

**REPORT NO. 601**

**INCREASE IN THE RATE OF CUSTOMS DUTY ON  
CERTAIN TUBES, PIPES AND HOLLOW PROFILES,  
SEAMLESS, OF IRON (EXCLUDING CAST IRON) OR  
STEEL.**

The International Trade Administration Commission herewith presents its Report No. 601: **INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN TUBES, PIPES AND HOLLOW PROFILES, SEAMLESS, OF IRON (EXCLUDING CAST IRON) OR STEEL**, with recommendations.

  
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**MELULEKI NZIMANDE**  
**CHIEF COMMISSIONER**

**PRETORIA**  
**17/04/2019**

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

**REPORT NO. 601**

**INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN TUBES, PIPES AND HOLLOW PROFILES, SEAMLESS, OF IRON (EXCLUDING CAST IRON) OR STEEL CLASSIFIABLE UNDER TARIFF SUBHEADINGS 7304.19; 7304.23 AND 7304.29.**

**SYNOPSIS**

ITAC received an application from the South African Iron and Steel Institute on behalf of ArcelorMittal South Africa Limited, requesting an increase in the general rate of customs duty from 10% *ad valorem* to 15% *ad valorem* on certain tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel, through the creation of additional 8-digit tariff subheadings under tariff heading 73.04.

The specific subject products are as follows:

- Other line pipe of a kind used for oil or gas pipelines: of a wall thickness not exceeding 25mm and an outside cross-sectional diameter not exceeding 170mm, classifiable under tariff subheading 7304.19;
- Other drill pipe: of a wall thickness not exceeding 25mm and an outside cross-sectional diameter not exceeding 178mm classifiable under tariff subheading 7304.23 and;
- Other casing and tubing, seamless of iron or steel, of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 178 mm, classifiable under tariff subheading 7304.29.

The Commission considered the application in light of the information at its disposal. In particular, the Commission took the following factors into account:

- The declining prices of imports and the concomitant erosion of the domestic industry's competitiveness;
- The price disadvantage experienced by local manufacturers especially vis-à-vis Aslan manufacturers of seamless tubes, pipes and hollow profiles;
- The significant decline in profitability in the domestic industry manufacturing certain tubes, pipes and hollow profiles, seamless, of iron, in attempts to remain competitive against imported products; and
- Declining domestic employment in the manufacture of certain tubes, pipes and hollow profiles, seamless, of iron.

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

The Commission recommended that the rate of customs duty be increased from 10% *ad valorem* to 15% *ad valorem* on:

- Other line pipe of a kind used for oil or gas pipelines, seamless, of iron or steel, of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 170 mm, classifiable under tariff subheading 7304.19, through the creation of an additional 8-digit tariff subheading under 7304.19;

- Other drill pipe of a kind used in drilling for oil or gas, seamless of iron or steel, of a wall thickness not exceeding 25mm and an outside cross sectional dimension not exceeding 178 mm, classifiable under tariff subheading 7304.23, through the creation of an additional 8-digit tariff subheading under 7304.23; and
- Other casing and tubing, seamless of iron or steel, of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 178 mm, classifiable under tariff subheading 7304.29, through the creation of an additional 8-digit tariff subheading under 7304.29.

The Commission found that the increase in the general rate of customs duty through the creation of additional 8-digit tariff subheadings adequately caters for products not manufactured domestically and recommended that the duties be maintained at 10% *ad valorem* on:

- Other line pipe of a kind used for oil or gas pipelines, seamless of iron or steel: Other; classifiable under tariff heading 7304.19;
- Other drill pipe of a kind used in drilling for oil or gas, seamless of iron or steel: Other, classifiable under tariff heading 7304.23; and
- Other, seamless of iron or steel: Other, classifiable under tariff heading 7304.29.

## **THE APPLICATION AND TARIFF POSITION**

1. ITAC received an application from the South African Iron and Steel Institute on behalf of ArcelorMittal South Africa Limited, requesting an increase in the general rate of customs duty from 10% *ad valorem* to 15% *ad valorem* on certain tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel, through the creation of additional 8-digit tariff subheadings under tariff heading 73.04.

**2. The specific subject products are as follows:**

- **Other line pipe of a kind used for oil or gas pipelines: of a wall thickness not exceeding 25mm and an outside cross-sectional diameter not exceeding 170mm, classifiable under tariff subheading 7304.19;**
- **Other drill pipe: of a wall thickness not exceeding 25mm and an outside cross-sectional diameter not exceeding 178mm classifiable under tariff subheading 7304.23 and;**
- **Other casing and tubing, seamless of iron or steel, of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 178 mm, classifiable under tariff subheading 7304.29.**

**3. As motivation for the application SAISI stated the following:**

- **The tube and pipe industry in South Africa has been under distress for some time, largely due to low priced imports;**
- **The impact of the decrease in import prices is forcing AMSA to sell the product at a price that is below the manufacturing cost of the product;**
- **The current decreasing price levels at which seamless pipes are being imported into the SACU market, coupled with an increase in import volumes, have put the viability of the SACU industry at risk. If the current trend continues, further production and job losses will be inevitable; and**
- **It is imperative that the customs duty on seamless tubes and pipes be increased to the WTO bound rate of 15% *ad valorem* to substantially improve the domestic industry's price competitiveness against imported products and to ensure that current employment levels in the industry are retained.**

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

**Table 1: Current Tariff Position**

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
7304		<b> Tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel:</b>						
	7304.1	<b> - Line pipe of a kind used for oil or gas pipelines:</b>						
	7304.19	-- Other	Kg	10%	Free	Free	Free	10%
	7304.2	<b> - Casing, tubing and drill pipe, of a kind used in drilling for oil or gas:</b>						
	7304.23	-- Other drill pipe	Kg	10%	Free	Free	Free	10%
	7304.29	-- Other	Kg	10%	Free	Free	Free	10%

Source: SARS, 2019

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

**Table 2: Requested Tariff Position**

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
7304		<b> Tubes, pipes and hollow profiles, seamless of iron or steel:</b>						
7304.19		<b> Other line pipe of a kind used for oil or gas pipelines</b>						
	7304.19.**	Of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 170 mm	Kg	15%	Free	Free	Free	10%
	7304.19.**	Other	Kg	15%	Free	Free	Free	10%
7304.23		<b> Other drill pipe of a kind used in drilling for oil or gas</b>						
	7304.23.**	Of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 178 mm	Kg	15%	Free	Free	Free	10%
	7304.23.**	Other	Kg	15%	Free	Free	Free	10%
7304.29		<b> Other</b>						
	7304.29.**	Casing and tubing of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 178 mm	Kg	15%	Free	Free	Free	10%
	7304.29.**	Other	Kg	15%	Free	Free	Free	10%

6. The applicant requested that the general rate of customs duties be increased to the applicable WTO bound rate of 15% *ad valorem*, through the creation of additional 8-digit tariff subheadings under tariff heading 73.04 as well as on residual tariff subheadings to avoid risks of circumvention. The applicant further requested that rebate provisions be created on residual tariff subheadings to cater for products not manufactured domestically.

7. The WTO bound rate for the tariff subheadings under investigation is 15% *ad valorem*.
8. The application was published in the Government Gazette No. 42053 of 23 November 2018 for comments by interested parties, as follows:

### **INDUSTRY AND MARKET**

9. The products under investigation are hot-finished seamless line pipes (7304.19), drill pipes (7304.23), tubes (7304.29), and casings (7304.29).
10. Casings are hollow profiles used to support the ground structure during drilling operations. Drill pipes are durable steel pipes that conduct the force to the drill bit in a drilling process. Tubing runs inside a casing and serves as a conduit through which substances (such as oil and gas) are produced. Lastly, a line pipe is used for the transportation of water, steam, petrochemicals, chemicals, oil products, natural gas, and other liquids.
11. Seamless line pipes, drill pipes, tubes, and casing are suitable for handling high pressure, temperature, mechanical stress, and corrosive atmosphere and are mainly used in the oil and gas, mining and electrification industries, as well as in structural applications.
12. The main input material used in the manufacture of the subject product is a steel billet which is sourced from AMSA in New Castle.
13. In terms of the production process, the billet is cut to the required length as per the customer specifications. A rotary hearth furnace is used to heat the billets in preparation for pipe production. The heated billet is then pierced with a mandrel bar to form a mother tube.



14. The mother tube is re-heated and reduced to specified dimensions by a stretch reducer. The tubes are then air cooled and rotated through cycles to promote uniform cooling. The cooled tubes are straightened and bevelled to specification to enhance installation with other pipes.
15. The pipe may be covered with paint as per customer specification. All pipes are marked with a unique code which enables tracing to materials used for manufacturing as well as the manufacturing date.
16. Quality control is performed through visual inspection and hydrostatic inspection to ensure specification and quality conformity. The pipes are then bundled together and packaged for shipment.
17. AMSA is the only known manufacturer of seamless line pipes, drill pipes, tubes, and casing in the SACU region.
18. According to the Industrial Policy Action Plan (IPAP, 2018/2019), the key constraints facing the downstream non-ferrous sector include uncompetitive input costs (electricity, logistics and raw materials), inefficiencies across the entire value chain as a result of three decades of low-demand leading to plant, machinery and equipment not being upgraded. It also cited unequal trading platforms, in the form of higher tariffs and non-tariff barriers in potential export markets, as a key challenge. Furthermore, the global steel surplus continues to put downward pressure on steel prices and demand across the entire value chain, threatening the survival of the downstream industry.
19. According to Merchantec Research (2014), the domestic tube and pipe industry manufacturing seamless and welded tubes and pipes, employs approximately 7 000 direct employees and contributes to an estimated 13 000 jobs in further downstream applications. The research identified challenges facing this segment of the steel industry to include costly rail transportation, fluctuating input costs, rapidly rising labour costs, and relatively small local markets.

20. On March 2018, the President of the United States of America ("US") invoked the national security concerns under Section 232 of the Trade Expansion Act of 1962 and enacted new tariffs of 25% on imported steel including seamless tubes, pipes, and hollow profiles classifiable under tariff heading 73.04.
21. According to the IDC (2018), the imposition of import tariffs by the USA may negatively impact South Africa's steel industries through the possible loss of market share in the USA, particularly against imports originating from countries exempted from the duties, and possible trade diversion by other affected global trade producers that may result in increasing levels of imports into the domestic market.
22. The known end-users of the subject products include, *amongst others*, Anglo Gold Ashanti Ltd; Chevron Corporation; De Beers Group; Engen Petroleum Ltd; Hatch Africa (Pty) Ltd; Impala Platinum Holdings Ltd; The Petroleum Oil and Gas Corporation of SA (SOC) Ltd; Shell and BP South African Petroleum Refineries (Pty) Ltd; and Sasol Ltd.
23. The identified importers of the subject products include, *amongst others*, AIG Pipe and Fittings CC; BTA Pipe Suppliers (Pty) Ltd; Garsin Engineering CC; Macsteel Services Centres SA (Pty) Ltd; and Stewarts and Llyods Holdings (Pty) Ltd.
24. The SARS official statistics show that approximately 86 per cent of imports of the subject products originated from Asia over the period under investigation. Although total imports of the subject product declined over the three year period, the Commission considered the detrimental effect of low-priced imports originating mainly from Asian countries to the domestic industry.

## **COMPETITIVE POSITION**

25. According to the information at the Commission's disposal, the local industry manufacturing on certain tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) is faced with significant price disadvantages vis-à-vis imports from Asian.

## **COMMENTS RECEIVED**

26. Comments in support of the application were received from Macsteel Tube and Pipes (Pty) Ltd, Solidarity, South African Institute of Steel Construction (SAISC), Steel Tube Export Association of South Africa (STEASA) and South Africa Sasol Ltd.

27. The support centred on (i) the increasing level of imports into the domestic industry, (ii) erosion of the domestic market share and manufacturing capacity, and (iii) job losses experienced in the industry.

28. Macsteel Tube and Pipes (Pty) Ltd and Sasol Ltd further indicated that products which are not manufactured by the domestic industry should be excluded from the increase in customs duty.

29. In this regard, the Commission found that an increase in the rate of customs duty through the creation of additional 8-digit tariff subheadings adequately caters for the exclusion of products which are not manufactured domestically.

## **FINDINGS**

The Commission considered the application in light of the information at its disposal. In particular, the Commission took the following factors into account:

- The declining prices of imports and the concomitant erosion of the domestic industry's competitiveness;

- The price disadvantage experienced by local manufacturers especially vis-à-vis Asian manufacturers of seamless tubes, pipes and hollow profiles; and
- The significant decline in profitability in the domestic industry manufacturing certain tubes, pipes and hollow profiles, seamless, of iron, in attempts to remain competitive against imported products; and
- Declining domestic employment in the manufacture of certain tubes, pipes and hollow profiles, seamless, of iron.

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

31. In terms of reciprocal commitments, the applicant committed to increase its capital investment expenditure, increase supply-side measures and create additional jobs in the three years following tariff support.

### **RECOMMENDATION**

32. In light of the foregoing, the Commission recommended that the rate of customs duty be increased from 10% *ad valorem* to 15% *ad valorem* on:

- Other line pipe of a kind used for oil or gas pipelines, seamless, of iron or steel, of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 170 mm, classifiable under tariff subheading 7304.19, by the creation of an additional 8-digit tariff subheading under 7304.19;

- Other drill pipe of a kind used in drilling for oil or gas, seamless of iron or steel, of a wall thickness not exceeding 25mm and an outside cross sectional dimension not exceeding 178 mm, classifiable under tariff subheading 7304.23, by the creation of an additional 8-digit tariff subheading under 7304.23; and
- Other casing and tubing, seamless of iron or steel, of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 178 mm, classifiable under tariff subheading 7304.29, by the creation of an additional 8-digit tariff subheading under tariff 7304.29.

33. The Commission recommended that the duties be maintained at 10% *ad valorem* on:

- Other line pipe of a kind used for oil or gas pipelines, seamless of iron or steel: Other; classifiable under tariff heading 7304.19;
- Other drill pipe of a kind used in drilling for oil or gas, seamless of iron or steel: Other, classifiable under tariff heading 7304.23; and
- Other, seamless of iron or steel: Other, classifiable under tariff heading 7304.29.