

REPORT NO. 560

**REVIEW OF THE RATE OF CUSTOMS DUTY ON PREFABRICATED
STEEL BUILDINGS**

The International Trade Administration Commission herewith presents its Report No. 560:
REVIEW OF CUSTOMS DUTY ON PREFABRICATED STEEL BUILDINGS, with
recommendations.



SIYABULELA TSENGIWE
CHIEF COMMISSIONER

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

REPORT NO. 560

REVIEW OF THE RATE OF CUSTOMS DUTY ON PREFABRICATED STEEL BUILDINGS

Synopsis

On 22 July 2016, the Commission initiated a review of customs duty on a number of downstream steel industry products in the Government Gazette. The review included prefabricated steel buildings classifiable under tariff heading 94.06.

Following the publication of the review, Kwikspace Modular Buildings (Pty) Ltd submitted motivation for an increase in the rate of customs duty applicable on prefabricated steel buildings, classifiable under tariff subheading 9406.90, from free of duty to the WTO bound rate of 20% *ad valorem*, by way of creating a separate 8-digit tariff subheading.

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

- Declining domestic manufacturer's production/sales volumes, domestic industry's market share and capacity utilization during the investigating period;
- The domestic industry manufacturing prefabricated steel buildings is experiencing substantive price disadvantages vis-à-vis imports originating in East Asian countries;
- Declining profitability coupled with escalating production cost experienced by the domestic industry;
- Declining domestic industry employment and investment opportunities;
- Greenhouses of iron or non-alloy steel classifiable under tariff subheading 9406.90.10 are not manufactured locally; and

- The fact that the subject product is designated in terms of the Preferential Procurement Policy Framework Act, and the impact of the customs duty on social infrastructure.

The Commission concluded that tariff support should enable the industry manufacturing fabricated steel buildings to utilise its existing under-utilised production capacity thereby achieving cost advantages arising from increased output due to operational efficiencies. This would assist the industry in creating new investment and employment opportunities.

The Department of Trade and Industry, Department of Basic Education and Department of Health will establish a monitoring mechanism to monitor the performance of the local manufacturers in terms of quality and prices to ensure that tariff support will not be used as a tool to inflate prices.

In the light of the foregoing, the Commission recommends the following:

- an increase in the general rate of customs duty on prefabricated steel buildings classifiable under tariff subheading 9406.90, from free of duty to 20% *ad valorem*, by way of creating a separate 8-digit tariff subheading as follows:

Tariff heading	Tariff subheading	Description	Statistical Unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
9406.00	Prefabricated buildings							
	9406.10	- Of wood	Kg	Free	Free	Free	Free	Free
	9406.90	- Other						
	9406.90.10	- Of iron or steel	Kg	20%	Free	Free	Free	20%
	9406.90.90	- Other	Kg	Free	Free	Free	Free	Free

- the creation of a temporary rebate facility for greenhouses of iron or non-alloy steel, as follows:

"Greenhouses of iron or non-alloy steel, classifiable in tariff subheading 9406.90.10, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the steel and other materials are not available in the SACU market"

- the duty structure on prefabricated steel buildings to be reviewed after a period of three years from the date of implementation.

BACKGROUND AND TARIFF POSITION

1. On 22 July 2016, the Commission initiated a review of the customs duty on a number of downstream steel industry products published in the Government Gazette. The review included prefabricated steel buildings classifiable under tariff heading 94.06.
2. Following the publication of the review, Kwikspace Modular Buildings (Pty) Ltd, submitted motivation for an increase in the general rate of customs duty applicable to prefabricated steel buildings, classifiable under tariff subheading 9406.90, from free of duty to the WTO bound rate of 20% *ad valorem*, by way of creating a separate 8-digit tariff subheading.
3. As motivation for the increase in the general rate of customs duty the industry cited, *inter alia*, the following:
 - The significant increase in low-priced imports of prefabricated steel buildings has placed the viability of the SACU industry at risk and should this trend continue, further job losses and plant closures will be inevitable;
 - The under-utilised production capacity has affected the profitability of the domestic industry; and
 - An increase in the general rate of customs duty on prefabricated steel buildings would substantially improve the domestic industry's price-competitive position against fierce lower-priced imports.
4. The Notice was published in the Government Gazette 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**".

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

Table 1: Current tariff structure - Prefabricated steel buildings

Tariff heading	Tariff subheading	Description	Statistical Unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
9406.00		Prefabricated buildings						
	9406.10	- Of wood	Kg	Free	Free	Free	Free	Free
	9406.90	- Other	Kg	Free	Free	Free	Free	Free

6. The requested tariff structure is as follows:

Table 2: Requested tariff structure - Prefabricated steel buildings

Tariff heading	Tariff subheading	Description	Statistical Unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
9406.00		Prefabricated buildings						
	9406.10	- Of wood	Kg	Free	Free	Free	Free	Free
	9406.90	- Other						
	9406.90.10	- Of iron or steel	Kg	20%	Free	Free	Free	20%
	9406.90.90	- Other	Kg	Free	Free	Free	Free	Free

7. The WTO bound rate for prefabricated steel buildings is 20% *ad valorem*.

INDUSTRY AND MARKET

8. The subject products are prefabricated steel buildings, classifiable under tariff subheading 9406.90.

9. Prefabricated steel buildings are buildings that consist of several factory-built components or units that are assembled on-site to complete the unit. They can be classified into two broad categories namely: Mobile buildings and permanent buildings (Figures 1 and 2). In general, manufacturers design, manufacture and install different types of building systems according to customer specifications.

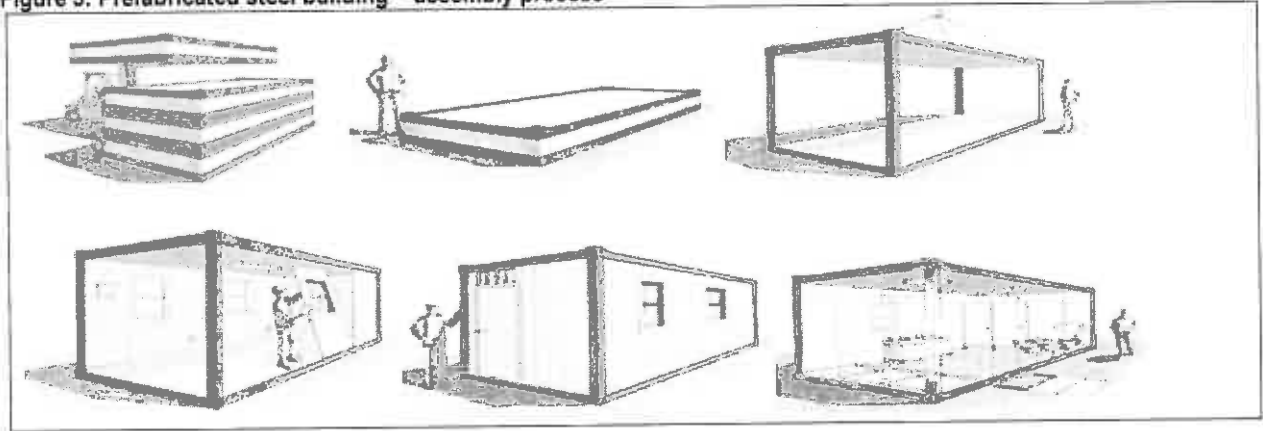
Figure 1: Mobile building



Figure 2: Permanent structure



Figure 3: Prefabricated steel building – assembly process



10. The prefabricated steel buildings imported into the SACU region are similar to the domestically manufactured products and compete in the same market. As demonstrated in Figure 3 above, importers typically import the subject products in kit form and assemble and/or erect the complete unit on site. Local manufacturers also pack the subject products in a kit form for ease of transportation and erect or assemble the structures on site.
11. The locally manufactured prefabricated steel buildings are manufactured using hot-dip galvanised steel coils as the main input material.
12. The local manufacturers of prefabricated steel buildings source the hot-dip galvanised coils and steel sections from the domestic primary steel manufacturers namely, ArcelorMittal South Africa Limited (AMSA) and Safal Steel (Pty) Ltd.
13. In terms of end-use, the subject product is used in various industries and used for a wide range of applications. The more common applications include steel garage buildings, steel aircraft hangars, steel gymnasiums and recreational facilities, steel prisons and correctional facilities, steel school buildings, steel manufacturing buildings, metal warehouse and storage buildings, steel strip mall buildings and steel self-storage and mini storage buildings.
14. The domestic industry manufacturing prefabricated steel buildings is characterised by a number of manufacturers, including: Kwikspace Modular Buildings (Pty) Ltd; African Modular Building Solutions (Pty) Ltd; Fabricated Steel Manufacturing (Pty) Ltd (FSM); Mathote Modular Building Systems (Pty) Ltd and Pholaco (Pty) Ltd.

15. The local demand for prefabricated steel buildings is mainly driven by government, the construction and the mining sector. Approximately 40% of the total market is allocated to South African government related projects. This is predominantly in the education, health care, and infrastructure sectors.

16. The subject product is also designated in terms of the Preferential Procurement Policy Framework Act.

COMPETITIVE POSITION

17. There are a number of challenges currently facing the domestic industry at operational level including high manufacturing costs.

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

COMMENTS RECEIVED

19. Comments objecting to the application were received from SpeedSpace Rentals (Pty) Ltd; Tshuma Consulting CC and Massmart Holdings Limited. The comments centred mainly on the cost-raising effect of the duty increase on government social infrastructure and on products not manufactured locally e.g. prefabricated plastic sheds and greenhouses of iron or non-alloy steel.

20. The Department of Trade and Industry, Department of Basic Education and Department of Health will establish a monitoring mechanism to monitor the performance of the local manufacturers in terms of quality and prices to ensure that tariff support will not be used as a tool to inflate prices.

21. With regards to prefabricated buildings not made of steel, an 8-digit tariff subheading was formulated to exclude prefabricated buildings made of other materials. In addition, a description for a temporary rebate provision was provided for greenhouses of iron or non-alloy steel not manufactured locally.

22. Comments in support of the application were received from Pholaco (Pty) Ltd and Fabricated Steel Manufacturing (Pty) Ltd. The comments centred on the following factors: The high levels of imports of prefabricated steel, the significant price disadvantages experienced by the domestic industry manufacturing the subject product and the importance of sustaining the local capacity, particularly to support government's social infrastructure programmes.

FINDINGS

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

- Declining domestic manufacturer's production/sales volumes, domestic industry's market share and capacity utilization during the investigating period;
- The domestic industry manufacturing prefabricated steel buildings is experiencing substantive price disadvantage vis-à-vis imports originating in East Asian countries;
- Declining profitability coupled with escalating production cost experienced by the domestic industry;
- Declining domestic industry employment and investment opportunities;
- Greenhouses of iron or non-alloy steel classifiable under tariff subheading 9406.90.10 are not manufactured locally; and
- The fact that the subject product is designated in terms of the Preferential Procurement Policy Framework Act, and the impact of the customs duty on social infrastructure.

The Commission concluded that tariff support should enable the industry manufacturing fabricated steel buildings to utilise its existing under-utilised production capacity thereby achieving cost advantages arising from increased output due to operational efficiencies. This would assist the industry in creating new investment and employment opportunities.

24. With regards to prefabricated buildings not made of steel, an 8-digit tariff subheading was formulated to exclude prefabricated buildings made of other materials. In addition, a description for a temporary rebate provision was provided for greenhouses of iron or non-alloy steel not manufactured locally.

25. The Department of Trade and Industry, Department of Basic Education and Department of Health will establish a monitoring mechanism to monitor the performance of the local manufacturers in terms of quality and prices to ensure that tariff support will not be used as a tool to inflate prices.

RECOMMENDATION

26. In the light of the foregoing, the Commission recommends the following:

- an increase in the general rate of customs duty on prefabricated steel buildings classifiable under tariff subheading 9406.90, from free of duty to 20% ad valorem, by way of creating a separate 8-digit tariff subheading as follows:

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	9406.90.90	- Other	Kg	Free	Free	Free	Free	Free

- the creation of a temporary rebate facility for greenhouses of iron or non-alloy steel, as follows:

“Greenhouses of iron or non-alloy steel, classifiable in tariff subheading 9406.90.10, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the steel and other materials are not available in the SACU market”

- the duty structure on prefabricated steel buildings to be reviewed after a period of three years from the date of implementation.