

REPORT NO. 514

**INCREASE IN THE CUSTOMS DUTY ON POLYURETHANE
PREPOLYMERS**

The International Trade Administration Commission herewith presents its Report No. 514:
INCREASE IN THE CUSTOMS DUTY ON POLYURETHANE PRE-POLYMERS, with
recommendations.



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CHIEF COMMISSIONER

PRETORIA
17/12/2015

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 514

INCREASE IN THE CUSTOMS DUTY ON POLYURETHANE PRE-POLYMERS

Synopsis

National Urethane Industries (Pty) Ltd (NUI), applied for an increase in the general rate of customs duty on polyurethane prepolymers classifiable under tariff subheading 3909.50, from free of duty to 10 per cent *ad valorem*, by way of creating an additional 8 digit tariff subheading under tariff heading 39.09.

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 and concomitant erosion of the applicant's market share;
- The considerable decline in the level of production, sales and capacity utilisation.
- The significant price disadvantages experienced by the domestic industry vis-à-vis foreign imports;
- The declining profitability of the domestic firm manufacturing the subject product as a result of an increase in production costs; and
- The applicant is in a position to manufacture the subject product (polyurethane prepolymers with an NCO percentage of less than 20 per cent by mass) for the majority of downstream applications.

The Commission concluded that tariff support should enable the applicant 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 polyurethane prepolymers classifiable under tariff subheading 3909.50 be increased from free of duty to 10 per cent *ad valorem*, by way of creating an additional 8-digit tariff subheading, to be reviewed after a period of three years from the date of implementation, to determine its impact on the industry value chain.

THE APPLICATION AND TARIFF POSITION

1. National Urethane Industries (Pty) Ltd (NUI), applied for an increase in the general rate of customs duty on polyurethane prepolymers classifiable under tariff subheading 3909.50, from free of duty to 10 per cent *ad valorem*, by way of creating an additional 8 digit tariff subheading.
2. The subject products are intermediate products that are further processed to produce a variety of polyurethane products used in the mining, automotive, transport and construction industries etc.
3. As reasons for the application, the applicant, among others, stated the following:
 - The importers are importing fully manufactured polyurethane prepolymers into South Africa and selling these products in the SADC region at price levels that cause material injury to the local SACU prepolymers manufacturers;
 - The supply of prepolymers by SACU manufacturers could decrease due to the unprofitability of manufacturing locally; and
 - The loss in sales as a result of imports means, unless protected, NUI would have to consider the retrenchment of workers in order to continue its business operations.

4. The application was published in the Government Gazette on 21 August 2015 for comments by interested parties, as follows:

Increase in the general rate of customs duty on:

“Polyurethane prepolymers, classifiable under tariff subheading 3909.50, from free of duty to 10 per cent *ad valorem*, by way of creating an additional 8-digit tariff subheading under tariff heading 39.09, as follows: *“Polyurethane prepolymers with an NCO percentage of less than 20 per cent by mass”*.”

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

Table 1: Current tariff structure of the subject polyurethane prepolymer products

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty			
				General	EU	EFTA	SADC
39.09		Amino-resins, phenolic resins and polyurethanes, in primary forms:					
	3909.50	Polyurethanes	kg	free	free	free	free

Source: SARS

6. The WTO bound rate for the tariff subheading under investigation is 10 per cent *ad valorem*.
7. Since tariff subheading 3909.50 covers prepolymers that are not subject to this investigation, the applicant requested the creation of an additional 8-digit tariff subheading under tariff heading 39.09.

INDUSTRY AND MARKET

8. Polyurethane prepolymers (the subject product) are formed by combining an excess of diisocyanate with polyol. Polyurethanes are generally sold as a 2 component chemical system, which comprises a polyol and an isocyanate. The latter component can be found in different forms, in a crude form or pre-reacted with a polyols form. If it is pre-reacted with a polyol, it is referred to as a pre-polymer.
9. The percentage of the isocyanate functional group (NCO percentage) determines the classification range and refers to the atoms: nitrogen, carbon and oxygen grouped together. It can range from as low as 3 per cent to 40 per cent.

10. Most of the raw materials needed to produce polyurethanes are imported, while packaging materials are sourced locally. All the inputs are currently duty free, except for polymers of ethylene, in primary form, which are dutiable at 10 per cent *ad valorem* when imported under the general category. Imported inputs are sourced from the EU at free of duty.

11. Polyurethane is a primary plastic material and is the material of choice for a broad range of end-users applications, such as insulation of refrigerators and freezers, building insulations, car parts, coatings, adhesives, shoe soles, etc.

12. National Urethane Industries (Pty) Ltd is currently the only manufacturer of the subject product in the SACU region.

13. The main importers of the subject products include:

- BASF (Pty) Ltd, that stopped manufacturing the product in the SACU during November 2015;
- Urechem cc;
- Diverse Urethanes cc;
- Servochem (Pty) Ltd; and
- Industrial Urethanes (Pty) Ltd.

14. The SARS' official import statistics for the subject products indicate that the total import volumes for polyurethane products classifiable under tariff subheading 3909.50 increased significantly over the period 2012-2014. It should however be noted that the import figures include polyurethane prepolymers that are not subject to this investigation.

COMPETITIVE POSITION

15. The Applicant is not price-competitive against imports of the subject products and it is experiencing price disadvantages.

COMMENTS RECEIVED

16. Objections were received from the following manufacturers and importers; BASF (Pty) Ltd, Diverse Urethanes cc, Stoncor Africa (Pty) Ltd, Urechem cc and Servochem (Pty) Ltd.
17. The objections centred on *inter alia*, the cost raising effect of the increase in duty and that the applicant may not be able to meet the full market requirements for polyurethane prepolymers.

FINDINGS

18. 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 and concomitant erosion of the applicant's market share;
- The considerable decline in the level of production, sales and capacity utilisation.
- The significant price disadvantages experienced by the domestic industry vis-à-vis foreign imports;
- The declining profitability of the domestic firm manufacturing the subject product as a result of an increase in production costs; and
- The applicant is in a position to manufacture the subject product (polyurethane prepolymers with an NCO percentage of less than 20 per cent by mass) for the majority of downstream applications.

19. The Commission concluded that tariff support should enable the applicant 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

In light of the foregoing, the Commission recommends that the rate of customs duty on polyurethane prepolymers classifiable under tariff subheading 3909.50 be increased from free of duty to 10 per cent *ad valorem*, by way of creating an additional 8-digit tariff subheading under tariff heading 39.09 as follows: "*Polyurethane prepolymers with an NCO percentage of less than 20 per cent by mass*". It is further recommended that the duty be reviewed after a period of three years from the date of implementation, to determine its impact on the industry value chain.

[02/2015]