	Kg	Free	Free	Free	Free
	7208.52	Of a thickness of 4,75 mm or more but not exceeding 10 mm	Kg	Free	Free	Free	Free
72.25	Flat-rolled products of other alloy steel, of a width of 600 mm or more:						
	7225.40	Other, not further worked than hot-rolled, not in coils	Kg	Free	Free	Free	Free
COLD-ROLLED STEEL							
72.09	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, cold-rolled (cold-reduced), not clad, plated or coated:						
	7209.1	In coils, not further worked than cold-rolled (cold-reduced):					
	7209.15	Of a thickness of 3 mm or more	Kg	Free	Free	Free	Free
	7209.16	Of a thickness exceeding 1 mm but less than 3 mm	Kg	Free	Free	Free	Free
	7209.17	Of a thickness of 0,5 mm or more but not exceeding 1 mm	Kg	Free	Free	Free	Free
	7209.18	Of a thickness of less than 0,5 mm	Kg	Free	Free	Free	Free
	7209.2	Not in coils, not further worked than cold-rolled (cold-reduced):					
	7209.25	Of a thickness of 3 mm or more	Kg	Free	Free	Free	Free
	7209.26	Of a thickness exceeding 1 mm but less than 3 mm	Kg	Free	Free	Free	Free
	7209.27	Of a thickness of 0,5 mm or more but not exceeding 1 mm	Kg	Free	Free	Free	Free
	7209.90	Other	Kg	Free	Free	Free	Free
72.11	Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, not clad, plated or coated:						
	7211.2	Not further worked than cold-rolled (cold reduced):					
	7211.23	Containing by mass less than 0,25 per cent of carbon	Kg	Free	Free	Free	Free
	7211.29	Other	Kg	Free	Free	Free	Free
	7211.90	Other	Kg	Free	Free	Free	Free
72.25	Flat-rolled products of other alloy steel, of a width of 600 mm or more:						
	7225.50	Other, not further worked than cold-rolled (cold-reduced)	Kg	Free	Free	Free	Free
72.26	Flat-rolled products of other alloy steel, of a width of less than 600 mm:						
	7226.9	Other:					
	7226.92	Not further worked than cold-rolled (cold reduced)	Kg	Free	Free	Free	Free
	7226.99	Other	Kg	Free	Free	Free	Free

STEEL SECTIONS							
72.16	Angles, shapes and sections of iron or non-alloy steel:						
	7216.10	U, I or H sections, not further worked than hot-rolled, hot-drawn or extruded, of a height of less than 80 mm	Kg	Free	Free	Free	Free
	72.16.2	L or T sections, not further worked than hot-rolled, hot-drawn or extruded, of a height of less than 80 mm:					
	7216.21	L sections	Kg	Free	Free	Free	Free
	7216.22	T sections	Kg	Free	Free	Free	Free
	72.16.40	L or T sections, not further worked than hot-rolled, hot-drawn or extruded, of a height of 80 mm or more	Kg	Free	Free	Free	Free
	7216.6	Angles, shapes and sections, not further worked than cold-formed or cold-finished:					
7216.69	Other	Kg	Free	Free	Free	Free	
72.28	Other bars and rods of other alloy steel; angles, shapes and sections, of other alloy steel; hollow drill bars and rods, of alloy or non-alloy steel:						
	7228.70	Angles, shapes and sections	Kg	Free	Free	Free	Free

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

Table 2: Requested tariff structure for the subject products

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
SEMI-FINISHED STEEL							
72.07	Semi-finished products of iron or non-alloy steel:						
	7207.1	- Containing by mass less than 0,25 per cent of carbon:					
	7207.11	- - Of rectangular (including square) cross-section, the width measuring less than twice the thickness	Kg	10%	Free	Free	Free
	7207.12	- - Other, of rectangular (excluding square) cross-section	Kg	10%	Free	Free	Free
	7207.19	-- Other	Kg	10%	Free	Free	Free
	7207.20	- Containing by mass 0,25 per cent or more of carbon	Kg	10%	Free	Free	Free
STEEL PLATES							
72.08	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, hot-rolled, not clad, plated or coated:						
	7208.40	Not in coils, not further worked than hot-rolled, with patterns in relief	Kg	10%	Free	Free	Free
	7208.5	Other, not in coils, not further worked than hot-rolled:					
	7208.51	Of a thickness exceeding 10 mm	Kg	10%	Free	Free	Free
	7208.52	Of a thickness of 4,75 mm or more but not exceeding 10 mm	Kg	10%	Free	Free	Free
72.25	Flat-rolled products of other alloy steel, of a width of 600 mm or more:						
	7225.40	Other, not further worked than hot-rolled, not in coils	Kg	10%	Free	Free	Free
COLD-ROLLED STEEL							
72.09	Flat-rolled products of iron or non-alloy steel, of a width of 600 mm or more, cold-rolled (cold-reduced), not clad, plated or coated:						

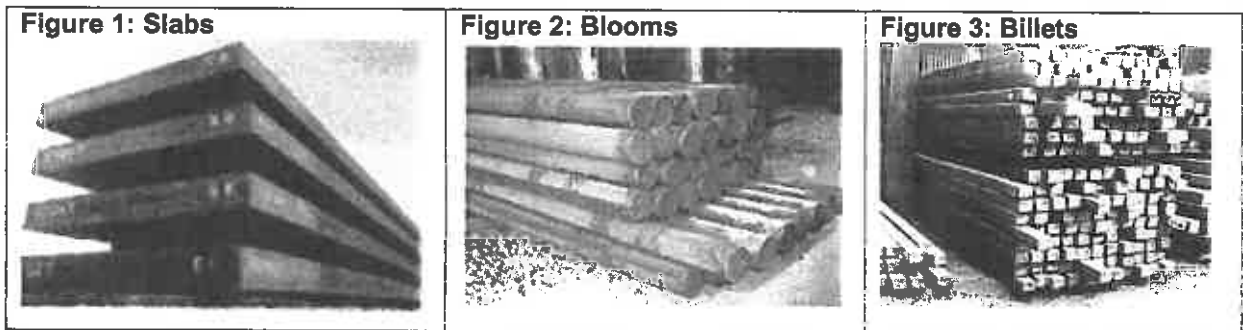
	7209.1	In coils, not further worked than cold-rolled (cold-reduced):					
	7209.15	Of a thickness of 3 mm or more	Kg	10%	Free	Free	Free
	7209.16	Of a thickness exceeding 1 mm but less than 3 mm	Kg	10%	Free	Free	Free
	7209.17	Of a thickness of 0,5 mm or more but not exceeding 1 mm	Kg	10%	Free	Free	Free
	7209.18	Of a thickness of less than 0,5 mm	Kg	10%	Free	Free	Free
	7209.2	Not in coils, not further worked than cold-rolled (cold-reduced):					
	7209.25	Of a thickness of 3 mm or more	Kg	10%	Free	Free	Free
	7209.26	Of a thickness exceeding 1 mm but less than 3 mm	Kg	10%	Free	Free	Free
	7209.27	Of a thickness of 0,5 mm or more but not exceeding 1 mm	Kg	10%	Free	Free	Free
	7209.90	Other	Kg	10%	Free	Free	Free
72.11	Flat-rolled products of iron or non-alloy steel, of a width of less than 600 mm, not clad, plated or coated:						
	7211.2	Not further worked than cold-rolled (cold reduced):					
	7211.23	Containing by mass less than 0,25 per cent of carbon	Kg	10%	Free	Free	Free
	7211.29	Other	Kg	10%	Free	Free	Free
	7211.90	Other	Kg	10%	Free	Free	Free
72.25	Flat-rolled products of other alloy steel, of a width of 600 mm or more:						
	7225.50	Other, not further worked than cold-rolled (cold-reduced)	Kg	10%	Free	Free	Free
72.26	Flat-rolled products of other alloy steel, of a width of less than 600 mm:						
	7226.9	Other:					
	7225.92	Not further worked than cold-rolled (cold reduced)	Kg	10%	Free	Free	Free
	7225.99	Other	Kg	10%	Free	Free	Free
STEEL SECTIONS							
72.16	Angles, shapes and sections of iron or non-alloy steel:						
	7216.10	U, I or H sections, not further worked than hot-rolled, hot-drawn or extruded, of a height of less than 80 mm	Kg	10%	Free	Free	Free
	7216.2	L or T sections, not further worked than hot-rolled, hot-drawn or extruded, of a height of less than 80 mm:					
	7216.21	L sections	Kg	10%	Free	Free	Free
	7216.22	T sections	Kg	10%	Free	Free	Free
	72.16.40	L or T sections, not further worked than hot-rolled, hot-drawn or extruded, of a height of 80 mm or more	Kg	10%	Free	Free	Free
	7216.6	Angles, shapes and sections, not further worked than cold-formed or cold-finished:					
	7216.69	Other	Kg	10%	Free	Free	Free
72.28	Other bars and rods of other alloy steel; angles, shapes and sections, of other alloy steel; hollow drill bars and rods, of alloy or non-alloy steel:						
	7228.70	Angles, shapes and sections	Kg	10%	Free	Free	Free

6. The WTO bound rate for the tariff subheadings under investigation is 10% *ad valorem*.

INDUSTRY AND MARKET

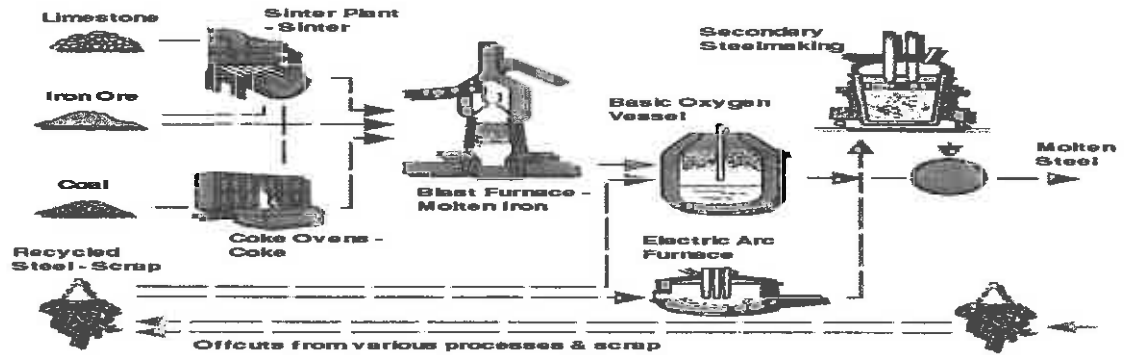
Semi-finished Steel

7. Semi-finished steel is commonly in the form of slabs, billets and blooms. Slabs are the most common type of semi-finished steel. Traditional slabs measure 10 inches thick, 30 to 85 inches wide and average about 20 feet long. Slabs are used in the manufacture of sheets, strips, plates and other flat-rolled steel products.
8. Blooms are rolled or forged from an ingot or strand-cast. Blooms usually have a square cross-section exceeding 36 inches. Blooms are further processed into long steel products, such as structural shapes. Billets usually have a square cross section less than 36 square inches. Billets are further processed into long steel products, including wire rod, bars, pipes and wire.
9. Figure 1-3 below depicts the subject products:



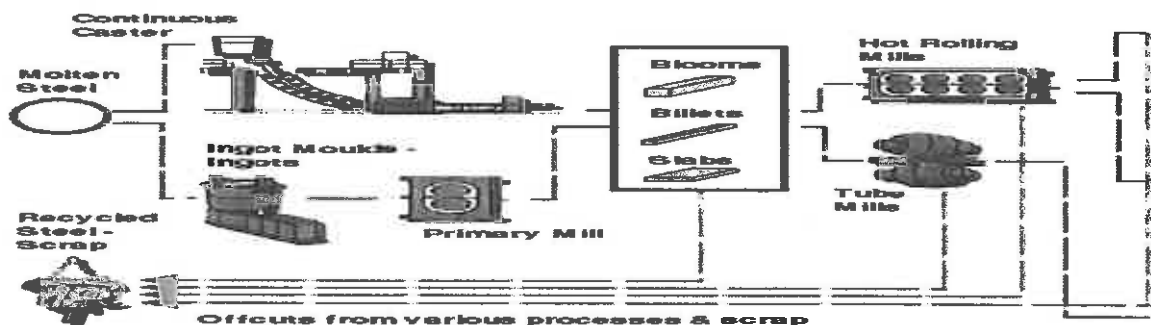
10. As shown in figure 4 below, generally, the manufacturing of semi-finished steel begins with the process of steel making from virgin iron ore and recycled steel. Figure 5 shows the casting stage in the manufacturing process.

Figure 4: The process flow in the manufacturing of semi-finished steel – melting stage



- The manufacturing process consists of smelting and refining to set the steel's chemical and metallurgical properties; and casting the steel into a semi-finished shape. 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.

Figure 5: The process flow in the manufacturing of semi-finished steel – casting stage



- In terms of end-use, semi-finished steel is used by re-rollers to produce flat and long steel products.
- There are four known manufacturers of the subject product in the SACU region, namely; AMSA, Gape Gate Pty (Ltd), Scaw Metals Group, and Unica Iron and Steel (Pty) Ltd. AMSA is the biggest producer of the subject products in SACU.
- The identified importers of the semi-finished steel include Aco Casting Services SA (Pty) Ltd, Humulani Marketing (Pty) Ltd, Insimbi Alloy Suppliers (Pty) Ltd, DHC Steel (Pty) Ltd, Chemosol (Pty) Ltd and DCD Rollers (Pty) Ltd.

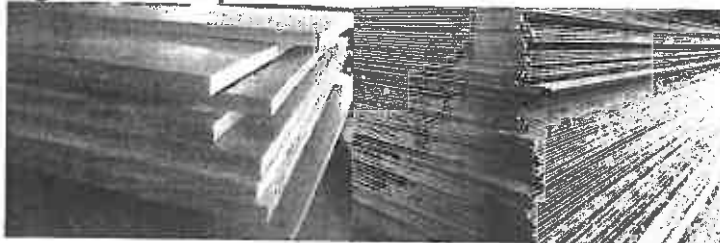
15. The SARS official statistics of the semi-finished steel indicate that imports have increased significantly over the last three years posing a threat to the domestic industry. The applicant's production volumes of semi-finished steel have declined significantly over the same period, eroding the industry's capacity utilisation. The rising level of imports has also eroded the local industry's market share and profitability.

Steel Plates

16. The subject products are plates, flat rolled products of iron or non-alloy steel, of a width of 600mm or more, hot rolled, not clad, plated or coated. The steel plates are used for/ in the manufacture of heavy engineering products such as construction, mining, pressure vessels, overhead cranes, dump trucks, storage tanks and wind towers.

17. The figure below depicts the subject products:

Figure 6: Steel plates



18. Steel plates are manufactured from low to medium carbon or alloy steel. The main inputs used in the production of steel plates are steel slabs, made either from virgin iron ore or steel scrap.

19. The manufacturing process for steel plates consists of several stages that comprise the following:

- Smelting and refining to set the steel's chemical and metallurgical properties;
- Casting the steel into a semi-finished shape;
- Hot-rolling the input material into a hot rolled plate on a single-stand rolling mill; and
- Cooling on a cooling bed prior to cutting and/or further processing.

20. There are two local manufacturers of the subject product in the SACU region, namely AMSA (the applicant) and Evraz Highveld Steel and Vanadium Corporation (Pty) Ltd (EVRAZ). EVRAZ only manufactures steel plates classifiable under tariff subheadings 7208.51 and 7208.52. However, it has temporarily ceased the manufacturing of the subject products during June 2015 and aims to resume production in the first quarter of 2016.
21. The identified importers of steel plates include Macsteel Services Centre SA (Pty) Ltd, Toyota Tsusho (Pty) Ltd, Duferco Distribution Services SA (Pty) Ltd and Euro Steel (Pty) Ltd.
22. The SARS official statistics of the steel plates indicate that imports slightly declined over the last three years. However, the import volumes for the first half of 2015 (January to June) point to a surge in imports. The applicant's production volumes of steel plates have declined significantly over the same period, eroding the industry's capacity utilisation. The rising level of imports has also eroded the local industry's market share and profitability.

Cold-rolled Steel

23. The subject products are cold-rolled, non-alloy steel products or alloy steel products other than that of stainless steel. The applicant produces cold-rolled material ranging from 0.4mm to 2mm in thickness and ranging from 800mm to 1600mm in width. Figure 1 below depicts cold-rolled steel.

Figure 7: Cold-rolled steel



24. Cold-rolled steel products are an input into the manufacture of coated steel. They are also used in the fabrication, packaging, automotive and construction industries. The use of the products also includes the manufacture of electrical and domestic appliances such as stoves and refrigerators. In addition, they can also be used in the production of drums, tubing, geysers, office equipment, containers and components in vehicle manufacturing.
25. The subject products are manufactured from low to medium carbon or alloy steel. The main input used in the production of cold-rolled is hot rolled pickled and oiled coils, made either from virgin iron ore or steel scrap.
26. The manufacturing process of the subject products consists of several stages. The first stage entails the smelting and refining to set the steel's chemical and metallurgical properties. The second stage entails a process of casting molten steel into a semi-finished shape (i.e. slab). The third stage involves the process of hot rolling the input material into a coil, using a multi-stand, high speed rolling mill and controlled cooling of the run-out table prior to coiling. The material then goes to the fourth stage where it is pickled and oiled. In the fifth stage, the material goes through a stand tandem cold rolling process that will produce steel superior in tolerance and surface finish, after which it goes through annealing and finally temper-rolling.
27. The applicant is the dominant manufacturer of cold-rolled steel in SACU. The other manufacturer is Duferco Steel Processing (Pty) Ltd.
28. The main importers of the subject products include Macsteel Service Centres SA (Pty) Ltd, BM Steel (Pty) Ltd and Portland Steel International (Pty) Ltd.
29. The SARS' official import statistics for the subject products indicate that aggregate import volumes for the subject tariff lines increased from an estimated 18 900 tons in 2012 to an estimated 35 400 tons in 2014. The import volumes for the first half of 2015 (January to June) point to a surge in imports when compared to their 2014 levels. China's share of total imports increased significantly over the three year period.

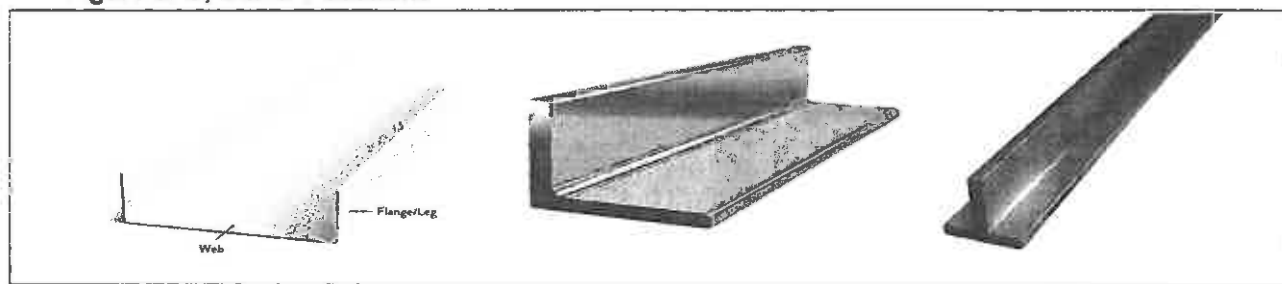
30. The applicant's production volumes of cold-rolled steel have declined significantly over the three year period from 2012 to 2014, eroding the industry's capacity utilisation. The rising level of imports has also eroded the local industry's market share and profitability.

Steel Sections

31. The subject products are hot-rolled, hot-drawn or extruded sections of a height less than 80 mm (U and I sections) and more than 80 mm (L and T) as well as window sections and fencing standards.

32. The figure 8 below depicts the subject products.

Figure 8: U, L and T sections



33. Steel sections are manufactured from low to medium carbon or alloy steel. The main inputs used in the production of sections are blooms and billets, made either from virgin iron ore or steel scrap.

34. The manufacturing process for steel sections consists of several stages which include the following:

- Smelting and refining to set the steel's chemical and metallurgical properties;
- Casting the steel into a semi-finished shape such as ingots, blooms and billets;
- Hot-rolling the input material into a section on multi-stand, high-speed rolling mill; and
- Controlled cooling of the sections on a cooling bed.

35. The subject products are mainly used in the engineering, fabrication and construction of multi-story buildings, industrial buildings, bridge trusses, vertical highway supports and riverbank reinforcement.
36. There are five known local manufactures of steel sections in the SACU region, namely AMSA, Scaw Metals Group, Cape Gate Holdings (Pty) Ltd (DAV Steel), Unica Iron and Steel (Pty) Ltd and India Steel (Pty) Ltd. EVRAZ also manufactures heavy steel sections, however these products fall outside the scope of this application.
37. The identified importers of the subject include Macsteel Services Centre SA (Pty) Ltd, Aveng Steel Limited and IMAB Engineering (Pty) Ltd.
38. The SARS official statistics of the steel sections indicate that imports have increased from an estimated 9 900 tons in 2012 to an estimated 16 100 tons in 2014. However, the import volumes for the first half of 2015 (January to June) point to a surge in imports when compared to their 2014 levels. The applicant's production volumes of steel sections have declined significantly over the same period, eroding the industry's capacity utilisation. The rising level of imports has also eroded the local industry's market share and profitability.

COMPETITIVE POSITION

39. Challenges facing the domestic industry at an operational level include high manufacturing costs and an influx of imports. Labour costs and shortage of technical skills pose additional challenges, amplified by high domestic energy costs.
40. The local industry manufacturing Semi-finished Steel, Steel Plates, Cold-rolled Steel and Steel Sections is not price-competitive against Chinese imports of the subject products and it is experiencing significant price disadvantages.

COMMENTS RECEIVED

41. Objections to the applications for the increase in customs duty on Semi-finished Steel, Steel Plates, Cold-rolled Steel and Steel Sections were received from the following firms:

Portland Steel International (Pty) Ltd; Robor (Pty) Ltd, the National Association of Automobile Manufacturers of South Africa (NAAMSA), Macsteel Service Centres SA (Pty) Ltd and BM Steel (Pty) Ltd.

42. The objections centred on factors such as out-dated production facilities and technology, the negative cost-raising impact of duties on downstream industries, the anti-competitive behaviour of the primary steel industry including import parity pricing, inability to meet the SACU demand due to limited product range, the natural protection of the steel industry and perceived poor quality of the locally produced subject products.
43. The Commission found that the vast majority of the subject products are manufactured locally. However, the Commission will consider applications by the industry for tariff relief for products not manufactured locally.
44. The increase in customs duty on the subject products was supported by Unica Iron and Steel (Pty) Ltd, Scaw Metals Group and EVRAZ. The comments centred on the fact that the local manufacturers are not competitive vis-à-vis foreign imported subject products and that the primary steel industry is a major employer and the current influx of imports poses a serious threat to jobs and investment in SACU.

FINDINGS

45. The Commission considered the applications in light of the information at its disposal. In particular, the Commission took the following factors into account:
 - Imports have increased significantly over the last three years posing a threat to the domestic manufacturing industry;
 - There is a significant global oversupply of steel which has had the effect of depressing global prices;
 - The SACU steel industry cannot sustain operations at current prices;

- The rising level of imports and concomitant erosion of the market share and low capacity utilisation of the SACU manufacturers;
- The significant price disadvantages experienced by the domestic industry vis-à-vis foreign, especially East Asian manufacturers;
- The diminishing investment opportunities and the declining profitability of the domestic industry as a result of a relatively high production cost structure;
- A significant number of jobs have already been lost and there is a real threat of further job losses;
- The primary steel industry is a major 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 vast 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.

46. The Commission concluded that tariff support should enable the industry manufacturing Semi-finished Steel, Steel Plates, Cold-rolled Steel and Steel Sections 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

47. In light of the foregoing, the Commission recommends that the rate of customs duty on Semi-finished Steel, Steel Plates, Cold-rolled Steel and Steel Sections, classifiable under tariff subheadings 7207.11, 7207.12, 7207.19, 7207.20, 7208.40, 7208.51, 7208.52, 7216.10, 7216.21, 7216.22, 7216.40, 7216.69, 7225.40, 7209.15, 7209.16, 7209.17, 7209.18, 7209.25, 7209.26, 7209.27, 7209.90, 7211.23, 7211.29, 7211.90, 7225.50, 7226.92, 7226.99 and 7228.70, be increased from free of duty to 10% *ad valorem*.

48. 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 in engagement with the steel sector, including AMSA and the downstream industry, with a view to developing 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 R3.6 billion in the next three years from 2016 to 2018 in new plant, machinery, research and development, skills development and training and upgrading of machinery for the manufacturing of Semi-finished Steel, Steel Plates, Cold-rolled Steel and Steel Sections.
- 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.

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