

REPORT NO. 550

**REVIEW OF THE RATE OF CUSTOMS DUTY ON CERTAIN
STEEL TUBES AND PIPES**

The International Trade Administration Commission herewith presents its Report No. 550: **REVIEW OF THE RATE OF CUSTOMS DUTY ON CERTAIN STEEL TUBES AND PIPES**, with recommendations.



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA
08/05/.....2017

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 550

REVIEW OF THE RATE OF CUSTOMS DUTY ON CERTAIN STEEL TUBES AND PIPES

Synopsis

In September 2016, ITAC initiated a review of the customs duty on a number of downstream steel industry products. The review included steel tubes and pipes classifiable under tariff heading 73.06.

Following the publication of the review in the Government Gazette, Hall Longmore (Pty) Ltd, Robor Steel Tube and Pipe (Pty) Ltd and Macsteel Tube and Pipe (Pty) Ltd submitted information to the Commission motivating for an increase in customs duty applicable to certain steel tubes and pipes classified under tariff heading 73.06 from 10% *ad valorem* to the WTO bound rate of 15% *ad valorem*.

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

- The significant decline in the levels of imports of the subject products and the increase in the market share of the domestic industry;
- The increase in local production and sales of the subject products; and
- Price advantages enjoyed by the domestic industry manufacturing the subject products against imported products.

The Commission found no justification for an increase in the duty on the subject product.

The Commission recommends that the rate of customs duty on steel tubes and pipes classifiable under tariff subheadings 7306.30.10, 7306.30.20, 7306.50, 7306.61.10, 7306.61.20, 7306.69.10, 7306.69.20 and 7306.90, be maintained at the current level of 10% *ad valorem*.

BACKGROUND AND TARIFF POSITION

1. In September 2016, ITAC initiated a review of the customs duty on a number of downstream steel industry products. The review included steel tubes and pipes classifiable under tariff heading 73.06.
2. Following the publication of the review in the Government Gazette, Hall Longmore (Pty) Ltd, Robor Steel Tube and Pipe (Pty) Ltd and Macsteel Tube and Pipe (Pty) Ltd submitted information to the Commission motivating for an increase in the customs duty applicable to certain steel tubes and pipes from 10% to the WTO bound rate of 15% *ad valorem*.
3. As motivation for the increase in the general rate of customs duty on certain steel tubes and pipes, the industry cited, *inter alia*, the following:
 - The domestic industry manufacturing tubes and pipes is in distress due to low-priced imports originating in East Asia;
 - Increasing import volumes into the SACU region continue to threaten market share loss, reduction in domestic demand and underutilised manufacturing capacity. If the current trend of imports continues, further jobs and production losses will be inevitable;
 - The increase in the general rate of customs duty on hot rolled coil (HRC) from free of duty to 10% *ad valorem*, as contained in ITAC Report no. 507, has placed upward pressure on the domestic industry manufacturing tubes and pipes; and

- The increase in the general rate of customs duty on the subject product will protect the downstream industry against fierce competition from low-priced imports. This will improve the domestic industry's price competitive position, increase employment levels and facilitate growth in investment of plant and machinery.

4. The review was published in the Government Gazette of 23 September 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: **73.06**, 73.15, 73.26, and 87.16"

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

Table 1: Current tariff structure

Tariff heading/ subheading	Description	Unit	Rate of duty				
			General	EU	EFTA	SADC	MERCOSUR
73.06	Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel						
7306.30	Other, welded, of circular cross-section, of iron or non-alloy steel						
7306.30.10	With a wall thickness not exceeding 2 mm, galvanised	Kg	10%	Free	Free	Free	10%
7306.30.20	With a wall thickness not exceeding 2 mm, not galvanised	Kg	10%	Free	Free	Free	10%
7306.50	Other, welded, of circular cross-section, of other alloy steel	Kg	10%	Free	Free	Free	10%
7306.61	Of square or rectangular cross-section						
7306.61.10	With a wall thickness not exceeding 2 mm	Kg	10%	Free	Free	Free	10%
7306.61.20	With a wall thickness exceeding 2 mm	Kg	10%	Free	Free	Free	10%
7306.69	Of other non-circular cross-section						
7306.69.10	With a wall thickness not exceeding 2 mm	Kg	10%	Free	Free	Free	10%
7306.69.20	With a wall thickness exceeding 2 mm	Kg	10%	Free	Free	Free	10%

7306.90	Other	Kg	10%	Free	Free	Free	10%
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Source: SARS, 2017

6. As shown in table 1 above, the current customs duty on the subject products is 10% *ad valorem*.

7. 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
7306	Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel						
7306.30	Other, welded, of circular cross-section, of iron or non-alloy steel						
7306.30.10	With a wall thickness not exceeding 2 mm, galvanised	Kg	15%	Free	Free	Free	10%
7306.30.20	With a wall thickness not exceeding 2 mm, not galvanised	Kg	15%	Free	Free	Free	10%
7306.50	Other, welded, of circular cross-section, of other alloy steel	Kg	15%	Free	Free	Free	10%
7306.61	Of square or rectangular cross-section						
7306.61.10	With a wall thickness not exceeding 2 mm	Kg	15%	Free	Free	Free	10%
7306.61.20	With a wall thickness exceeding 2 mm	Kg	15%	Free	Free	Free	10%
7306.69	Of other non-circular cross-section						
7306.69.10	With a wall thickness not exceeding 2 mm	Kg	15%	Free	Free	Free	10%
7306.69.20	With a wall thickness exceeding 2 mm	Kg	15%	Free	Free	Free	10%
7306.90	Other	Kg	15%	Free	Free	Free	10%

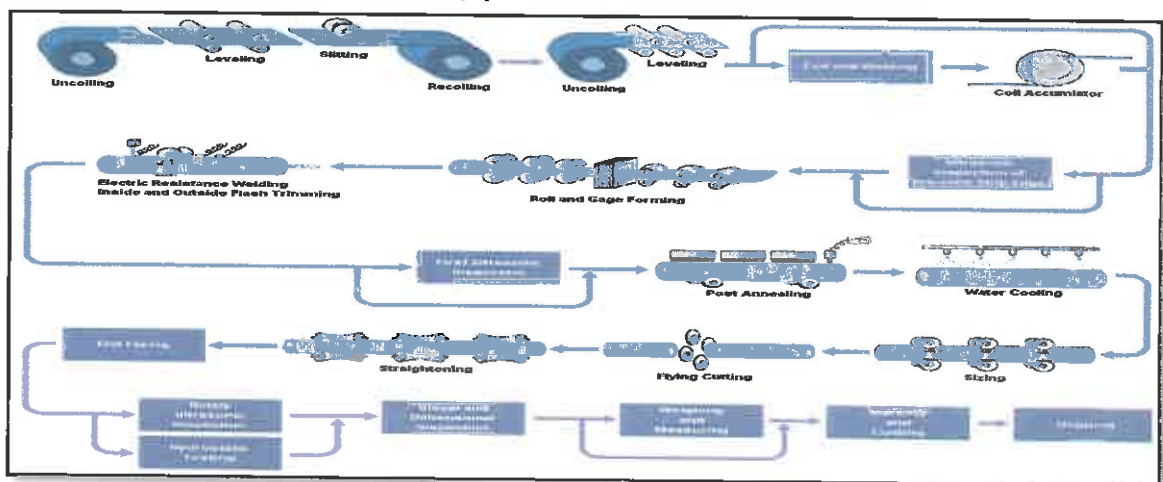
Source: SARS, 2017

8. The WTO bound rate for steel tubes and pipes is 15% *ad valorem*.

INDUSTRY AND MARKET

9. The subject products are steel tubes and pipes, classifiable under tariff heading 73.06.
10. The main input material used in the manufacture of the subject products is hot rolled coil.
11. The steel tubes and pipes which are subject to this investigation are commonly referred to as Electric Resistance Welded (ERW) pipes and Spiral welded pipes (Submerged Arc Welded pipes- SAW). The main distinction between the ERW and SAW pipes is the production process and the size. SAW pipes are generally larger than ERW pipes.
12. In terms of the ERW process, the production process begins when the steel coil is placed on an unwinding machine. As the steel coil is unwound, it undergoes a heating process.
13. The steel is then passed through a series of corrugated rollers that cause the edges of the skelp to curl together which forms an unwelded pipe. The steel then passes through the welding stage where the device seals the two ends of the pipe. The welded pipe is then passed through a high pressure roller which helps create a tight weld. Figure 1 below, shows the production process of ERW pipes:

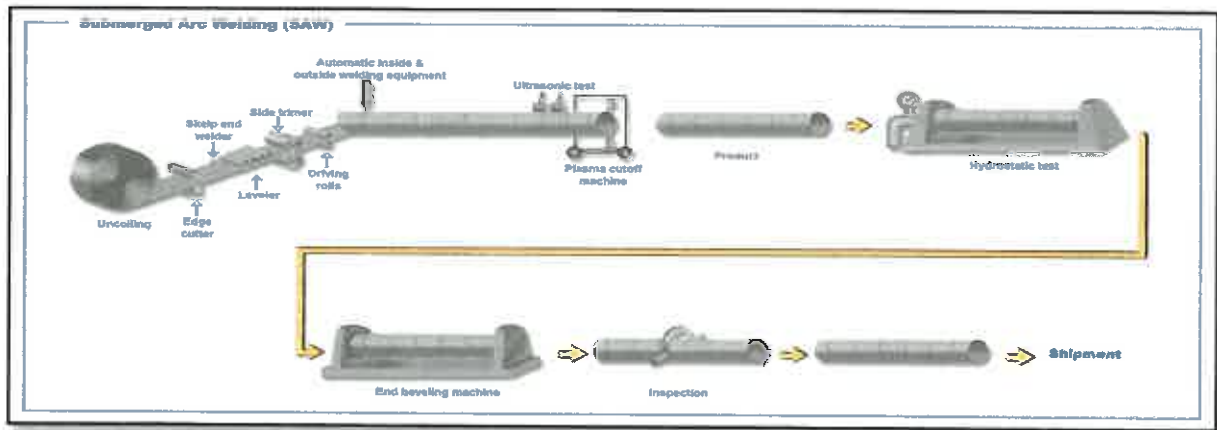
Figure 1: Production process ERW pipes



14. In terms of the SAW process, the production process involves seaming the entire length of the pipe in a spiral form.

15. Spiral Arc Welded pipes are steel pipes that have a Double Submerged Arc Welded (DSAW) seam. The outside diameter is determined by the angle of the de-coiled steel against the forming head. The more acute the angle, the greater the diameter. The production of large, hot rolled coils of sufficient width and the development of dependable non-destructive testing methods enables the product to be placed in more demanding applications. Figure 2 below shows the production process of spiral pipes:

Figure 2: Production process of spiral pipes



16. Pipes are inspected, weighed and can be varnished and marked prior to final inspection and dispatch, or transferred to the coating and lining plants for corrosion protection treatment.

17. The domestic industry manufacturing steel tubes, pipes and hollow profiles is characterised by a number of manufacturers, including amongst others: Hall Longmore (Pty) Ltd; Robor Steel Tube and Pipe (Pty) Ltd; Macsteel Tube and Pipe (Pty) Ltd; Garsin Engineering (Pty) Ltd; and Seven Star Steel (Pty) Ltd.

18. The SARS's official trade statistics show that import volumes of the subject products declined over the three year period. The aggregate import volumes declined from an estimated 80 739 tons to an estimated 23 005 tons over three years.

COMPETITIVE POSITION

19. According to the information at the Commission's disposal, the domestic industry manufacturing the subject products experiences price advantages vis-à-vis imports from East Asian countries. The decline in the market share of individual domestic manufacturers has been as a result of increasing domestic competition and not competition from abroad.

COMMENTS RECEIVED

20. An objection to the review of customs duty on steel tubes and pipes was received from Garsin Engineering (Pty) Ltd. The reason for the objection was that tariff subheadings 7306.61.20 and 7306.69.20 include products that are not manufactured by the SACU manufacturers.

FINDINGS

21. The Commission considered the review. In particular, the Commission took the following factors into account:

- The significant decline in the levels of imports of the subject products and the increase in the market share of the domestic industry;
- The increase in local production and sales of the subject products; and
- Price advantages enjoyed by the domestic industry manufacturing the subject products against imported products.

22. In light of the foregoing, the Commission found no justification for an increase to the requested level of 15% *ad valorem*. The Commission concluded that the 10% *ad valorem* currently applicable on the subject products serves as appropriate protection for the domestic industry and further increase would have an undue cost raising impact on downstream industries and consumers.

RECOMMENDATION

23. The Commission recommends that the rate of customs duty on certain steel tubes and pipes classifiable under tariff subheadings 7306.30.10, 7306.30.20, 7306.50, 7306.61.10 7306.61.20, 7306.69.10, 7306.69.20 and 7306.90, be maintained at the current level of 10% *ad valorem*.