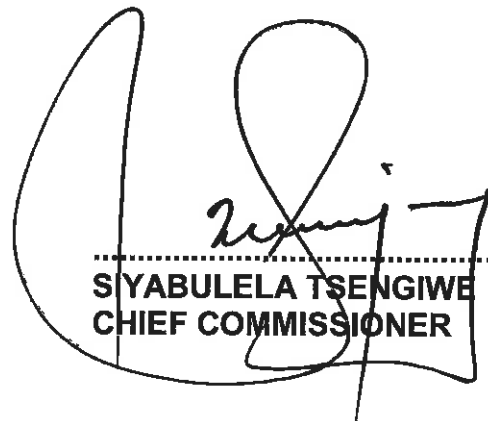


REPORT NO. 526

**INCREASE IN THE RATE OF CUSTOMS DUTY ON OTHER
BARS AND RODS AND FORGES**

The International Trade Administration Commission herewith presents its Report No. 526: **INCREASE IN THE RATE OF CUSTOMS DUTY ON OTHER BARS AND RODS AND FORGES**, with recommendations.



SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

26/04/2016

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 526

**INCREASE IN THE RATE OF CUSTOMS DUTY ON OTHER BARS AND RODS
AND FORGES**

Synopsis

ITAC received an application from ArcelorMittal South Africa Limited (AMSA) for an increase in the rate of customs duty on other bars and rods and forges, classifiable under tariff subheadings 7213.20, 7213.99, 7214.10, 7214.30, 7214.91, 7214.99, 7215.90, 7228.40, and 7228.80, 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:

- There has been a material increase in imports of the subject products, in particular imports from China which have been significant. These low-priced imports have resulted in price disadvantages experienced by domestic producers. This takes place on the back of a global oversupply of steel and a depressed global steel prices;
- The domestic industry's market share has declined and its capacity utilisation has fallen;
- 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;

- Employment at the applicant's Newcastle and Vereeniging plants declined by 12 per cent between 2012 and 2015 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;
- In the medium to longer-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 other bars and rods and forges 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 other bars and rods and forges, classifiable under tariff subheadings 7213.20, 7213.99, 7214.10, 7214.30, 7214.91, 7214.99, 7215.90, 7228.40, and 7228.80, be increased from free of duty to 10% *ad valorem*, subject to the conditions listed in paragraph 24 of this report.

THE APPLICATION AND TARIFF POSITION

1. ITAC received an application from AMSA for an increase in the rate of customs duty on other bars and rods and forges, classifiable under tariff subheadings 7213.20, 7213.99, 7214.10, 7214.30, 7214.91, 7214.99, 7215.90, 7228.40, and 7228.80 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 other bars and rods. 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 general rate of customs duty on:

“Other bars and rods and forges, hot-rolled, in irregular wound coils and/or in lengths, of iron, non-alloy steel or alloy steel other than stainless steel, classifiable under tariff subheadings 7213.20, 7213.99, 7214.10, 7214.30, 7214.91, 7214.99, 7215.90, 7228.40, and 7228.80, 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
72.13		Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel:					
	7213.20	- Other, of free-cutting steel	Kg	Free	Free	Free	Free
7213.9		- Other:					
	7213.99	-- Other	Kg	Free	Free	Free	Free
72.14		Other bars and rods of iron or non-alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling:					
	7214.10	Forged	Kg	Free	Free	Free	Free
	7214.30	- Of free-cutting steel	Kg	Free	Free	Free	Free
	7214.91	- - Of rectangular (excluding square) cross-section	Kg	Free	Free	Free	Free
	7214.99	-- Other	Kg	Free	Free	Free	Free
72.15		Other bars and rods of iron or non-alloy steel:					
	7215.90	- 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:					
	7228.40	- Other bars and rods, not further worked than forged	Kg	Free	Free	Free	Free
	7228.80	- Hollow drill bars and rods	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
72.13		Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel:					
	7213.20	- Other, of free-cutting steel	Kg	10%	Free	Free	Free
7213.9		- Other:					
	7213.99	-- Other	Kg	10%	Free	Free	Free
72.14		Other bars and rods of iron or non-alloy steel, not further worked than forged, hot-rolled, hot-drawn or hot-extruded, but including those twisted after rolling:					
	7214.10	Forged	Kg	10%	Free	Free	Free
	7214.30	- Of free-cutting steel	Kg	10%	Free	Free	Free
	7214.91	- - Of rectangular (excluding square) cross-section	Kg	10%	Free	Free	Free
	7214.99	-- Other	Kg	10%	Free	Free	Free
72.15		Other bars and rods of iron or non-alloy steel:					
	7215.90	- 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:					
	7228.40	- Other bars and rods, not further worked than forged	Kg	10%	Free	Free	Free
	7228.80	- Hollow drill bars and rods	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 “other bars and rods” and “forges”, hot-rolled, in irregularly wound coils and /or in lengths, of iron, non-alloy steel or alloy steel other than of stainless steel.
8. The subject products are used by processors or re-forgers who process the material further by means of drawing, peeling, grinding or machining of the material using a cold forming process. Finally, these products are stamped and/or machined into a variety of components which are used in the engineering, automotive, chemical, and energy sectors.
9. The manufacturing process for other bars and rods and forges consists of several stages which 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 or forging the input material into a bar/rod on a multi-stand, high-speed rolling mill or a forging plant; and
 - Cooling on a cooling bed prior to cutting and/or further processing.
10. There are three known manufacturers of the subject product in the SACU region, namely: AMSA, Scaw Metals Group, and DAV Steel (Pty) Ltd.
11. Consumers and importers of the subject products in the SACU include, amongst others, the following companies:
 - Turnbar (Pty) Ltd;
 - Portland Steel International (Pty) Ltd;
 - Macsteel Services Centre SA;
 - Aveng Steel Limited;
 - Odyssey Steel (Pty) Ltd; and
 - SP Metals (Pty) Ltd.

12. The SARS official statistics for other bars and rods and forges indicate that imports have increased significantly over the last three years posing a threat to the domestic industry.
13. The applicant's production volumes of other bars and rods and forges have declined over the same period, adversely affecting the industry's competitive position and capacity utilisation. The rising level of imports has also eroded the local industry's market share.
14. Employment at the applicant's Newcastle and Vereeniging plants declined by 12 per cent between 2012 and 2015 due to the slowdown in domestic demand and subsequent cut in production volumes.

COMPETITIVE POSITION

15. 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.
16. The applicant is faced with escalating cost structures with regards to the manufacturing of the subject products. 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.
17. The domestic industry manufacturing other bars and rods and forges is not price-competitive against Chinese imports of the subject products and it is experiencing significant price disadvantages.

COMMENTS RECEIVED

18. Objections to the applications for the increase in customs duty on other bars and rods and forges were received from the following firms: FC Dubbelman & Associates cc representing Portland Steel International (Pty) Ltd and Odyssey Steel (Pty) Ltd; Robor (Pty) Ltd; Association of Automobile Manufacturers of South Africa (NAAMSA); and Macsteel Service Centres SA.

19. 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.
20. 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.

FINDINGS

21. The Commission considered the application in light of the information at its disposal. In particular, the Commission took the following factors into account:
 - There has been a material increase in imports of the subject products, in particular imports from China which have been significant. These low-priced imports have resulted in price disadvantages experienced by domestic producers. This takes place on the back of a global oversupply of steel and a depressed global steel prices;
 - The domestic industry's market share has declined and its capacity utilisation has fallen;
 - 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;
 - Employment at the applicant's Newcastle and Vereeniging plants declined by 12 per cent between 2012 and 2015 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;
- In the medium to longer-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.

22. The Commission concluded that tariff support should enable the industry manufacturing other bars and rods and forges 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

23. In light of the foregoing, the Commission recommends that the rate of customs duty on other bars and rods and forge classifiable under tariff subheadings 7213.20, 7213.99, 7214.10, 7214.30, 7214.91, 7214.99, 7215.90, 7228.40, and 7228.80, be increased from free of duty to 10% *ad valorem*.

24. 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 has committed to preserving jobs and not close any of its plants;
- AMSA will invest an additional R1.2 billion in the next three years from 2016 to 2018 in new plant, machinery, and upgrading of machinery for the manufacturing of other bars and rods and forges; 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. 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.