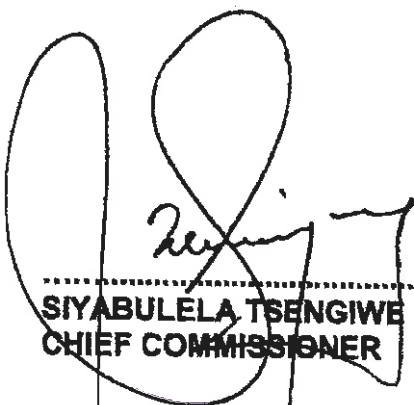


REPORT NO. 545

**REVIEW OF THE RATE OF CUSTOMS DUTY ON STEEL
WIRE PRODUCTS AND STEEL FASTENERS**

The International Trade Administration Commission herewith presents its Report No. 545: REVIEW OF THE RATE OF CUSTOMS DUTY ON STEEL WIRE PRODUCTS AND STEEL FASTENERS, with recommendations.



SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

10/02/2017

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 545

**REVIEW OF THE RATE OF CUSTOMS DUTY ON STEEL WIRE PRODUCTS AND
STEEL FASTENERS**

Synopsis

A significant number of SACU downstream steel industry role players expressed concerns regarding the lack of tariff protection against imports of finished products that often come at unsustainably low prices. Against this background, ITAC initiated a review of customs duty on a number of downstream steel industry products. The review included steel wire products and steel fasteners classifiable under tariff heading 72.17 and 73.18.

Following the publication of the review in the Government Gazette, Cape Gate (Pty) Ltd submitted information to the Commission motivating for an increase in customs duty applicable to steel wire products from free of duty to the WTO bound rate of 10% *ad valorem*.

Also, a number of domestic fastener manufacturers submitted their information to the Commission to motivate for an increase in customs duty applicable to steel fasteners to their respective WTO bound rates of 15% and 30% *ad valorem*.

The Commission considered all the comments received during the review. In particular, the Commission took the following factors into account:

- There has been a material increase in low-priced imports of the subject products and imports originating in East Asia have been the most significant.

These low-priced imports have resulted in price disadvantages for domestic producers;

- Declining domestic industry's total production and sales of the subject products over the three year review period;
- The domestic industry's market share has declined and its capacity utilization has fallen significantly below its potential;
- Declining profitability of the domestic industry in the face of escalating cost structures;
- Diminishing domestic employment and investment opportunities; and
- The domestic industry committed to continue investing into the domestic manufacturing industry in order to ensure medium to long term sustainability; increase production volumes; and create additional employment.

The Commission concluded that tariff support should enable the industry manufacturing steel wire products and steel fasteners 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 steel wire products and steel fasteners classifiable under tariff headings 7217.10, 7217.20, 7318.11, 7318.13, 7318.15.26, 7318.15.35, 7318.15.39, 7318.15.41, 7318.15.43, 7318.15.90, 7318.16.30, 7318.16.90, 7318.19, 7318.23, 7318.24, and 7318.29 be amended as follows:

Tariff heading/ subheading	Description	Unit	Rate of duty				
			General	EU	EFTA	SADC	MERCOSUR
STEEL WIRE PRODUCTS							
72.17	Wire of iron or non-alloy steel						
7217.10	Not plated or coated, whether or not polished	kg	10%	Free	Free	Free	10%
7217.20	Plated or coated with Zinc	kg	10%	Free	Free	Free	10%
STEEL FASTENERS							
73.18	Screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel:						
7318.1	Threaded articles:						
7318.11	Coach screws	kg	15%	Free	Free	Free	15%
7318.13	Screw hooks and screw rings	kg	15%	Free	10%	Free	15%
7318.15	Other screws and bolts, whether or not with their nuts or washers:						
7318.15.26	Socket screws	kg	30%	Free	Free	Free	30%
7318.15.35	Other screws and bolts (including bolt ends, screw studs and screw studding), of stainless steel (excluding those that are fully threaded with hexagon heads)	kg	30%	Free	Free	Free	30%
7318.15.39	Other screws, fully threaded with hexagon heads (excluding those of stainless steel)	kg	30%	Free	Free	Free	30%
7318.15.41	Bolt ends, screw studs and screw studding (excluding those of stainless steel and those identifiable for aircraft)	kg	30%	Free	Free	Free	30%
7318.15.43	Other bolts (excluding bolt ends, screw studs and screw studding) with hexagon heads	kg	30%	Free	Free	Free	30%
7318.15.90	Other	kg	30%	Free	Free	Free	30%
7318.16	Nuts:						
7318.16.30	Other, hexagon nuts	kg	30%	Free	10%	Free	30%
7318.16.90	Other	kg	30%	Free	10%	Free	30%
7318.19	Other	kg	15%	Free	Free	Free	15%
7318.2	Non-threaded articles:						
7318.23	Rivets	kg	30%	Free	Free	Free	30%
7318.24	Cotters and cotter-pins	kg	30%	Free	Free	Free	30%
7318.29	Other	kg	15%	Free	Free	Free	15%

BACKGROUND AND TARIFF POSITION

1. On July 2016 ITAC initiated a review of customs duty on a number of downstream steel industry products. The review included steel wire products and steel fasteners classifiable under tariff heading 72.17 and 73.18.
2. Following the publication of the review in the Government Gazette, Cape Gate (Pty) Ltd submitted information to the Commission motivating for an increase in customs duty applicable to steel wire products from free of duty to the WTO bound rate of 10% *ad valorem*.
3. Also, a number of domestic fastener manufacturers submitted their information to the Commission to motivate for an increase in customs duty applicable to steel fasteners to their respective WTO bound rates of 15% and 30% *ad valorem*.
4. As motivation for the increase in the general rate of customs duty the industry cited, *inter alia*, the following:
 - The current low price levels of similar imported products, coupled with an increase in import volumes has put the viability of the SACU industry at risk;
 - Should the current trend in import volumes and prices continue, job losses in the local industry would be inevitable;
 - The primary steel industry is protected while the downstream industry is not; and
 - It is imperative that the customs duty on the subject products be increased to help improve the domestic industry's price-competitive position and ensure that current employment levels in the industry are retained as well as encouraging new investment in plant and equipment.
5. The review was published in the Government Gazette of 22 July 2016 for interested parties to comment as follows:

Review of the general rate of customs duty on various downstream steel products:

“Steel products classifiable under tariff headings; 72.17, 73.07, 73.08, 73.12, 73.18, 73.21, 83.02, 84.18, 84.26, 84.50, 84.51, 85.04, 86.01, 86.07, 86.09 and 94.06”

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

Table 1: Current tariff structure

Tariff heading/ subheading	Description	Unit	Rate of duty				MERCOSUR
			General	EU	EFTA	SADC	
STEEL WIRE PRODUCTS							
7217.10	Not plated or coated, whether or not polished	kg	Free	Free	Free	Free	Free
7217.20	Plated or coated with Zinc	kg	Free	Free	Free	Free	Free
STEEL FASTENERS							
73.18	Screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel:						
7318.1	Threaded articles:						
7318.11	Coach screws	kg	Free	Free	Free	Free	Free
7318.13	Screw hooks and screw rings	kg	10%	Free	10%	Free	10%
7318.15	Other screws and bolts, whether or not with their nuts or washers:						
7318.15.26	Socket screws	kg	Free	Free	Free	Free	Free
7318.15.35	Other screws and bolts (including bolt ends, screw studs and screw studding), of stainless steel (excluding those that are fully threaded with hexagon heads)	kg	10%	Free	Free	Free	10%
7318.15.39	Other screws, fully threaded with hexagon heads (excluding those of stainless steel)	kg	20%	Free	Free	Free	20%
7318.15.41	Bolt ends, screw studs and screw studding (excluding those of stainless steel and those identifiable for aircraft)	kg	10%	Free	Free	Free	10%
7318.15.43	Other bolts (excluding bolt ends, screw studs and screw studding) with hexagon heads	kg	20%	Free	Free	Free	20%
7318.15.90	Other	kg	10%	Free	Free	Free	10%
7318.16	Nuts:						
7318.16.30	Other, hexagon nuts	kg	20%	Free	Free	10%	20%

7318.16.90	Other	kg	10%	Free	Free	10%	10%
7318.19	Other	kg	Free	Free	Free	Free	Free
7318.2	Non-threaded articles:						
7318.23	Rivets	kg	Free	Free	Free	Free	Free
7318.24	Cotters and cotter-pins	kg	Free	Free	Free	Free	Free
7318.29	Other	kg	Free	Free	Free	Free	Free

7. As shown in table 1 above, the current customs duty on the subject products ranges between free of duty and 20% *ad valorem*.

8. The requested tariff structure is as follows:

Table 2: Requested tariff structure

Tariff heading/ subheading	Description	Unit	Rate of duty				
			General	EU	EFTA	SADC	MERCOSUR
STEEL WIRE PRODUCTS							
72.17	Wire of iron or non-alloy steel						
7217.10	Not plated or coated, whether or not polished	kg	10%	Free	Free	Free	10%
7217.20	Plated or coated with Zinc	kg	10%	Free	Free	Free	10%
STEEL FASTENERS							
73.18	Screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel:						
7318.1	Threaded articles:						
7318.11	Coach screws	kg	15%	Free	Free	Free	15%
7318.13	Screw hooks and screw rings	kg	15%	Free	10%	Free	15%
7318.15	Other screws and bolts, whether or not with their nuts or washers:						
7318.15.26	Socket screws	kg	30%	Free	Free	Free	30%
7318.15.35	Other screws and bolts (including bolt ends, screw studs and screw studding), of stainless steel (excluding those that are fully threaded with hexagon heads)	kg	30%	Free	Free	Free	30%
7318.15.39	Other screws, fully threaded with hexagon heads (excluding those of stainless steel)	kg	30%	Free	Free	Free	30%
7318.15.41	Bolt ends, screw studs and screw studding (excluding those of stainless steel and those identifiable for aircraft)	kg	30%	Free	Free	Free	30%
7318.15.43	Other bolts (excluding bolt ends, screw studs and screw studding) with hexagon heads	kg	30%	Free	Free	Free	30%
7318.15.90	Other	kg	30%	Free	Free	Free	30%
7318.16	Nuts:						
7318.16.30	Other, hexagon nuts	kg	30%	Free	10%	Free	30%
7318.16.90	Other	kg	30%	Free	10%	Free	30%
7318.19	Other	kg	15%	Free	Free	Free	15%
7318.2	Non-threaded articles:						
7318.23	Rivets	kg	30%	Free	Free	Free	30%
7318.24	Cotters and cotter-pins	kg	30%	Free	Free	Free	30%
7318.29	Other	kg	15%	Free	Free	Free	15%

9. The WTO bound rates for steel wire products is 10% *ad valorem* and the WTO bound rates for steel fasteners under investigation are 15% and 30% *ad valorem*.

INDUSTRY AND MARKET

Steel Wire Products

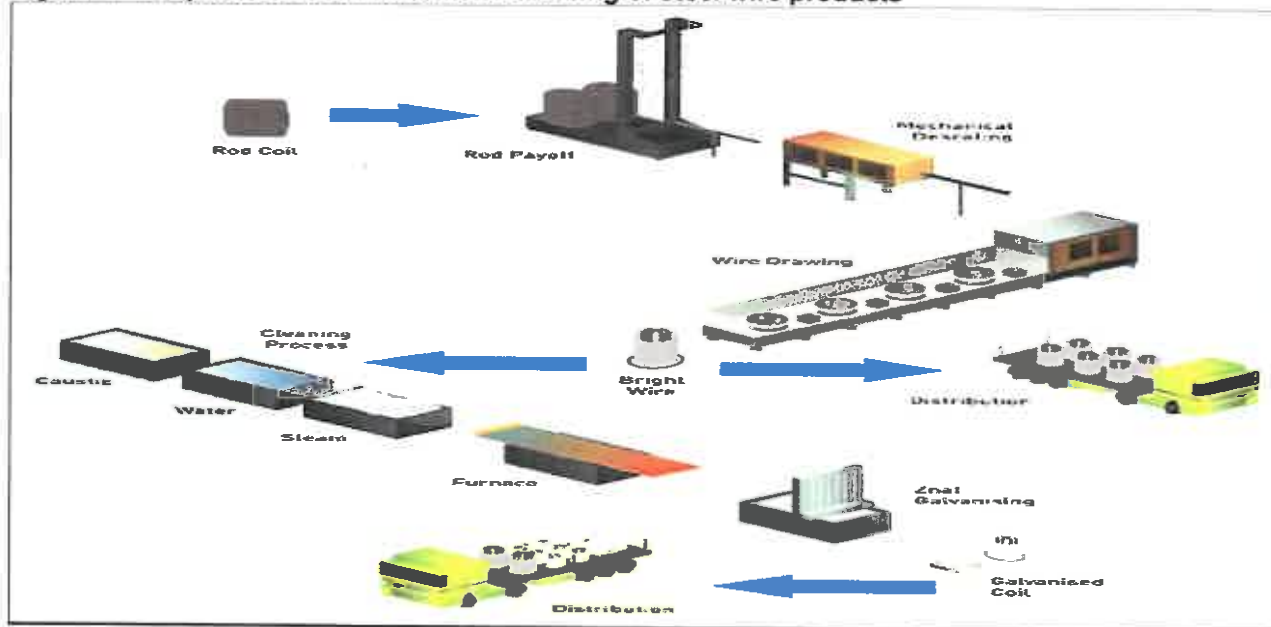
10. The subject products are hard drawn wire product, classifiable under tariff subheading 7217.10 and galvanised wire product classifiable under tariff subheading 7217.10.
11. Hard drawn wire refers to steel wire that has been drawn through a die to the desired diameter with no additional processing or tempering. It is commonly used in shelving, automobile parts, and shopping carts.
12. Galvanized wire refers to steel coated with a thin layer of zinc. The coatings are mainly applied to preserve the surface properties of the wire and to prevent oxidation. It is commonly used in the manufacture of barbed wire, wire mesh and hexagonal wire netting.
13. The main primary input used to manufacture the subject products is steel wire rod.
14. The production process of the subject products begins with the removal of dirt and mill scale from steel. Wire rod is then immersed in a bath of strong acid, typically hydrochloric or sulphuric, to remove scale and other undesirable materials. This stage is a chemical descaling stage also known as acid pickling.
15. The descaled wire rod is then drawn down to the required size through the use of a wire drawing machine. Various wire rod diameters, ranging from 14.5 mm to 5.5 mm, are drawn through a set of dies to produce hard drawn wire in diameters ranging from 13.5 mm to 0.69 mm. The finished product is then referred to as

hard drawn wire. Hard drawn wire also serves as an input in the coating production process.

16. The hard drawn wire is then transferred to the galvanising plant where it is coated with zinc to prevent oxidation. The process involves the black hard drawn wire undergoing several lead baths to increase the wire temperature in order to relieve the stresses that built up within the molecular structure of the wire during the drawing process.

17. The wire then enters an acid bath that cleans the surface of the wire and is then rinsed in a water tank followed by being submerged in a molten zinc bath where the zinc coating is applied to the wire. The finished product is now referred to as galvanised wire. Figure 1 below depicts the manufacturing process of the subject products.

Figure 1: The process flow in the manufacturing of steel wire products



18. Apart from Cape Gate (Pty) Ltd, other major domestic manufacturers of the subject products are:

- Wire Supplies (Pty) Ltd;
- Scaw Metal Group (Pty) Ltd;

- Consolidated Wire Industries (Pty) Ltd; and
- Hendok Group (Galve Wire (Pty) Ltd).

19. The steel wire products are used for various applications in several industries including: mining, agriculture, construction, commercial, industrial and the energy sector.

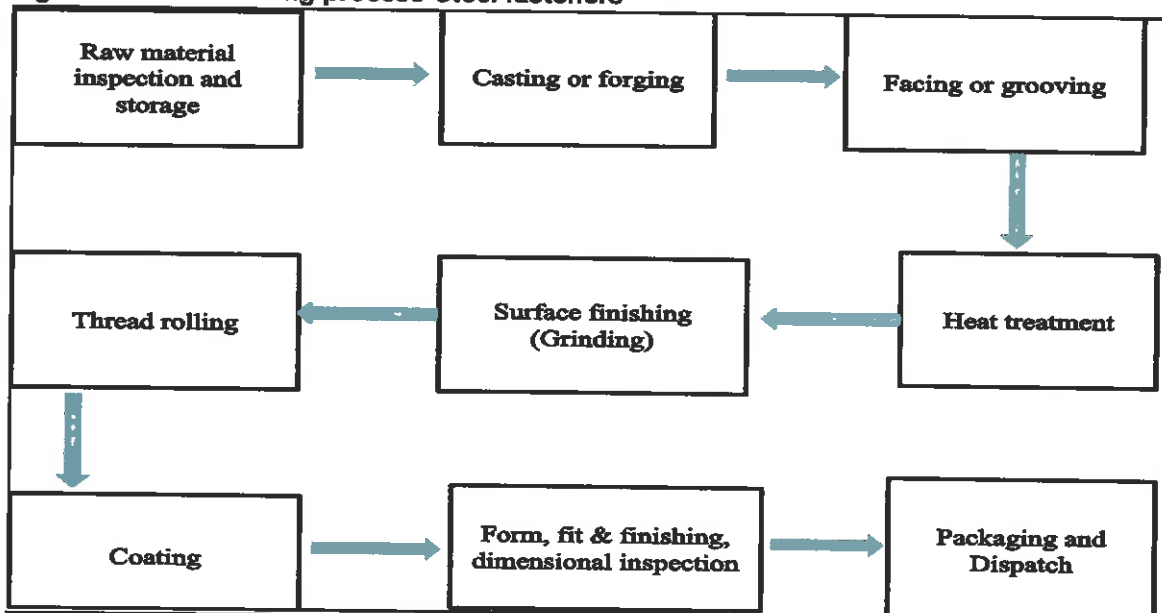
20. The SARS's official trade statistics reveal that the increase in imports of the subject products has been more pronounced since 2015. Imports of hard drawn wire and galvanised wire increased by 83% and 53% in 2015, respectively. China's share of imports increased significantly between 2013 and 2015.

Steel fasteners

21. The investigation covers a range of steel fasteners that include screws, bolts, nuts, coach screws, screw hooks, rivets, cotters, cotter-pins, washers (including spring washers) and similar articles, of iron or steel.

22. Figure 2 depicts the manufacturing process of the subject products:

Figure 2: Manufacturing process-Steel fasteners



23. The production process of steel fasteners consists of various steps. The main raw material used for the manufacturing of the subject product is wire rod, which is typically received from the suppliers in a form of coil. Thereafter, it undergoes a steel preparation process which entails acid cleaning and the addition of a phosphate coating to allow for easier forging.

24. The cut-off coil moves through a few stages of continuous forging on the same bolt making machine. The heads are cut into a hexagonal shape and threads are rolled on the bolt in line on the same forging machines. Thereafter, the product goes through inspection for form, fit and function. Lastly, the products are packed and dispatched.

25. Known manufacturers of the subject products in the domestic market include the following companies:

- Avlock International (Pty) Ltd;
- Bolt and Rivets (Pty) Ltd;
- CBC Fasteners (Pty) Ltd;
- Ebenhaeser Engineering (Pty) Ltd;
- Impala Bolt and Nut (Pty) Ltd;
- SA Bolt Manufacturers Company (Pty) Ltd;
- Tel-Screw Products (Pty) Ltd;
- TI Chalmers Engineering (Pty) Ltd; and
- Transvaal Pressed Nuts, Bolt and Rivets (Pty) Ltd.

26. The subject products are used in various industries which include the petrochemical, construction, and the automotive industry.

27. The SARS's official statistics for the subject products indicated that even though import volumes decreased in 2014, volumes increased in 2015, posing a threat to the domestic industry. Furthermore, imports continued to increase in 2016.

28. The domestic industry's production and sales volumes of fasteners of steel have declined over the past three years, adversely affecting the industry's capacity utilization. The rising level of imports has also eroded the local industry's market share.

29. The domestic industry's employment declined by 30% between 2013 and 2015 due to the slowdown in domestic demand and subsequent cuts in production and sales volumes.

COMPETITIVE POSITION

30. Challenges facing the domestic industry at an operational level include high manufacturing costs and rising low-priced imports. Shortage of technical skills poses additional challenges, amplified by high domestic energy costs.

31. According to the information at the Commission's disposal, the domestic industry manufacturing the subject products experiences significant price disadvantages vis-à-vis imports from East-Asian countries.

COMMENTS RECEIVED

32. No comments or objections to the review of steel wire products were received during the publication period.

33. Letters in support of an increase in customs duties on steel fasteners were received from SA Bolt Manufacturers (Pty) Ltd and Impala Bolt and Nut (Pty) Ltd. The main reason cited for support is the increasing import volume of steel fasteners into the SACU region that have negatively impacted the domestic manufacturing industry.

34. Objections to the review application of the general rate of customs duty on steel fasteners were received from NSS Fasteners (Pty) Ltd and Allmetal Holdings (2002). The objections centred on factors such as a perceived decline in import

volumes observed over the past few years and inability by the domestic industry to meet SACU demand due to limited product range.

The Commission considered the significant investment made by the domestic industry, declining capacity utilization and increased levels of import volumes of the subject product. The Commission also found that the vast majority of the subject products classifiable under the subject tariff subheadings are manufactured domestically.

FINDINGS

35. The Commission considered all the comments received during the review. In particular, the Commission took the following factors into account:

- There has been a material increase in low-priced imports of the subject products and imports originating in East Asia have been the most significant. These low-priced imports have resulted in price disadvantages for domestic producers;
- Declining domestic industry's total production and sales of the subject products over the three year review period;
- The domestic industry's market share has declined and its capacity utilization has fallen significantly below its potential;
- Declining profitability of the domestic industry in the face of escalating cost structures;
- Diminishing domestic employment and investment opportunities; and
- The domestic industry committed to continue investing into the domestic manufacturing industry in order to ensure medium to long term sustainability; increase production volumes; and create additional employment.

36. The Commission concluded that tariff support should enable the industry manufacturing steel wire products and steel fasteners 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

37. In light of the foregoing, the Commission recommended that the tariff structure for steel wire products and steel fasteners classifiable under tariff subheadings 7217.10, 7217.20, 7318.11, 7318.13, 7318.15.26, 7318.15.35, 7318.15.39, 7318.15.41, 7318.15.43, 7318.15.90, 7318.16.30, 7318.16.90, 7318.19, 7318.23, 7318.24, and 7318.29 be amended as follows:

Tariff heading/ subheading	Description	Unit	Rate of duty				
			General	EU	EFTA	SADC	MERCOSUR
STEEL WIRE PRODUCTS							
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7318.19	Other	kg	15%	Free	Free	Free	15%
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