

REPORT NO. 524

**INCREASE IN THE RATE OF CUSTOMS DUTY ON HOT-
ROLLED STEEL**

The International Trade Administration Commission herewith presents its **Report No. 524: INCREASE IN THE RATE OF CUSTOMS DUTY ON HOT-ROLLED STEEL**, with recommendations.



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA
18/04/2016

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 524

INCREASE IN THE RATE OF CUSTOMS DUTY ON HOT-ROLLED STEEL

Synopsis

ITAC received an application from ArcelorMittal South Africa Limited (AMSA) for an increase in the rate of customs duty on hot-rolled steel, classifiable under tariff subheadings 7208.10, 7208.25, 7208.26, 7208.27, 7208.36, 7208.37, 7208.38, 7208.39, 7208.53, 7208.54, 7208.90, 7211.13, 7211.14, 7211.19, 7225.30, 7225.99, and 7226.91, from free of duty to 10% *ad valorem*.

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

- Hot-rolled steel products constitute the majority of AMSA's Vanderbijlpark operations in sale volumes and is the foundation for many steel applications. Hot-rolled steel is therefore critical in its product mix with the sustainability of its Vanderbijlpark operations largely contingent on this product;
- There has been a material increase in imports of the subject product and imports from China have been the most significant. These low priced imports have resulted in price disadvantages for domestic producers. This takes place at the back of a global oversupply of steel, which has had the effect of depressing global steel prices;
- The applicants market share has declined and its capacity utilisation has fallen significantly below its potential;

- The applicant is faced with escalating cost structures, however it should be noted that in terms of input costs, specifically iron ore, the applicant has reached an agreement with Kumba Iron Ore Limited to revise the pricing mechanism of the old agreement, effective from October 2015;
- The applicant's production and sales volumes declined much faster than the decline in demand;
- The employment in the applicant's Vanderbijlpark and Saldanah plants, where hot rolled coils are produced declined by 1 091 between 2012 and 2014 due to the slowdown in demand and subsequent cut in production volumes;
- Pertaining to the contention that the requested duty will also affect some material not manufactured domestically, the Commission will consider applications by the industry for tariff relief for those products, however the vast majority of products classifiable under the relevant tariff subheadings are manufactured domestically;
- Hot-rolled products are intermediate inputs for the manufacture of other end products including galvanised and coated steel, which raises a question of what the impact would be downstream. In some instances the applicant competes with other re-rollers regarding these end products. In this regard AMSA has made an offer in the form of a revised pricing model that excludes the duty. AMSA will continue with its rebate scheme on value added exports for downstream products.
- Once the duties are imposed, re-rollers that are export-oriented have the option of utilising rebate item 470.03 and duty drawback 521.00 for all material imported for the sole purpose of exporting the final product;
- In the medium to long-term, competitiveness constraints in the primary steel industry must be addressed, including equipment upgrading and new technology;
- Employment is important not just in respect of the primary steel industry but the whole value chain;

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

The Commission concluded that the tariff support should enable the industry manufacturing hot-rolled 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 hot-rolled steel, classifiable under tariff subheadings 7208.10, 7208.25, 7208.26, 7208.27, 7208.36, 7208.37, 7208.38, 7208.39, 7208.53, 7208.54, 7208.90, 7211.13, 7211.14, 7211.19, 7225.30, 7225.99, and 7226.91, be increased from free of duty to 10% *ad valorem*, subject to the conditions listed in paragraph 25 of this report.

THE APPLICATION AND TARIFF POSITION

1. ITAC received applications from AMSA for an increase in the rate of customs duty on hot-rolled steel, classifiable under tariff subheadings 7208.10, 7208.25, 7208.26, 7208.27, 7208.36, 7208.37, 7208.38, 7208.39, 7208.53, 7208.54, 7208.90, 7211.13, 7211.14, 7211.19, 7225.30, 7225.99, and 7226.91, from free of duty to 10% *ad valorem*.
2. As motivation for the application, 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 hot-rolled steel. 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 application was published in the Government Gazette on the 23 of October 2015, for comments by interested parties, as follows:

Increase in the rate of customs duty on:

“Flat-rolled products of iron or non-alloy steel, and flat-rolled products of alloy steel other than stainless steel, not further worked than hot-rolled (“Hot Rolled”), classifiable under tariff subheadings 7208.10, 7208.25, 7208.26, 7208.27, 7208.36, 7208.37, 7208.38, 7208.39, 7208.53, 7208.54, 7208.90, 7211.13, 7211.14, 7211.19, 7225.30, 7225.99, and 7226.91, 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
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:					
	7208.10	In coils, not further worked than hot-rolled, with patterns in relief	Kg	Free	Free	Free	Free
	7208.2	Other, in coils, not further worked than hot-rolled, pickled:					
	7208.25	Of a thickness of 4,75 mm or more	Kg	Free	Free	Free	Free
	7208.26	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	Free	Free	Free	Free
	7208.27	Of a thickness of less than 3 mm	Kg	Free	Free	Free	Free
	7208.3	Other, in coils, not further worked than hot-rolled:					
	7208.36	Of a thickness exceeding 10 mm	Kg	Free	Free	Free	Free

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
				Free	Free	Free	Free
	7208.37	Of a thickness of 4,75 mm or more but not exceeding 10 mm	Kg	Free	Free	Free	Free
	7208.38	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	Free	Free	Free	Free
	7208.39	Of a thickness of less than 3 mm	Kg	Free	Free	Free	Free
	7208.5	Other, not in coils, not further worked than hot-rolled:					
	7208.53	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	Free	Free	Free	Free
	7208.54	Of a thickness of less than 3 mm	Kg	Free	Free	Free	Free
	7208.90	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:					
	7211.1	Not further worked than hot-rolled:					
	7211.13	Rolled on four faces or in a closed box pass, of a width exceeding 150 mm and a thickness of not less than 4 mm, not in coils and without patterns in relief	Kg	Free	Free	Free	Free
	7211.14	Other, of a thickness of 4,75 mm or more	Kg	Free	Free	Free	Free
	7211.19	Other	Kg	Free	Free	Free	Free
72.25		Flat-rolled products of other alloy steel, of a width of 600 mm or more:					
	7225.30	Other, not further worked than hot-rolled, in coils	Kg	Free	Free	Free	Free
	7225.9	Other:					
	7225.99	Other	Kg	Free	Free	Free	Free
72.26		Flat-rolled products of other alloy steel, of a width of less than 600 mm:					
	7226.91	Not further worked than hot-rolled	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
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:					
	7208.10	In coils, not further worked than hot-rolled, with patterns in relief	Kg	10%	Free	Free	Free
	7208.2	Other, in coils, not further worked than hot-rolled, pickled:					
	7208.25	Of a thickness of 4,75 mm or more	Kg	10%	Free	Free	Free
	7208.26	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	10%	Free	Free	Free

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
	7208.27	Of a thickness of less than 3 mm	Kg	10%	Free	Free	Free
	7208.3	Other, in coils, not further worked than hot-rolled:					
	7208.36	Of a thickness exceeding 10 mm	Kg	10%	Free	Free	Free
	7208.37	Of a thickness of 4,75 mm or more but not exceeding 10 mm	Kg	10%	Free	Free	Free
	7208.38	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	10%	Free	Free	Free
	7208.39	Of a thickness of less than 3 mm	Kg	10%	Free	Free	Free
	7208.5	Other, not in coils, not further worked than hot-rolled:					
	7208.53	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	10%	Free	Free	Free
	7208.54	Of a thickness of less than 3 mm	Kg	10%	Free	Free	Free
	7208.90	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:					
	7211.1	Not further worked than hot-rolled:					
	7211.13	Rolled on four faces or in a closed box pass, of a width exceeding 150 mm and a thickness of not less than 4 mm, not in coils and without patterns in relief	Kg	10%	Free	Free	Free
	7211.14	Other, of a thickness of 4,75 mm or more	Kg	10%	Free	Free	Free
	7211.19	Other	Kg	10%	Free	Free	Free
72.25		Flat-rolled products of other alloy steel, of a width of 600 mm or more:					
	7225.30	Other, not further worked than hot-rolled, in coils	Kg	10%	Free	Free	Free
	7225.9	Other:					
	7225.99	Other	Kg	10%	Free	Free	Free
72.26		Flat-rolled products of other alloy steel, of a width of less than 600 mm:					
	7226.91	Not further worked than hot-rolled	Kg	10%	Free	Free	Free

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

INDUSTRY AND MARKET

7. The subject products are hot-rolled and hot-rolled pickled and oiled, non-alloy steel or alloy steel other than of stainless steel. The applicant produces hot-rolled material

ranging from 1mm to 16mm in thickness and ranging from 800mm to 1925mm in width. With regards to hot rolled pickled and oiled material, the applicant produces dimensions ranging from 1.4mm to 4.8mm in thickness and from 800mm to 1850mm in width. Figure 1 and Figure 2 below depicts hot-rolled steel coils and hot-rolled steel plates, respectively.

Figure 1: H-rolled steel coils



Figure 2: H-rolled steel plates



8. The major use of hot-rolled material includes the manufacturing of general engineering products such as containers, mining equipment, drawing and forming applications like wheel rims, small- and large bore pipes, agricultural implements, earth moving equipment, gas cylinders, truck trailers, water tanks, railway rolling stock, and racking & shelving, amongst others. Hot-rolled steel coils are also used as the main input in the manufacture of coated and painted steel, which in turn is used predominantly in roofing.

9. The subject products are manufactured from low to medium carbon or alloy steel. The main inputs used in the production of hot rolled steel are steel slabs, made either from virgin iron ore (using the integrated blast furnace or direct reduction production process) or from steel scrap, (using a scrap melting process).
10. 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 on a continuous pickling line.
11. The applicant is the only domestic manufacturer of hot-rolled steel in SACU. The other manufacturer, Evraz Highveld Steel and Vanadium Limited, has since stopped its manufacturing of hot-rolled steel.
12. Consumers and importers of the subject products in the SACU include, amongst others, the following companies:
 - Macsteel Services Centre SA;
 - Hall Longmore (Pty) Ltd;
 - BSI Steel Limited;
 - Duferco Steel Processing (Pty) Ltd;
 - Safal Steel (Pty) Ltd;
 - Aveng Trident Steel; and
 - Allied Steelrode (Pty) Ltd.
13. The SARS' official import statistics for the subject products indicate that aggregate import volumes for the subject tariff lines increased from an estimated 165 000 tons in 2012 to an estimated 353 000 tons in 2014. China's share of total imports increased significantly over the three year period.

14. The applicant's production/sales volumes of hot-rolled steel have declined significantly over the three year period from 2012 to 2014, adversely affecting the industry's capacity utilisation. The rising level of imports has also eroded the local industry's market share.
15. Employment at the applicant's Vanderbijlpark and Saldanha plants declined by 16 per cent between 2012 and 2014 due to the slowdown in domestic demand and subsequent cut in production volumes.

COMPETITIVE POSITION

16. Challenges facing the domestic industry at an operational level include high manufacturing costs and rising low-priced imports. Labour costs and shortage of technical skills pose additional challenges, amplified by high domestic energy costs.
17. The applicant is faced with escalating cost structures with regards to the manufacturing of hot-rolled steel. The main cost drivers are raw materials and labour. However it should be noted that in terms of input costs, specifically iron ore, the applicant has reached an agreement with Kumba Iron Ore Limited to revise the pricing mechanism of the old agreement, effective from October 2015.
18. The domestic industry manufacturing hot-rolled steel is not price-competitive against Chinese imports of the subject products and it is experiencing significant price disadvantages.

COMMENTS RECEIVED

19. Objections to the application for an increase in customs duty on hot-rolled steel were received from the following firms: Safal Steel (Pty) Ltd ("Safal"); Robor (Pty) Ltd; the National Association of Automobile Manufacturers of South Africa ("NAAMSA"); FC Dubbelman & Associates cc representing Portland Steel (Pty) Ltd and Duferco Steel Processing (Pty) Ltd; and Macsteel Service Centres SA (Pty) Ltd.

20. 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.
21. The Commission considered the investments planned by AMSA and that it has offered a relatively fair pricing model for the re-rollers. AMSA will continue with its rebate scheme on value added exports for the re-rollers. Anti-competitive behaviour is addressed by the Competition Commission. 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.

FINDINGS

22. The Commission considered the application in light of the information at its disposal. In particular, the Commission took the following factors into account:
- Hot-rolled steel products constitute the majority of AMSA's Vanderbijlpark operations in sale volumes and is the foundation of many steel applications. Hot-rolled steel is therefore critical in its product mix with the sustainability of its Vanderbijlpark operations largely contingent on this product;
 - There has been a material increase in imports of the subject product and imports from China have been the most significant. These low priced imports have resulted in price disadvantages for domestic producers. This takes place on the back of a global oversupply of steel, which has had the effect of depressing global steel prices;
 - The applicants market share has declined and its capacity utilisation has fallen significantly below its potential;
 - The applicant is faced with escalating cost structures, however it should be noted that in terms of input costs, specifically iron ore, the applicant has reached an

agreement with Kumba Iron Ore Limited to revise the pricing mechanism of the old agreement , effective from October 2015;

- The applicant's production and sales volumes declined much faster than the decline in demand;
- The employment in the applicant's Vanderbijlpark and Saldanha plant declined by 16 per cent between 2012 and 2014 due to the slowdown in domestic demand and subsequent cut in production volumes;
- Pertaining to the contention that the requested duty will also affect some material not manufactured domestically, the Commission will consider applications by the industry for tariff relief for those products, however the vast majority of products classifiable under the relevant tariff subheadings are manufactured domestically;
- Hot-rolled products are intermediate inputs for the manufacture of a large number of end products including galvanised and coated steel, which raises a question of what the impact would be downstream. In some instances the applicant competes with other re-rollers regarding these end products. In this regard AMSA has made an offer in the form of a revised pricing model that excludes the duty. AMSA will continue with its rebate scheme for value added exports for downstream producers;
- Once the duties are imposed, re-rollers that are export-oriented have the option of utilising rebate item 470.03 and duty drawback 521.00 for all material imported for the sole purpose of exporting the final product;
- In the medium to long-term, competitiveness constraints in the primary steel industry must be addressed, including equipment upgrading and new technology;
- Employment is important not just in respect of the primary steel industry but the whole value chain;

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

23. The Commission concluded that tariff support should enable the industry manufacturing hot-rolled 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

24. In light of the foregoing, the Commission recommends that the rate of customs duty on hot-rolled steel, classifiable under tariff subheadings 7208.10, 7208.25, 7208.26, 7208.27, 7208.36, 7208.37, 7208.38, 7208.39, 7208.53, 7208.54, 7208.90, 7211.13, 7211.14, 7211.19, 7225.30, 7225.99, and 7226.91, be increased from free of duty to 10% *ad valorem*.

25. 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 applicant, 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 applicant is expected to cooperate with government on the development of the new pricing model;

- The pricing model offered by the applicant to the domestic re-rollers must be adhered to;
- AMSA will continue with its rebate schemes on value added exports for the re-rollers;
- AMSA has committed to preserving jobs and not to close any of its plants;
- AMSA will invest an additional R1.6 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 hot-rolled steel; 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 applicant against the commitments that it has made. The committee will provide the Commission with regular reports on the basis of which the Commission will decide whether a review is warranted before the expiry of the three year period.

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