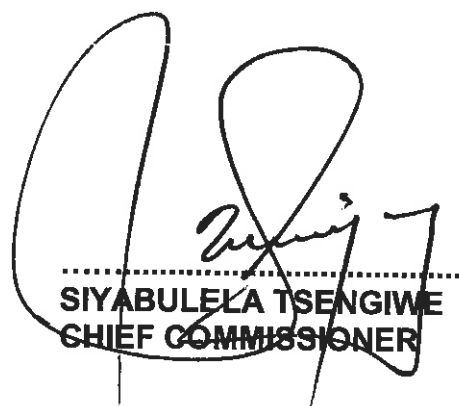


REPORT NO. 520

**INCREASE IN THE RATE OF CUSTOMS DUTY ON
ALUMINIUM EXTRUSIONS**

The International Trade Administration Commission herewith presents its Report No. 520: **INCREASE IN THE RATE OF CUSTOMS DUTY ON ALUMINIUM EXTRUSIONS**, with recommendations.



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA
11/03/2016

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 520

INCREASE IN THE RATE OF CUSTOMS DUTY ON ALUMINIUM EXTRUSIONS

Synopsis

iTAC received an application from Hulamin Extrusions (Pty) Ltd for an increase in customs duty on aluminium extrusions classifiable under tariff subheadings 7604.21.15, 7604.29.15 and 7604.29.65, from 5% *ad valorem* to 15% *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 the concomitant erosion of the market share of SACU manufacturers of aluminium extrusions;
- The significant decline in sales, production and capacity utilization of the domestic industry manufacturing aluminium extrusions;
- The significant price disadvantage experienced by local manufacturers especially *vis-à-vis* East-Asian manufacturers of aluminium extrusions; and
- Declining domestic employment in the aluminium extrusion industry.

The Commission concluded that additional tariff support would significantly improve the competitive position of the local industry, attract investment and enable the industry manufacturing aluminium extrusions to utilize its existing under-utilized capacity and achieve economies of scale with a reduction in marginal cost of production.

The Commission recommends that the rate of customs duty on aluminium extrusions classifiable under tariff subheadings 7604.21.15, 7604.29.15 and 7604.29.65 be increased from 5% *ad valorem* to 15% *ad valorem*.

THE APPLICATION AND TARIFF POSITION

1. Hulamin Extrusions (Pty) Ltd (Hulamin) applied for an increase in the rate of customs duty on aluminium extrusions classifiable under tariff subheadings 7604.21.15, 7604.29.15 and 7604.29.65 from 5% *ad valorem* to 15% *ad valorem*
2. As motivation for the application the applicant stated the following:
 - Eroded market share of the local extrusion market as imports of the subject products have increased significantly;
 - The importation of low-priced extrusion products has had a significant impact on local extrusion manufacturing and this has forced the downsizing of local production;
 - Since ITAC implemented the 5% *ad valorem* duty in 2011, the domestic capacity has been further eroded; and
 - Imports are largely high-volume, fast-moving aluminium extrusion sections. The local extruders are left with low-volume, slow moving and more complex extrusions to produce, diminishing their ability to achieve economies of scale and optimum manufacturing cost.
3. The application was published in the Government Gazette on the 18 of September 2015, for comments by interested parties, as follows:

INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON:

“Aluminium extrusions classifiable under tariff subheadings 7604.21.15; 7604.29.15; and 7604.29.65, from 5% ad valorem to 15 % ad valorem”

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

Table 1: Current tariff position: Aluminium extrusions

Heading/ Subheading	Description	Statistical Unit	Rate of Duty			
			General	EU	EFTA	SADC
7604	Aluminium bars, rods and profiles:					
7604.2	- Of aluminium alloys:					
7604.21	-- Hollow profiles:					
7604.21.15	-- -Of a maximum outside cross-sectional dimension not exceeding 370 mm	kg	5%	Free	Free	Free
7604.29	-- Other					
7604.29.15	-- - Bars and rods, of a maximum cross-sectional dimension exceeding 7,5 mm but not exceeding 160 mm	kg	5%	Free	Free	Free
7604.29.65	-- - Profiles, of a maximum cross-sectional dimension not exceeding 370 mm	kg	5%	Free	Free	Free

5. The requested tariff structure is as follows:

Table 2: Requested tariff position: Aluminium extrusions

Heading/ Subheading	Description	Statistical Unit	Rate of Duty			
			General	EU	EFTA	SADC
7604	Aluminium bars, rods and profiles:					
7604.2	- Of aluminium alloys:					
7604.21	-- Hollow profiles:					
7604.21.15	-- -Of a maximum outside cross-sectional dimension not exceeding 370 mm	kg	15%	Free	Free	Free
7604.29	-- Other					
7604.29.15	-- - Bars and rods, of a maximum cross-sectional dimension exceeding 7,5 mm but not exceeding 160 mm	kg	15%	Free	Free	Free
7604.29.65	-- - Profiles, of a maximum cross-sectional dimension not exceeding 370 mm	kg	15%	Free	Free	Free

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

INDUSTRY AND MARKET

7. The subject products are aluminium extrusions, specifically, aluminium profiles, bars and rods. Aluminium extrusions are intermediate products which are supplied in mill condition, finished (anodised or powder coated) and/or fabricated. The subject products are manufactured in accordance with customer's designs and requirements.

8. As shown in the diagram below, the subject products fall in the midstream of the aluminium value chain. The subject products are intermediate products used in the assembly and/or manufacture of a variety of products in the architectural, industrial, transport, automotive and packaging industries.

Figure 1: Value chain



9. The main input used in the manufacture of aluminium extrusions is aluminium billet, which is imported or manufactured domestically from recycled scrap.
10. Generally, the manufacturing process begins with the design and production of the die required for the profile. A billet is heated and placed into a powerful hydraulic device called an extrusion press. A ram pushes the softened billet through the die to produce the desired profile. The completed extrusion is cut off at the die and the remainder of the billet is removed for recycling. The extrusion is cooled, mechanically treated and aged to produce the required mechanical and strength properties. It is also stretched to correct any twisting that may have occurred subsequent to the extrusion process.
11. The extrusions are cut, using a finish cut saw, to the specified commercial length. In most cases the finished extrusions are powder coated, anodised and/or fabricated depending on the requirements of the customer. The applicant outsources this process to local anodising and powder coating firms while Wispeco, the other dominant manufacturer, has invested in its own facility.
12. There are four known manufacturers of the subject product in the SACU region, namely: Hulamin Extrusions (Pty) Ltd; Wispeco (Pty) Ltd; General Alu Extrusion (Pty) Ltd and Aluminium Extruders SA (Pty) Ltd. Wispeco (Pty) Ltd is the biggest producer of the subject products in SACU, followed by the applicant.

13. Historically, the local industry was dependent on BHP Billiton for locally produced aluminium billets. Since the closure of the BHP Billiton Bayside cast house in Richards Bay in 2009, the local aluminium industry has been deprived of locally sourced billets. Even though the local industry, to some extent, has the capacity to cast its own billet from scrap metal, it is not enough to meet its billet requirements. As a result, the domestic industry relies on imported billet.
14. The domestic supply of aluminium billets remains uncertain, as this will solely depend on the ability of Isizinda Aluminium to revitalize the Bayside Casthouse. Studies are underway to expand the casthouse product offering (currently only limited to rolling slab) to include extrusion billet.
15. The firms which provide anodising and powder coating include Astro Anodising cc, PSA Finishing cc, SPC Specialised Powder Coating cc and Polynam (Pty) Ltd. Since the last duty increase in 2011, a number of anodising and powder coating firms closed down and they included Africa Glass Industries (Pty) Ltd, Premier Profiles Limited, Cascolor Johannesburg, Continental Anodisers cc, Xquisite Powder Coaters (Pty) Ltd and Wispeco Anodising Cape Town.
16. The identified importers of the subject products include Metal and Tool Trade (Pty) Ltd; I-Build Aluminium (Pty) Ltd; Parrot Products (Pty) Ltd; Pelican Systems (Pty) Ltd; Phoenix Aluminium Profiles (Pty) Ltd; World of Windows Group (Pty) Ltd and NK Cutting cc.
17. The SARS official statistics show that imports of the subject products have increased from an estimated 8 630 tonnes in 2012 to an estimated 10 800 tonnes in 2014. On average the imports of aluminium hollow profiles (7604.21.15) have increased by 23 per cent, aluminium bars and rods (7604.29.15) by 28 per cent and those of aluminium profiles by 12 per cent over the period 2012 to 2014. Imports originate mainly from the People's Republic of China ("PRC"), Italy and Germany.

18. Exports of the subject products have increased from approximately 125 tonnes in 2012 to 283 tonnes in 2014. Exports of the subject products are destined mainly to SADC countries. SACU is a net importer of the subject products.

COMPETITIVE POSITION

19. According to the information at the Commission's disposal, the local industry manufacturing aluminium extrusions faces a significant price disadvantage vis-à-vis similar imported products.

20. There is no domestic supplier of aluminium billet, the main raw material in the manufacture of aluminium extrusions. The local manufacturing industry imports this input material. The industry also recycles locally available scrap to supplement billet stock; however, these are not sufficient to meet billet requirements. The dependency on imported aluminium billets is a challenge in terms of reliability of supply, cost of importation and other inherent risks.

COMMENTS RECEIVED

21. Comments objecting to the application were received from Xikhova International Trade Advisors representing HBS Aluminium Systems (Pty) Ltd, Hinges and Hardware (Pty) Ltd, Lilak Trading (Pty) Ltd, Metal and Tool Trade (Pty) Ltd, I-Build Aluminium (Pty) Ltd, Parrot Products (Pty) Ltd, Pelican Systems (Pty) Ltd, Phoenix Aluminium Profiles cc and World of Windows Group (Pty) Ltd.

22. The comments centred on the following factors: Hulamin's lack of on-site anodizing and powder coating facility renders the company inefficient; the duty would reinforce a fundamentally inefficient company; the cost-raising effect of a duty increase would render downstream users uncompetitive against imported products; the exchange rate has weakened substantially providing additional protection to the industry and the duty may lead to a potential abuse of dominance by the local industry manufacturing aluminium extrusions.

23. The Commission found that although the applicant has not invested in anodizing and powder coating facility, other extruders like Wispeco (Pty) Ltd have investments in these finishing facilities and also use outsourced subcontractors. The subcontractors include Astro Anodising cc, PSA Finishing cc, SPC Specialised Powder Coating cc and Polynam (Pty) Ltd.
24. Although Hulamin specialises in aluminium extrusions, it has committed to invest in the powder coating facility in response to increased local demand for the powder coated aluminium extrusions. Such investment will result in further job creation.
25. The other local manufacturers of aluminium extrusions will ensure that the market determines the price, customers will have alternative sources of supply, and therefore the risk of abuse of dominance will be minimal.
26. A weakening exchange rate will not provide sustainable protection because of the inherent volatility and rising cost structures. The local manufacturers of the subject products import the critical input, billet, which is affected by exchange rate movements.
27. Comments in support of the application were received from the Aluminium Federation of South Africa, Astro Anodising cc, Argent Steel Group (Pty) Ltd t/a Castor & Ladder, General Alu Extrusion (Pty) Ltd, Polynam (Pty) Ltd, Specialised Powder Coating (Pty) Ltd and PSA Finishers cc. The support cited the threat posed by imports to the local industry manufacturing aluminium extrusions.

FINDINGS

28. 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 the concomitant erosion of the market share of SACU manufacturers of aluminium extrusions;

- The significant decline in sales, production and capacity utilization of the domestic industry manufacturing aluminium extrusions;
- The significant price disadvantage experienced by local manufacturers especially vis-à-vis East-Asian manufacturers of aluminium extrusions; and
- Declining domestic employment in the aluminium extrusion industry.

29. The Commission concluded that additional tariff support would significantly improve the competitive position of the local industry, attract investment and enable the industry manufacturing aluminium extrusions to utilize its existing under-utilized capacity and achieve economies of scale with a reduction in marginal cost of production.

RECOMMENDATION

30. In light of the foregoing, the Commission recommends that the rate of customs duty on aluminium extrusions classifiable under tariff subheadings 7604.21.15, 7604.29.15 and 7604.29.65 be increased from 5% *ad valorem* to 15% *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 performance of the domestic industry.