

**REPORT NO. 546**

**REVIEW OF THE RATE OF CUSTOMS DUTY ON WELDED LINK  
CHAIN AND FORGED GRINDING BALLS**

The International Trade Administration Commission herewith presents its Report No. 546:  
**REVIEW OF THE RATE OF CUSTOMS DUTY ON WELDED LINK CHAIN AND FORGED  
GRINDING BALLS**, with recommendations.



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**REPUBLIC OF SOUTH AFRICA**  
**INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA**

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**REVIEW OF THE RATE OF CUSTOMS DUTY ON WELDED LINK CHAIN AND FORGED  
GRINDING BALLS**

**Synopsis**

On September 2016, ITAC initiated a review of the customs duty on a number of downstream steel industry products as a result of a significant number of SACU downstream steel product manufacturers expressing concerns regarding the lack of tariff protection against imports of finished products that often enter the country at unsustainably low prices. The review included welded link chain and forged grinding balls classifiable under tariff headings 73.15 and 73.26.

Following the publication of the review in the Government Gazette, Scaw Metals (Pty) Ltd submitted information to the Commission motivating for an increase in customs duty applicable to welded link chain and forged grinding balls classifiable under tariff subheadings 7315.82.01, 7315.82.03, 7315.82.05, 7315.82.07, 7315.82.90 and 7326.11, from free of duty 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:

- There has been a material increase in import volumes of the subject products, in particular from China. These low-priced imports have resulted in price disadvantages for the domestic producer;
- The domestic industry's market share has declined and its capacity utilisation has fallen;

- The declining profitability of the domestic industry as a result of relatively high production cost structures;
- Diminishing investment and employment opportunities; and
- Reciprocal commitments pertaining to retention of employment and increasing investment in order to enhance efficiencies.

The Commission concluded that tariff support should enable the industry manufacturing welded link chains and forged grinding balls to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in security of volumes and reduction in the marginal cost of production.

The Commission recommended that the rate of customs duty on welded link chains and forged grinding balls classifiable under tariff subheadings 7326.11 7315.82.01, 7315.82.03, 7315.82.05, 7315.82.07 and 7315.82. 90 be increased from free of duty to 15% *ad valorem*.

## **BACKGROUND AND TARIFF POSITION**

1. On September 2016, ITAC initiated a review of the customs duty on a number of downstream steel industry products as a result of a significant number of SACU downstream product manufacturers expressing concerns regarding the lack of tariff protection against imports of finished products that often enter the country at unsustainably low prices. The review included welded link chain and forged grinding balls classifiable under tariff subheadings 73.15 and 73.26.
2. Following the publication of the review in the Government Gazette, Scaw Metals (Pty) Ltd submitted information to the Commission motivating for an increase in customs duty applicable to forged grinding balls and welded link chain classifiable under tariff subheadings 7326.11, 7315.82.01, 7315.82.03, 7315.82.05, 7315.82.07 and 7315.82.90, from free of duty to the WTO bound rate of 15% *ad valorem*.
3. As motivation for the increase in the general rate of customs duty, the industry cited, *inter alia*, the following:

- In its Report 509, ITAC recommended an increase in the rate of customs duty to steel rod (the primary input for the subject products) from free of duty to 10% *ad valorem*. This has put upward pressure on the cost structures of the local manufacturers;
- The current decreasing price levels at which the subject products concerned are imported into the SACU market, coupled with an increase in imports since 2012, have put the viability of the SACU industry at risk. If the current trend in import prices and volumes continue, job losses and further production losses will be inevitable;
- Reduction in the domestic industry's market share, the price disadvantage experienced by the domestic industry and the considerably under-utilised manufacturing capacity have affected the profitability of Scaw negatively;
- An increase in the general rate of customs duty on welded link chain and forged grinding balls to the WTO bound rate of 15% would substantially improve Scaw Metal's price competitiveness in the face of fierce low-priced competition from abroad, especially from Asian countries; and
- The overcapacity in the Chinese steel industry and trade action being taken by other countries increase the propensity to export steel at any price, which leaves the South African industry vulnerable.

4. The Notice was published in the Government Gazette on 23 September 2016 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	Tariff Subheading	Description	Statistical Unit	General	EU	EFTA	SADC	MERCOSUR
<b>WELDED LINK CHAINS</b>								
73.15		<b>Chain and parts thereof, of iron or steel:</b>						
7315.8		<b>Other chain:</b>						
7315.82		<b>Other, welded link:</b>						
	7315.82.01	The links of which are manufactured from round section iron or steel wire, bars or rods of a diameter of less than 4 mm	kg	Free	Free	Free	Free	Free
	7315.82.03	The links of which are manufactured from round section iron or steel wire, bars or rods of a diameter of 4 mm or more but not exceeding 10 mm	kg	Free	Free	Free	Free	Free
	7315.82.05	The links of which are manufactured from round section iron or steel wire, bars or rods of a diameter exceeding 10 mm but not exceeding 20 mm	kg	Free	Free	Free	Free	Free
	7315.82.07	The links of which are manufactured from round section iron or steel wire, bars or rods of a diameter exceeding 20 mm but not exceeding 36 mm	kg	Free	Free	Free	Free	Free
	7315.82.90	Other	kg	Free	Free	Free	Free	Free
<b>FORGED GRINDING BALLS</b>								
73.26		<b>Other articles of iron or steel:</b>						
	7326.11	Grinding balls and similar articles for mills	kg	Free	Free	Free	Free	Free

6. The requested tariff structure is as follows:

**Table 2: Requested tariff structure**

Tariff Heading	Tariff Subheading	Description	Statistical Unit	General	EU	EFTA	SADC	MERCOSUR
<b>WELDED LINK CHAINS</b>								
73.15		<b>Chain and parts thereof, of iron or steel:</b>						
7315.8		<b>Other chain:</b>						
7315.82		<b>Other, welded link:</b>						
	7315.82.01	The links of which are manufactured from round section iron or steel wire, bars or rods of a diameter of less than 4 mm	kg	15%	Free	Free	Free	Free
	7315.82.03	The links of which are manufactured from round section iron or steel wire, bars or rods of a diameter of 4 mm or more but not exceeding 10 mm	kg	15%	Free	Free	Free	Free
	7315.82.05	The links of which are manufactured from round section iron or steel wire, bars or rods of a diameter exceeding 10 mm but not exceeding 20 mm	kg	15%	Free	Free	Free	Free

	7315.82.07	The links of which are manufactured from round section iron or steel wire, bars or rods of a diameter exceeding 20 mm but not exceeding 36 mm	kg	15%	Free	Free	Free	Free
	7315.82.90	Other	kg	15%	Free	Free	Free	Free
<b>FORGED GRINDING BALLS</b>								
<b>73.26</b>		<b>Other articles of iron or steel:</b>						
	7326.11	Grinding balls and similar articles for mills	kg	15%	Free	Free	Free	Free

7. The WTO bound rate for the tariff subheadings under investigation is 15% *ad valorem*.

## **INDUSTRY AND MARKET**

### **Welded Link Chains**

8. Non-articulated welded link chain is classifiable under tariff subheadings 7315.82.01, 7315.82.03, 7315.82.05, 7315.82.07 and 7315.82.90.
9. The main primary input used to manufacture the subject products is steel wire rod.
10. The production process of the subject products begins with steel wire rod in coils being set on the de-coiler of wire bending machines. Wire is fed to the automatic wire bending machine where wire gets straightened. Wire is cut to the required link size and bent to form links.
11. The process repeats and a chain is formed with bent links. The chains are pickled and cleaned with acid and water. Chains (one by one) are fed on the electro-mechanical butt-welding machine, where open-ends of the chains are automatically welded and deburred.
12. The welded chains are inspected and tested as per the specification laid down in the respective standards and packed in metal drums for delivery.
13. The subject products are used in households, transport, marine, mining and industrial applications.
14. According to the information at the Commissions disposal, Scaw Metals (Pty) Ltd is the sole manufacturer of the subject products in the SACU region.

15. The SARS's official trade statistics reveal that imports of the subject products increased by 241% during 2014 and 10% in 2015. China's share of imports increased significantly between 2013 and 2015.

### **Forged Grinding Balls**

16. Grinding balls and similar articles for mills are commonly known as forged grinding balls, and are classifiable under tariff subheading 7326.11.

17. The main primary input used to manufacture the subject products is steel ball bars.

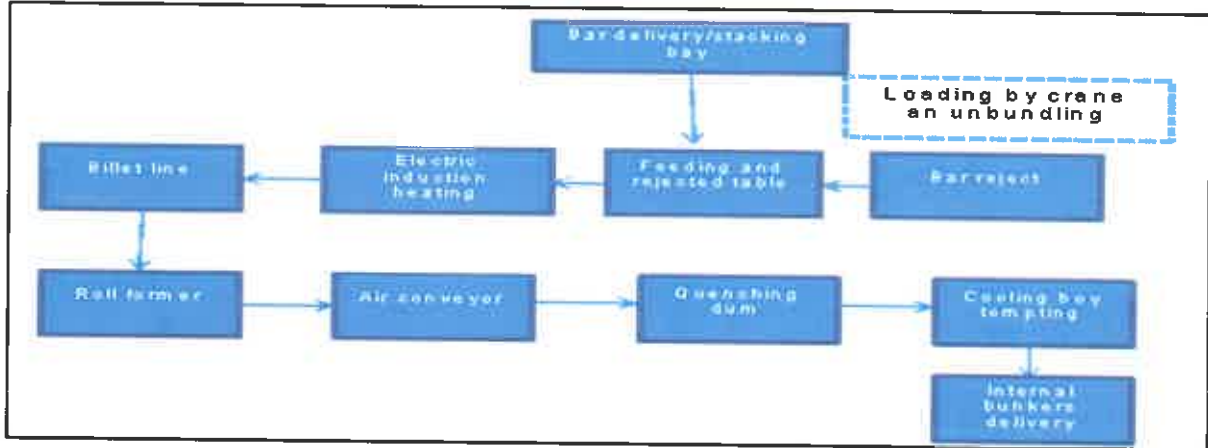
18. The production process of the subject products consist of the following steps:

- The casting of the steel billet, which is hot-rolled into round bars of the required diameter (ball bars);
- The bars are heated and fed into a forging machine which produces the balls;
- The balls are then transported in-line to a heat treatment system wherein they are heat treated;
- Finished balls are then moved to the internal bunkers; and
- Quality control testing for both wear resistance and breakage is performed on every day's production with the use of hardness testers, microstructure analysis and ball on ball drop tests or mini-mill tests. Lastly the subject products are dispatched.



19. Figure 1 below depicts the manufacturing process of the subject products.

Figure 1: Production flow



20. According to the information at the Commissions disposal, Scaw Metals (Pty) Ltd is the sole manufacturer of the subject products in the SACU region.

21. The subject products are used in several industries including: mining, cement and power generation industry.

22. Forged grinding balls are used to crush or grind material such as coal; cement; gold; base metals; and platinum.

23. The SARS's official trade statistics reveal that the increase in imports of the subject products were more pronounced in 2016. Imports of forged grinding balls increased by 27% during 2015 and 68% in 2016. China's share of imports increased significantly during the three year period.

## COMPETITIVE POSITION

24. Challenges facing the domestic industry manufacturing forged grinding balls and welded link chain at an operational level include high manufacturing costs, rising low-priced imports and domestic energy costs.

25. According to the information at the Commission's disposal, the domestic industries manufacturing welded link chain and forged grinding balls are faced with price disadvantages vis-à-vis low priced imports from East-Asian countries

### **COMMENTS**

26. No comments or objections to the review of welded link chains and forged grinding media were received during the publication period.

### **FINDINGS**

27. 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 import volumes of the subject products, in particular from China. These low-priced imports have resulted in price disadvantages for the domestic producer;
- The domestic industry's market share has declined and its capacity utilisation has fallen;
- The declining profitability of the domestic industry as a result of relatively high production cost structures;
- Diminishing investment and employment opportunities; and
- Reciprocal commitments pertaining to retention of employment and increasing investment in order to enhance efficiencies.

28. The Commission concluded that tariff support should enable the industry manufacturing welded link chain and forged grinding balls to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in security of volumes and reduction in the marginal cost of production.

## **RECOMMENDATION**

29. In light of the foregoing, the Commission recommends that the rate of customs duty on welded link chain and forged grinding balls classifiable under tariff subheadings 7315.82.01, 7315.82.03, 7315.82.05, 7315.82.07, 7315.82.90 and 7326.11 be increased from free of duty to 15% *ad valorem*.
30. It is further recommended that the duties be reviewed after a period of three years after implementation.