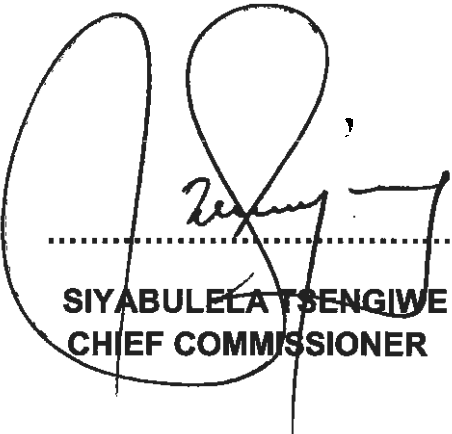


REPORT NO. 511

**APPLICATION FOR AN INCREASE IN CUSTOMS DUTY ON
ALUMINIUM ROLLED PRODUCTS**

The International Trade Administration Commission of South Africa herewith presents its report No. 511: **APPLICATION FOR AN INCREASE IN CUSTOMS DUTY ON ALUMINIUM ROLLED PRODUCTS**, with recommendations.



.....
SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

01 / 04 / 2016

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 511

APPLICATION FOR AN INCREASE IN CUSTOMS DUTY ON ALUMINIUM ROLLED PRODUCTS

Synopsis

The Commission considered an application by Hulamin Rolled Products (Pty) Ltd for an increase in duty on a range of aluminium rolled products.

The Commission found that Hulamin enjoys a price advantage in the domestic market over imports; that it is competitive in export markets that receive more than 70% of Hulamin's production; that it enjoys a domestic market share exceeding 70%; and that its financial position has improved over recent years also in the light of the depreciating Rand/Dollar exchange rate.

The Commission concluded that a duty would have an unnecessary cost-raising impact on a range of downstream manufacturers and would also increase the price of those aluminium rolled products that are not manufactured domestically.

In light of the foregoing, the Commission could not support the application for an increase in customs duties on aluminium rolled products.

Application and tariff position

1. Hulamin Rolled Products (Pty) Ltd applied for an increase in the rate of customs duty on certain aluminium rolled products from free of duty to the bound rate of 15% *ad valorem*. The subject products are aluminium plates, sheets, strip and foil classifiable under tariff headings 76.06 and 76.07.

2. As reasons for the application, Hulamin stated the following:
 - i) Imported sheet, plate, strip and foil products into the local SACU market have increased in volume over the past few years and the result is that Hulamin's share of the market is declining;

 - ii) Hulamin's domestic sales are being progressively displaced by lower priced imports of high volume products. Hulamin has resorted to manufacturing a wide range of low volume products which negatively affects any potential to leverage economies of scale;

 - iii) In 2013, the company was forced to restructure its operations that resulted in 211 employees losing their jobs which represent a 10% reduction in its workforce;

 - iv) Hulamin's international competitors in countries such as Brazil, China, India and Russia enjoy duty protection in their domestic markets; and

 - v) Hulamin's over-reliance on export sales has resulted in lower profit margins because of escalating outbound logistic costs.

3. The application was published on 11 September 2015 in the Government Gazette for comments by interested parties as follows:

Increase in the rate of customs duty on:

“Certain aluminium plates, sheets, strips and foil products classifiable under tariff headings 7606 and 7607 from free of duty to a WTO bound rate of 15%”

4. The current tariff structure for the subject products is shown in Table 1 below and in Table 2 the requested tariff structure for the subject products is shown.

Table 1: Tariff position for the subject products

76.06		Aluminium Plates, Sheets and Strip, of Thickness Exceeding 0,2 mm					
	7606.1	- Rectangular (including square):					
	7606.11	-- Of aluminium, not alloyed:					
	7606.11.07	- - Containing by mass, not more than 99,9 % of aluminium, laminated or coated on one or both sides with paint, enamel or plastics [excluding non-slip flooring with patterns in relief (tread plate)]	Kg	free	free	free	free
	7606.11.17	---- Containing by mass, not more than 99,9 % of aluminium, not coated or covered with paint, enamel or plastics [excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated]	Kg	free	free	free	free
	7606.11.90	---Other	kg	free	free	free	free
	7606.12	-- Of aluminium alloys:					
	7606.12.07	---Coated or covered on one or both sides with paint, enamel or plastics of a thickness exceeding 0,25 mm and a width exceeding 100 mm [excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated]	kg	free	free	free	free

	7606.12.17	---Not coated or covered with paint, enamel or plastics of a thickness exceeding 0,25 mm and a width exceeding 100 mm [excluding non-slip flooring with patterns in relief (tread plate), those which are perforated, and those containing by mass more than 0,5% of copper, 6% of magnesium, or 4% of silicon]	kg	free	free	free	free
	7606.12.90	---Other	kg	free	free	free	free
76.07		Aluminium Foil (Whether or not printed, backed with paper, paperboard, plastics or similar backing materials) of a thickness (excluding any backing) not exceeding 0,2 mm:					
	7607.1	-Not backed:	kg	free	free	free	free
	7607.11	--Rolled but not further worked	kg	free	free	free	free
	7607.19	---Other					
	7607.19.10	---Etched, of a width not exceeding 105 mm	kg	free	free	free	free
	7607.19.25	- - Other, self-adhesive, coated with glass microspheres	kg	free	free	free	free
	7607.19.90	---Other	kg	free	free	free	free
	7607.20	-Backed					
	7607.20.20	- - Unprinted, of thickness of 0,1 mm or more but not exceeding 0,15 mm and a width not exceeding 40mm,lacquered on one side only (excluding that laminated to paper or plastics and reinforced with glass or sisal fibre)	kg	free	free	free	free
	7607.20.25	---Other, self-adhesive, coated with glass microspheres	kg	free	free	free	free
	7607.20.90	---Other	kg	free	free	free	free

Table 2: Requested tariff structure

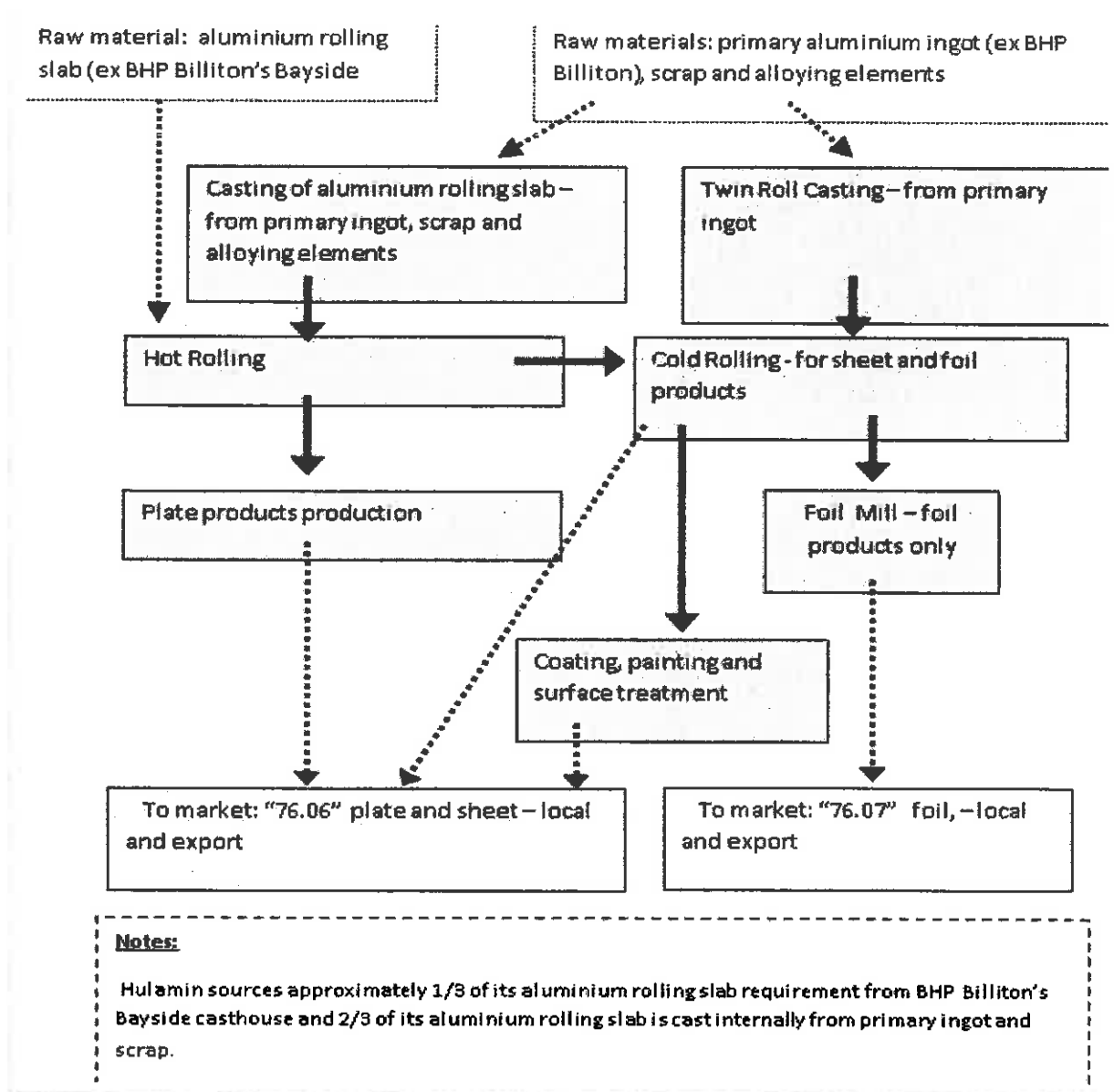
76.06		Aluminium Plates, Sheets and Strip, of Thickness Exceeding 0,2 mm					
	7606.1	- Rectangular (including square):					
	7606.11	-- Of aluminium, not alloyed:					
	7606.11.07	- - Containing by mass, not more than 99,9 % of aluminium, laminated or coated on one or both sides with paint, enamel or plastics [excluding non-slip flooring with patterns in relief (tread plate)]	Kg	15%	free	free	free

	7606.11.17	--- Containing by mass, not more than 99,9 % of aluminium, not coated or covered with paint, enamel or plastics [excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated]	kg	15%	free	free	free
	7606.11.90	---Other	kg	15%	free	free	free
	7606.12	-- Of aluminium alloys:					
	7606.12.07	---Coated or covered on one or both sides with paint, enamel or plastics of a thickness exceeding 0,25 mm and a width exceeding 100 mm [excluding non-slip flooring with patterns in relief (tread plate) and those which are perforated]	kg	15%	free	free	free
	7606.12.17	---Not coated or covered with paint, enamel or plastics of a thickness exceeding 0,25 mm and a width exceeding 100 mm [excluding non-slip flooring with patterns in relief (tread plate), those which are perforated, and those containing by mass more than 0,5% of copper, 6% of magnesium, or 4% of silicon]	kg	15%	free	free	free
	7606.12.90	---Other	kg	15%	free	free	free
76.07		Aluminium Foil (Whether or not printed, backed with paper, paperboard, plastics or similar backing materials) of a thickness (excluding any backing) not exceeding 0,2 mm:					
	7607.1	-Not backed:	kg		free	free	free
	7607.11	--Rolled but not further worked	kg	15%	free	free	free
	7607.19	---Other					
	7607.19.10	---Etched, of a width not exceeding 105 mm	kg		free	free	free
	7607.19.25	- - Other, self-adhesive, coated with glass microspheres	kg		free	free	free
	7607.19.90	---Other	kg	15%	free	free	free
	7607.20	-Backed					
	7607.20.20	- - Unprinted, of thickness of 0,1 mm or more but not exceeding 0,15 mm and a width not exceeding 40mm,lacquered on one side only (excluding that laminated to paper or plastics and reinforced with glass or sisal fibre)	kg		free	free	free

	7607.20.25	--Other, self-adhesive, coated with glass microspheres	kg		free	free	free
	7607.20.90	-- --Other	kg		free	free	free

Industry and market

5. The manufacturing process of the subject product is as follows:



6. Hulamin operates 60 ton melting furnaces to heat the metal to between 660°C and 700°C. The furnaces are charged with primary aluminium ingot and/or scrap as well as alloying elements. After melting, the molten metal is transferred to holding furnaces, where the liquid metal is treated and impurities are allowed to settle out at the correct temperature.
7. Given the subject product's characteristics (light weight, strength, moderate melting point, ductility, conductivity, corrosion resistance and barrier properties), aluminium consumption has increased internationally, gaining ground in building applications, electric cables, basic foils, aircraft, and the automotive and packaging industries. Recently, an additional boost resulted from the development of aluminium beverage cans. The use of aluminium in the automotive industry is also expanding rapidly. In South Africa, the market for semi-fabricated rolled products comprises fabricators in the packaging, construction, automobile, transport and electrical industries.
8. Billiton's Hillside smelter is South Africa's sole smelter. It supplies primary metal to the Isizinda casthouse (previously the casthouse at the Bayside smelter) directly to Hulamin's casthouse in Pietermaritzburg. The balance is exported. Hulamin casts rolling slab from Hillside ingot and buys the balance from Isizinda. Rolling slab is first hot-rolled to format it for further rolling and other production processes.
9. The main input materials used in the manufacturing of the subject products are primary aluminium ingots, alloyed aluminium rolling slab ingots and aluminium scrap. The local industry sources these inputs mainly from BHP Billiton (Pty) Ltd and scrap merchants.
10. The main importers of the subject products include Stalcor (Pty) Ltd, Bevcan (a division of Nampak Products Limited, GRW Engineering (Pty) Ltd, and Metal and Tool Trade (Pty) Ltd.
11. The applicant is price competitive vis-à-vis foreign competitors of aluminium rolled products that export their products to South Africa. The applicant invested

R3.4 billion to achieve economies of scale and exports more than 70% of its production.

12. The shift from tin-plated steel beverage cans to aluminium beverage cans in South Africa, coupled with expanding use of aluminium in the automotive sector, has created a growing domestic market for Hulamin. The envisaged increase in Hulamin's production volumes will reduce the company's unit cost of production and improve its price competitive position.
13. Hulamin has showed increased profitability and its financial position is improving. The recent softening of the Rand/Dollar exchange rate has boosted Hulamin's exports and provides the company with additional protection from imports.
14. Hulamin is the sole domestic manufacturer of flat-rolled aluminium products with a market share of over 70%. A large number of downstream producers use aluminium sheets, plates and foil alloys as inputs into their production processes.

Comments on the application

15. Comments objecting to the application were received from the Botswana Ministry of Trade and Industry, Stalcor (Pty) Ltd, Bevcan (a division of Nampak Products Limited), GRW Engineering (Pty) Ltd, Metal and Tool Trade (Pty) Ltd, Nautic Africa (Pty) Ltd, AMC Cookware, and Amcor Flexible South Africa (Pty) Ltd.
16. The comments centred on the cost-raising effect of a duty increase that would render downstream users uncompetitive against imported products and the Rand/Dollar exchange rate that has softened substantially providing additional protection to the industry.

17. Comments supporting the application were received from the KwaZulu Natal Department of Economic Development, Tourism and Environmental Affairs. The comments centred on the perceived influx of subsidised cheap imports.

Findings

18. The Commission found that Hulamin enjoys a price advantage in the domestic market over imports; that it is competitive in export markets that receive more than 70% of Hulamin's production; that it enjoys a domestic market share exceeding 70%; and that its financial position has improved also in the light of the depreciating Rand/Dollar exchange rate.

19. The Commission concluded that a duty would have an unnecessary cost-raising impact on a range of downstream manufacturers and would also increase the price of those aluminium rolled products that are not manufactured domestically.

Recommendations

20. In light of the foregoing, the Commission could not support the application for an increase in customs duties on aluminium rolled products.