


REPORT NO. 535

**INCREASE IN THE RATE OF CUSTOMS DUTY ON STAINLESS
STEEL FLAT PRODUCTS**

The International Trade Administration Commission herewith presents its Report No. 535:
**INCREASE IN THE RATE OF CUSTOMS DUTY ON STAINLESS STEEL FLAT
PRODUCTS**, with recommendations.



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA
31/10/2016

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 535

**INCREASE IN THE RATE OF CUSTOMS DUTY ON STAINLESS STEEL FLAT
PRODUCTS**

Synopsis

ITAC received an application from Columbus Stainless (Pty) Ltd (Columbus Stainless) for an increase in the rate of customs duty on stainless steel flat products, classifiable under tariff headings 72.19 and 72.20, 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:

- The rising level of imports and concomitant erosion of the market share of the domestic stainless steel manufacturer;
- Underutilised production capacity;
- The price disadvantages experienced by the domestic industry manufacturing the subject products;
- Escalating cost structures facing the industry combined with low profit margins; and
- Declining employment levels.

Although the vast majority of the products are manufactured locally, the Commission found that the applicant does not manufacture flat-rolled products of stainless steel:

- Of a thickness less than 0.3 mm classified under heading 7219;
- Of a width greater than 1574 mm classified under heading 7219; and
- Of a thickness less than 0.3 mm classified under heading 7220.

The Commission decided to exclude products which are not manufactured locally from its recommendation.

The Commission found no justification for an increase in duty to the requested level of 10% *ad valorem*. Such an increase would have an undue cost-raising impact on industrial users and consumers. On balance, the Commission found that tariff support for the industry at the level of 5% *ad valorem* would significantly improve the competitive position of the local industry, support further investment and enable the industry manufacturing stainless steel flat products to utilise its existing under-utilised capacity and achieve economies of scale with a reduction in the marginal cost of production.

The Commission recommends that the rate of customs duty on stainless steel flat-rolled products of stainless steel, of a width exceeding 600 mm but not exceeding 1574 mm (excluding those of a thickness of less than 0,3 mm), classifiable in heading 72.19 and flat-rolled products of stainless steel, of a width of less than 600 mm (excluding those of a thickness of less than 0,3 mm), classifiable in heading 72.20, be increased from free of duty to 5% *ad valorem*.

THE APPLICATION AND TARIFF POSITION

1. Columbus Stainless (Pty) Ltd (Columbus Stainless) applied for an increase in the rate of customs duty on stainless steel flat products, classifiable under tariff headings 72.19 and 72.20, from free of duty to 10% *ad valorem*.
2. As motivation for the application the applicant stated the following:
 - An increase in duties would improve the local industry's competitive position against low-priced imports, especially imports from East Asian countries;

- It would curb further job losses as retrenchments have already taken place. The cost of manufacturing continues to rise due to declining plant utilization; and
- It would encourage further investment and employment over the entire value chain by making the domestic industry more competitive and sustainable.

3. The application was published in the Government Gazette on 22 of April 2016, for comments by interested parties, as follows:

INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON:

“Stainless steel flat products, classifiable under tariff headings 72.19 and 72.20, from free of duty to 10% *ad valorem*”.

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

Table 1: Current tariff position: Stainless Steel Flat Products

Tariff heading	Tariff subheading	Description	Unit of measurement	Rate of duty			
				General	EU	EFTA	SADC
72.19		Flat-rolled products of stainless steel, of a width of 600 mm or more:					
7219.1		Not further worked than hot-rolled, in coils:					
	7219.11	Of a thickness exceeding 10 mm	Kg	Free	Free	Free	Free
	7219.12	Of a thickness of 4,75 mm or more but not exceeding 10 mm	Kg	Free	Free	Free	Free
	7219.13	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	Free	Free	Free	Free
	7219.14	Of a thickness of less than 3 mm	Kg	Free	Free	Free	Free
7219.2		Not further worked than hot rolled, not in coils:					
	7219.21	Of a thickness exceeding 10 mm	Kg	Free	Free	Free	Free
	7219.22	Of a thickness of 4,75 mm or more but not exceeding 10 mm	Kg	Free	Free	Free	Free
	7219.23	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	Free	Free	Free	Free
	7219.24	Of a thickness of less than 3 mm	Kg	Free	Free	Free	Free

7219.3		Not further worked than cold-rolled (cold-reduced):					
	7219.31	Of a thickness of 4,75 mm or more	Kg	Free	Free	Free	Free
	7219.32	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	Free	Free	Free	Free
	7219.33	Of a thickness exceeding 1 mm but less than 3 mm	Kg	Free	Free	Free	Free
	7219.34	Of a thickness of 0,5 mm or more but not exceeding 1 mm	Kg	Free	Free	Free	Free
	7219.35	Of a thickness of less than 0,5 mm	Kg	Free	Free	Free	Free
	7219.90	Other	Kg	Free	Free	Free	Free
72.20		Flat-rolled products of stainless steel, of a width of less than 600 mm:					
	7220.1	Not further worked than hot-rolled:					
	7220.11	Of a thickness of 4,75 mm or more	Kg	Free	Free	Free	Free
	7220.12	Of a thickness of less than 4,75 mm	Kg	Free	Free	Free	Free
	7220.20	Not further worked than cold-rolled (cold-reduced)	Kg	Free	Free	Free	Free
	7220.90	Other	Kg	Free	Free	Free	Free

5. The requested tariff structure is as follows:

Table 2: Requested tariff position: Stainless Steel Flat Products

Tariff heading	Tariff subheading	Description	Unit of measurement	Rate of duty			
				General	EU	EFTA	SADC
72.19		Flat-rolled products of stainless steel, of a width of 600 mm or more:					
7219.1		Not further worked than hot-rolled, in coils:					
	7219.11	Of a thickness exceeding 10 mm	Kg	10%	Free	Free	Free
	7219.12	Of a thickness of 4,75 mm or more but not exceeding 10 mm	Kg	10%	Free	Free	Free
	7219.13	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	10%	Free	Free	Free
	7219.14	Of a thickness of less than 3 mm	Kg	10%	Free	Free	Free

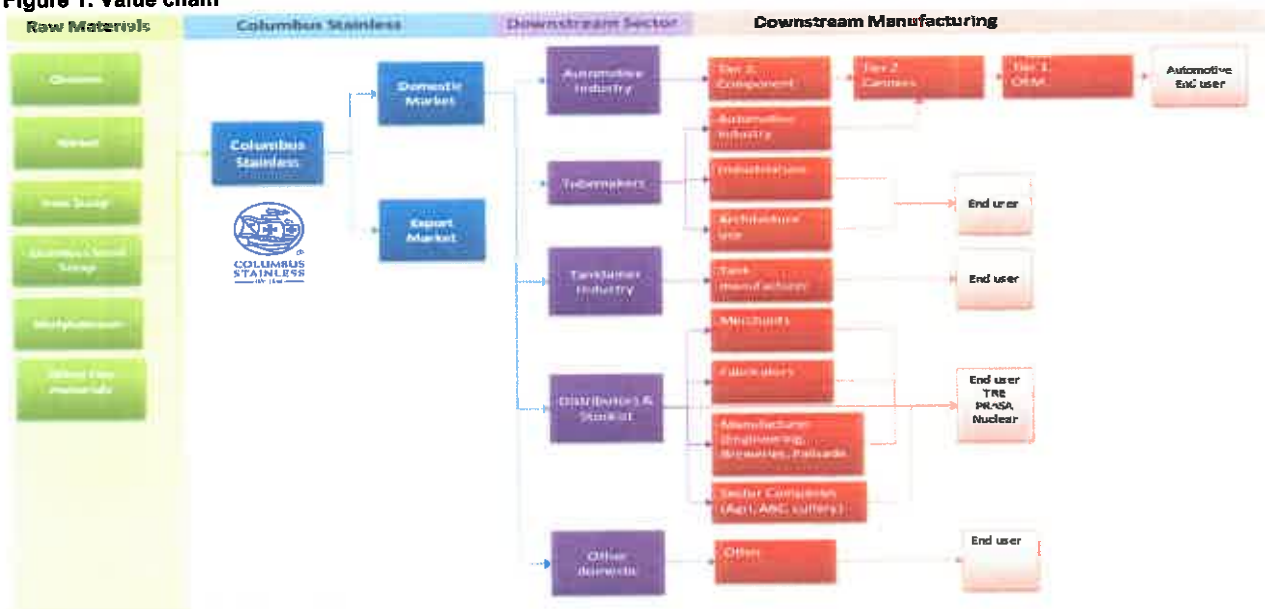
7219.2		Not further worked than hot rolled, not in coils:					
	7219.21	Of a thickness exceeding 10 mm	Kg	10%	Free	Free	Free
	7219.22	Of a thickness of 4,75 mm or more but not exceeding 10 mm	Kg	10%	Free	Free	Free
	7219.23	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	10%	Free	Free	Free
	7219.24	Of a thickness of less than 3 mm	Kg	10%	Free	Free	Free
7219.3		Not further worked than cold-rolled (cold-reduced):					
	7219.31	Of a thickness of 4,75 mm or more	Kg	10%	Free	Free	Free
	7219.32	Of a thickness of 3 mm or more but less than 4,75 mm	Kg	10%	Free	Free	Free
	7219.33	Of a thickness exceeding 1 mm but less than 3 mm	Kg	10%	Free	Free	Free
	7219.34	Of a thickness of 0,5 mm or more but not exceeding 1 mm	Kg	10%	Free	Free	Free
	7219.35	Of a thickness of less than 0,5 mm	Kg	10%	Free	Free	Free
	7219.90	Other	Kg	10%	Free	Free	Free
72.20		Flat-rolled products of stainless steel, of a width of less than 600 mm:					
	7220.1	Not further worked than hot-rolled:					
	7220.11	Of a thickness of 4,75 mm or more	Kg	10%	Free	Free	Free
	7220.12	Of a thickness of less than 4,75 mm	Kg	10%	Free	Free	Free
	7220.20	Not further worked than cold-rolled (cold-reduced)	Kg	10%	Free	Free	Free
	7220.90	Other	Kg	10%	Free	Free	Free

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

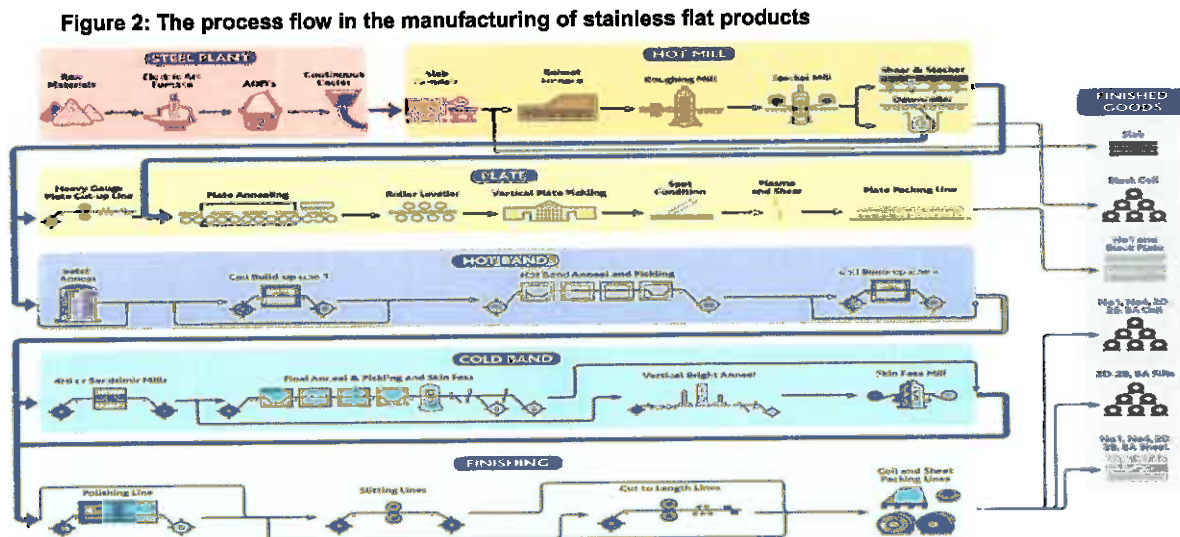
INDUSTRY AND MARKET

7. The subject products are stainless steel flat products namely: Hot rolled and cold rolled coils and plates. Stainless steel is an alloy steel containing 10% or more chromium in addition to other alloy elements. Stainless steel differs from carbon steel. Stainless steel contains 70% to 85% iron, it stays shiny and only rusts when put in salt or acid, while carbon steel contains more that 95% iron and must be painted/coated in order to avoid rust.
8. Stainless steel is lustrous and comes in various grades that increase the chromium in the alloy until the steel finish is mirror reflective. This makes it easy to distinguish from carbon steel; the latter is dull with a matte finish.
9. The subject product is mainly manufactured using ferrochrome, nickel and iron scrap. Other elements that are used in smaller quantities (depending on the product) include molybdenum, niobium, titanium, copper, boron and manganese. It also requires fluxes such as lime and dolomite.
10. As shown in figure 1 below, the subject product applications include: Food processing equipment, automotive, chemical, oil and gas, construction, mining, power generation and coins.

Figure 1: Value chain



11. The manufacturing process of the subject product is depicted in the diagram below:



12. The manufacturing process of the subject products entails several stages. The first stage entails melting wherein the raw material mixture is melted in an electric arc furnace. Thereafter the molten metal is refined and decarburised in an argon-oxygen decarburiser (AOD) vessel by blowing oxygen, argon and nitrogen into the molten steel. The refined stainless steel is processed through a continuous casting machine to produce stainless steel slabs. The slabs can go through a surface grinding process to remove any possible surface defects.

13. The second stage involves hot rolling. It begins at the reheat furnace where the slabs are heated. The slabs are then rolled on a reversing four high mill. Once the predetermined gauge is reached, the material can either be coiled (black coil, also known as hot band, HR or HRA) or cut into plate (black plate (HRA)). This is the second range of saleable products. The material then goes into the third stage where it is annealed and pickled with acids.

14. The fourth stage is cold rolling which takes place on the Sendzimer mills (Z-mills), which produce smooth, shiny finished, cold rolled stainless steel. The material is then annealed (softened) and pickled (and passivated), before it is processed through the skinpass mill, to ensure the required smooth surface. These cold rolled stainless steel coils can then be cut into smaller coils or sheets, or slit to narrower widths before being

packed and shipped to customers. The last stage entails the material being given a uniform scratch finish by polishing the material with abrasive belts.

15. Columbus Stainless (Pty) Ltd is the sole manufacturer of stainless steel flat products in Africa.
16. The main importers of the subject product are: Oreport (Pty) Ltd, National Dairy Equipment (Pty) Ltd, National Stainless Steel Center (Pty) Ltd, Steelmor Industries (Pty) Ltd, Styria Stainless Steel Fabricators (Pty) Ltd, Steelbank Merchants (Pty) Ltd, Graytex Metals (Pty) Ltd, Gregron Projects (Pty) Ltd, Invuso Stainless (Pty) Ltd, AMC Cookware (Pty) Ltd and Welfit Oddy (Pty) Ltd.
17. The SARS official statistics show that imports of the subject products, especially those originating from East Asia have increased over the period of investigation.

COMPETITIVE POSITION

18. There are a number of challenges currently facing the industry at an operational level including, high manufacturing costs.
19. According to the information at the Commission's disposal, the local industry manufacturing stainless steel flat products faces price disadvantages vis-à-vis similar products imported from East-Asian countries.

COMMENTS RECEIVED

20. Comments objecting to the application were received from the Lesotho Ministry of Trade and Industry; Shepstone and Wylie Attorneys representing Oreport (Pty) Ltd; XA International Trade Advisors representing National Dairy Equipment Ltd, National Stainless Steel Center (Pty) Ltd, Steelmor Industries (Pty) Ltd, and Styria Stainless Steel Fabricators (Pty) Ltd; FC Dubbelman & Associates cc representing Steelbank Merchants (Pty) Ltd, Graytex Metals (Pty) Ltd, Gregron Projects (Pty) Ltd and Invuso

Stainless(Pty) Ltd; AMC Cookware (Pty) Ltd; Welfit Oddy (Pty) Ltd; and Swift Stainless Steel Products (Pty) Ltd.

21. The comments centred on the following factors: inability of the applicant to meet the SACU demand due to limited product range, negative cost impact imposed by distribution channels and lack of transparency, the cost raising effect for the downstream users, and perceived poor quality of the locally produced subject products.
22. Comments in support of the application were received from Macsteel VRN with the provision that products which are not manufactured by the applicant be excluded from the increase in the general rate of customs duty.
23. Although the vast majority of the products are manufactured locally, the Commission found that the applicant does not manufacture certain flat-rolled products of stainless steel. The commission decided to exclude products which are not manufactured locally from its recommendation.

FINDINGS

24. The Commission considered the application in light of the application at its disposal. In particular, the Commission took the following factors into account:
- The rising level of imports and concomitant erosion of the market share of the domestic stainless steel manufacturer;
 - Underutilised production capacity;
 - The price disadvantages experienced by the domestic industry manufacturing the subject products;
 - Escalating cost structures facing the industry combined with low profit margins; and
 - Declining employment levels.

25. Although the vast majority of the products are manufactured locally, the Commission found that the applicant does not manufacture flat-rolled products of stainless steel:

- Of a thickness less than 0.3 mm classified under heading 7219;
- Of a width greater than 1574 mm classified under heading 7219; and
- Of a thickness less than 0.3 mm classified under heading 7220.

26. The commission decided to exclude products which are not manufactured locally from its recommendation.

27. The Commission found no justification for an increase in duty to the requested level of 10% *ad valorem*. Such an increase would have an undue cost-raising impact on industrial users and consumers. On balance, the Commission found that tariff support for the industry at the level of 5% *ad valorem* would improve the competitive position of the local industry, support further investment and enable the industry manufacturing stainless steel flat products to utilise its existing under-utilised capacity and achieve economies of scale 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 flat-rolled products of stainless steel, of a width exceeding 600 mm but not exceeding 1574 mm (excluding those of a thickness of less than 0,3 mm), classifiable in heading 72.19 and flat-rolled products of stainless steel, of a width of less than 600 mm (excluding those of a thickness of less than 0,3 mm), classifiable in heading 72.20, be increased from free of duty to 5% *ad valorem*. The Commission further recommends that the duty be reviewed after a period of three years from the date of implementation to determine the further performance of the domestic industry.