

REPORT NO. 617

**CREATION OF A REBATE PROVISION FOR SODIUM HYDROXIDE ("CAUSTIC SODA") IN
AQUEOUS SOLUTION USED FOR THE MANUFACTURE OF SEMI-CHEMICAL FLUTING PAPER**

The International Trade Administration Commission of South Africa herewith presents its Report No. 617: Creation of a rebate provision for sodium hydroxide (Caustic Soda) in aqueous solution used for the manufacture of semi-chemical fluting paper.


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Meluleki Nzimande
CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 617

CREATION OF A REBATE PROVISION FOR SODIUM HYDROXIDE ("CAUSTIC SODA") IN AQUEOUS SOLUTION USED FOR THE MANUFACTURE OF SEMI-CHEMICAL FLUTING PAPER

Synopsis

Sappi Southern Africa (Pty) Ltd T/A Sappi Tugela Mill ("Sappi" or the "Applicant"), applied for the creation of a rebate provision for sodium hydroxide ("Caustic Soda") in aqueous solution, classifiable under tariff subheading 2815.12 with a rate of duty 20 per cent *ad valorem*, used for the manufacture of semi-chemical fluting paper, classifiable under tariff subheading 4805.11.

During its deliberations and in arriving at its recommendation, the Commission considered the information at its disposal, including comments received during the investigation.

The Commission found that:

There are currently three local manufacturers of Caustic Soda in the Southern African Customs Union ("SACU"), namely, Mondi Ltd, NCP Chlorchem (Pty) Ltd and Sasol Ltd. However, Caustic Soda manufactured by Mondi Ltd is captive as it is used in the production of its own paper products.

Total imports of Caustic Soda account for approximately 47% of the total SACU market, while the domestically produced Caustic Soda accounts for 55%. Furthermore, in the event that a project by Elegant Line Chemicals (Pty) Ltd ("EL Chemicals") is successful, the share of the domestically produced Caustic Soda may increase.

There is a structural shortage of Caustic Soda in the SACU given that the supply of Caustic Soda is dependent on the demand for chlorine in the SACU.

In respect of the request by EL Chemicals, for a review of the rebate provision after a period of two years, the Commission found that a three year period from the date of implementation, or such other period as decided by the Commission, would adequately allow the Commission to evaluate the impact of its recommendation. However, section 23.1 of the Amended Tariff Investigations Regulations, makes provision for the resubmission of an application for evaluation under section 16 that deals with

the same or a substantially similar matter to that of an application submitted to and evaluated by the Commission, after a period of 12 months.

On balance, the recommended rebate provision for the importation of Caustic Soda would enable producers of semi-chemical fluting paper to source their primary input at a lower price to increase both the industry's competitiveness and job opportunities. The rebate provision will be subject to an ITAC permit issued in terms of Guidelines, Rules and Conditions relating to the specific rebate provision.

In light of the foregoing, the Commission decided to recommend the creation of a rebate provision for rebate of the full duty on sodium hydroxide ("Caustic Soda"), in aqueous solution, classifiable in tariff subheading 2815.12, for the manufacture of semi-chemical fluting paper, in rolls or sheets, classifiable in tariff 4805.11, in such quantities, at such times and under such conditions as the ITAC may allow by specific permit. The Commission further recommended that the rebate provision be reviewed to determine its impact on the industry value chain after three years from the date of implementation, or such other period as decided by the Commission.

THE APPLICATION AND TARIFF POSITION

Sappi Southern Africa (Pty) Ltd T/A Sappi Tugela Mill ("Sappi" or the "Applicant"), applied for the creation of a rebate provision for Sodium Hydroxide ("Caustic Soda") in aqueous solution, classifiable under tariff subheading 2815.12 with a rate of duty 20 per cent *ad valorem*, used for the manufacture of semi-chemical fluting paper, classifiable under tariff subheading 4805.11.

The Sappi Group is a global diversified wood fibre company focused on providing dissolving wood pulp, speciality and packaging papers, printing and writing papers, as well as biomaterials and biochemicals to its direct and indirect customer base across more than 150 countries.

The Applicant's Tugela mill, which was established in 2012, produces neutral sulphite semi-chemical pulp ("NSSC") for its own consumption.

The reason for the application, as stated by the Applicant, is that the local manufacturers of Caustic Soda cannot meet the domestic demand. The Applicant further stated that the creation of a rebate provision would improve the company's competitiveness, job opportunities and would increase the company's cash flow, which can be used for expansion purposes.

The Applicant submitted letters of support from the local manufacturers of Caustic Soda, namely, Sasol Ltd and NCP Chlorchem (Pty) Ltd. The two manufacturers indicated that they do not object to the creation of a rebate item for Caustic Soda provided that such item is subject to a permit issued by ITAC.

The application was published in the *Government Gazette* No 42657 on 23 August 2019, for interested parties to comment, as follows:

Creation of a rebate provision for:

“Sodium hydroxide (caustic soda), in aqueous solution, classifiable in tariff subheading 2815.12, for the manufacture of semi-chemical fluting paper, in rolls or sheets, classifiable in tariff 4805.11, in such quantities, at such times and under such conditions as the International Trade Administration Commission may allow by specific permit.”

The existing tariff structure for the subject product reads as follows:

Table 1: Tariff structure of Caustic Soda in aqueous solution

Tariff heading	Tariff sub-heading	Description	Statistical unit	Rate of duty				
				General	EU	EFTA	SADC	Mercosur
28.15		Sodium hydroxide (caustic soda); potassium hydroxide (caustic potash); peroxides of sodium or potassium:	Kg					
	2815.1	Sodium hydroxide (caustic soda):						
	2815.11	solid	kg	20%	20%	20%	free	20%
	2815.12	In aqueous solution (soda lye or liquid soda)	kg	20%	20%	20%	free	20%

Source: SARS

The World Trade Organisation (“WTO”) bound rate in respect of Caustic Soda is 20% *ad valorem*.

The key raw material used as input in the chlor-alkali production process is Sodium Chloride, commonly known as salt. Salt is manufactured and distributed locally by various manufacturers and distributors in the Southern African Customs Union (“SACU”). Sodium Chloride is classifiable under tariff heading 2501.00 at free of customs duty. During the electrolysis process, three by-products,

including Caustic Soda are produced. Chlorine and Hydrogen, the other two by-products, are classifiable under tariff subheadings 2801.10 and 2804.10, respectively.

The existing tariff structure for the end-product manufactured from Caustic Soda reads as follows:

Table 2: Tariff structure of semi-chemical fluting paper (end-product)

Tariff heading	Tariff sub-heading	Description	Statistical unit	Rate of duty				
				General	EU	EFTA	SADC	Mercosur
4805		Other uncoated paper and paperboard, in rolls or sheets, not further worked or processed than as specified in Note 3 to this Chapter:	kg					
	4805.1	Fluting paper:						
	4805.11	Semi-chemical fluting paper	kg	free	free	free	free	free

Source: SARS

The requested rebate provision is described as follows:

Table 3: Requested rebate provision

Rebate item	Tariff subheading	Description	Extent of duty
xx.xx	2815.12	Sodium hydroxide (caustic soda), in aqueous solution, classifiable in tariff subheading 2815.12, for the manufacture of semi-chemical fluting paper, in rolls or sheets, classifiable in tariff 4805.11, in such quantities, at such times and under such conditions as the International Trade Administration Commission may allow by specific permit.	Full duty

Source: SARS

INDUSTRY AND MARKET

According to information at the Commission's disposal, the three manufacturers of Caustic Soda in the SACU are Mondi Ltd, Sasol Ltd and NCP Chlorchem (Pty) Ltd.

Elegant Line Chemicals (Pty) Ltd ("EL Chemicals") is a manufacturer of industrial and cleaning chemicals and a distributor of chemical products in the SACU. The company is in the process of

¹ SARS to allocate rebate item number.

establishing a plant to manufacture Caustic Soda Flakes, Lye and chlorine chemicals with Sodium Hypochlorite and Hydrochloric acid as by-products.

The dtic, through its Black Industrial Scheme Financing Forum, approved a conditional grant funding to EL Chemicals. The project by EL Chemicals is expected to create significant employment locally.

Information at the Commission's disposal indicated that the supply of Caustic Soda is dependent on the demand for chlorine in the SACU. The storage of Chlorine is limited and once a storage threshold has been achieved, no further production can take place.

Caustic Soda manufactured by Mondi Ltd is captive as it is used in the further manufacturing of its own paper products.

COMPETITIVE POSITION

According to information at the Commission's disposal, the input cost in manufacturing semi-chemical fluting paper, in relation to imported Caustic Soda, increased from 2017 to 2018. This increase contributed to an increase in the production cost of semi-chemical fluting paper over the same period.

Information submitted indicated that the Applicant's levels of investment in plant and machinery increased as a result of upgrading infrastructure.

According to the Applicant, an average growth rate in nominal employment over the three year period under investigation was realised.

COMMENTS RECEIVED

Sasol Ltd and NCP Chlorchem (Pty) Ltd supported the creation of a rebate facility for Caustic Soda for the duration of the period that the local industry is not able to supply in the domestic demand, subject to a permit issued by ITAC.

EL Chemicals submitted that the rebate provision concerned will have a negative impact on local manufacturers, which may render them unprofitable. However, it further submitted that although it is not objecting to the application, it would appreciate an opportunity to discuss formal off-take of its Caustic Soda by domestic downstream manufacturers. EL Chemicals indicated that in the event that the Commission approves the application, such application should be reviewed after a period of two years.

FINDINGS

The Commission found that:

- There are currently three local manufacturers of Caustic Soda in the Southern African Customs Union ("SACU"), namely, Mondi Ltd; NCP Chlorchem (Pty) Ltd and Sasol Ltd. However, Caustic Soda manufactured by Mondi Ltd is captive as it is used in the production of its own paper products.
- Total imports of Caustic Soda account for approximately 47% of the total SACU market, while the domestically produced Caustic Soda accounts for 55%. Furthermore, in the event that a project by Elegant Line Chemicals (Pty) Ltd ("EL Chemicals") is successful, the share of the domestically produced Caustic Soda may increase.
- There is a structural shortage of Caustic Soda in the SACU given that the supply of Caustic Soda is dependent on the demand for chlorine in the SACU.
- In respect of the request by EL Chemicals, for a review of the rebate provision after a period of two years, the Commission found that a three year period from the date of implementation, or such other period as decided by the Commission, would adequately allow the Commission to evaluate the impact of its recommendation. However, section 23.1 of the Amended Tariff Investigations Regulations, makes provision for the resubmission of an application for evaluation under section 16 that deals with the same or a substantially similar matter to that of an application submitted to and evaluated by the Commission, after a period of 12 months.

On balance, the recommended rebate provision for the importation of Caustic Soda would enable producers of semi-chemical fluting paper to source their primary input at a lower price to increase both the industry's competitiveness and job opportunities. The rebate provision will be subject to an ITAC permit issued in terms of Guidelines, Rules and Conditions relating to the specific rebate provision.

RECOMMENDATION

In light of the foregoing, the Commission decided to recommend the creation of a rebate provision for rebate of the full duty on Sodium Hydroxide ("Caustic Soda"), in aqueous solution, classifiable in tariff subheading 2815.12, for the manufacture of semi-chemical fluting paper, in rolls or sheets, classifiable in tariff 4805.11, in such quantities, at such times and under such conditions as the ITAC may allow by specific permit. The Commission further recommended that the rebate provision be reviewed to determine its impact on the industry value chain after three years from the date of implementation, or such other period as decided by the Commission.