


REPORT NO. 638

**INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY
ON HIGH CHROME GRINDING BALLS**

The International Trade Administration Commission herewith presents its Report No. 638: **INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON HIGH CHROME GRINDING BALLS**, with recommendations.



.....
MELULEKI NZIMANDE
CHIEF COMMISSIONER

PRETORIA

16/10/2020

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 638

**INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON HIGH CHROME
GRINDING BALLS**

Synopsis

Grinding Media South Africa (Pty) Ltd (“applicant” or “GMSA”) applied for an increase in the general rate of customs duty on high chrome grinding balls classifiable under tariff subheading 7325.91, from free of duty to the World Trade Organisation (“WTO”) bound rate of 15% *ad valorem*.

The International Trade Administration Commission (“ITAC” or the “Commission”) considered all the relevant information at its disposal. In particular, the Commission considered the following factors:

- In terms of industrial policy, the domestic industry remains a strategic sector with respect to its contribution to the beneficiation of ferrochrome in the SACU region;
- There has been a material increase in import volume of the subject products, in particular from India and China, resulting in the erosion of the market share of the SACU industry manufacturing the subject product;
- The significant decline in domestic industry’s production and sales volumes resulting in significant levels of unutilised installed capacity;
- The significant price disadvantage experienced by the local manufacturers of high chrome grinding balls vis-à-vis imports originating from Asian economies, in particular, India; and

- Reciprocal commitments pertaining to job retention and creation and increase in investment in order to enhance efficiencies.

The Commission concluded that tariff support should improve the price-competitiveness of the domestic industry in the face of foreign competition; encourage beneficiation; improve the production capacity utilisation; achieve economies of scale; sustain current employment and create new job opportunities.

The support would arrest the decline in manufacturing activity as experienced.

THE APPLICATION AND TARIFF POSITION

1. Grinding Media South Africa (Pty) Ltd (applicant or GMSA) applied for an increase in the general rate of customs duty on high chrome grinding balls, classifiable under tariff subheading 7325.91 (subject product), from free of duty to the WTO bound rate of 15% *ad valorem*.
2. The applicant is the largest manufacturer and distributor of forged and high chrome grinding balls in Sub-Saharan Africa. Its manufacturing plant is located in Germiston, Gauteng.
3. GMSA was a division of Scaw Metals South Africa (Pty) Ltd (Scaw Metals Group) until March 2018. The Industrial Development Corporation (IDC) is the major shareholder with 59% ownership, while Main Street Holdings (Pty) Ltd and Magotteaux (Pty) Ltd own 26% and 15%, respectively.
4. As motivation for the application, the applicant stated the following:
 - GMSA manufactures forged and high-chrome grinding media balls for the platinum, gold, ferrochrome, base metals and cement industries. The company continuously invests in new technology ensuring that it remains relevant and can compete fairly in the global environment;
 - There has been an increase in low-priced imports of high chrome grinding media balls between 2018 and 2019, putting severe pressure on output, capacity

utilisation, profit margins and the viability of local manufacturing;

- The SACU industry is struggling to compete with imports due to cost-push pressures, with contributing factors including the prices of scrap, ferrochrome and electricity; and
- The current trend poses a threat of large-scale job losses and reduces the applicant's ability to re-invest in productive machinery.

5. The application was published for interested parties to comment in the Government Gazette No. 43035 under Notice No.104 of 2020 of 21 February 2020, as follows:

"Increase in the rate of customs duty on high chrome grinding media balls, classifiable under tariff subheading 7325.91, from free of duty to 15% ad valorem"

6. The existing tariff structure for the subject product is shown in Table 1 below:

Table 1: Current tariff structure

Heading	Subheading	Description	Statistical Unit	General	EU	EFTA	SADC	MERCOSUR
73.25		Other cast articles of iron or steel:						
7325.9		Other:						
	7325.91	Grinding balls and similar articles for mills	kg	Free	Free	Free	Free	Free

Source: SARS, (2020)

7. As shown in Table 1 above, the subjects product is currently imported free of duty.

Table 2 below shows the requested tariff structure for the subject product:

Table 2: Requested tariff structure

Heading	Subheading	Description	Statistical Unit	General	EU	EFTA	SADC	MERCOSUR
73.25		Other cast articles of iron or steel:						
7325.9		Other:						
	7325.91	Grinding balls and similar articles for mills	kg	15%	Free	Free	Free	-

8. The applicant requested an increase in the general rate of customs duty from free of duty, to the WTO bound rate of 15 per cent *ad valorem*.

INDUSTRY AND MARKET

9. The subject products are high chrome grinding balls - see image in Figure 1 below. The applicant manufactures the subject products with a diameter ranging from 17mm to 100mm and a chrome content ranging from 12% to 30%.

Figure 1: High-chrome grinding media balls

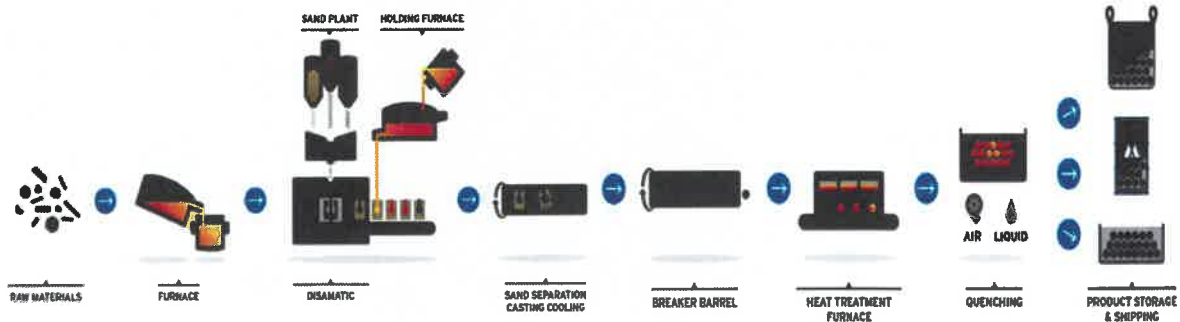


Source: GMSA, (2019)

10. The main raw materials used in the manufacture of the subject products are ferrochrome and scrap metal. The applicant is a key contributor to beneficiation locally as it is the second largest consumer of ferrochrome in the country. Locally sourced scrap metal constitutes over approximately 60% of its raw material cost.

11. A graphical illustration of the production process for high chrome grinding media balls is shown in Figure 2 below:

Figure 2: Production process flow – High Chrome Grinding Media Balls



Source: Applicant, 2020

12. The subject products are used in various application such as, grinding mills for grinding and crushing limestone and clinker in cement plants, mineral ore in mines and coal in thermal power plants. The products are also used in the ceramic industry and in chemical engineering.

13. Currently, there are five (5) known manufacturers of the high chrome grinding balls in the Southern African Customs Union (SACU) region, namely: GMSA; Autocast SA (Pty) Ltd; Elmacast (Pty) Ltd; Naledi Foundry Operations (Pty) Ltd; and Yellow Star (Pty) Ltd.

14. The identified importers and/or consumers of the subject products, include: Baldmin SA CC; Eskom Holdings SOC Ltd; Glencore Merafe Venture; Oroient International Minerals and Resource; Kroondal Platinum Mine; Sibanye Rustenburg Platinum Mines; PPC Cement (Pty) Ltd; Tongaat Hulett Sugar South Africa Ltd; Impala Platinum Limited; and Vega Steel Industries (RSA) Pty Ltd.

15. In terms of the industrial policy considerations, the IPAP (2018/19-2020/21), highlighted that escalating electricity prices are rendering domestic manufacturing firms, especially high energy consumers, uncompetitive. This, in addition to stringent environmental compliance requirements which further burdens the already depressed domestic industries.

16. Despite the price preference system implemented by ITAC, access to competitively priced quality scrap metal remains a serious challenge for foundries and for steel mini-mills in particular. Inefficiencies and high costs of road, rail and port infrastructure also continue to undermine the competitiveness of the downstream industry.
17. According to the IPAP (2018/19-2020/21), the South African mining sector's contribution to GDP in the recent years has been on the decline. The current slowdown affects the long term sustainability of the sector and its supporting services, which could result in knock-on effects particularly on mining inputs manufacturers.
18. The IPAP (2018/19-2020/21) further highlights that the downstream industry is facing increasing competition from low-priced imports of finished goods, which continue to erode manufacturing capacity and capability and shrink the local share of domestic and regional markets.
19. The official statistics from the South African Revenue Service (SARS) reveal that overall imports of the subject products increased by an average of 26 per cent during the period of investigation. Imports of the subject product originated mainly from the Republic of India (India) followed the People's Republic of China (China) during the period of investigation.
20. The subject products are exported to a number of countries, including amongst others, Zambia, Mozambique, Zimbabwe, Democratic Republic of Congo, and Eritrea.

COMPETITIVE POSITION

21. Challenges facing the domestic industry include a flood of low-priced imports; weak demand resulting from a declining mining activity; aggressive competition among domestic manufacturers in attempts to retain volumes; increasing protection in export markets; low capacity-utilisation; high transportation cost of intermediate inputs,

rising electricity costs; affordability of supply of raw materials such as scrap metal; and the need to upgrade infrastructure to meet emissions targets.

22. According to the information at the Commission's disposal, the domestic industry manufacturing high chrome balls is faced with price disadvantage vis-à-vis low-priced imports of similar products originating from Asian economies, in particular, India.

COMMENTS

23. Comments objecting to the application were received from the Minerals Council of South Africa; Vega Steel Industries RSA; Samancor Chrome Ltd; Impala Platinum Ltd; Northam Platinum Group; and Sibanye Stillwater Ltd. The objections centred on the following factors: the product is a key input for the mining industry which contributes 7.3 per cent to gross domestic product (GDP) in 2018; the mining industry is a price-taker in the export markets and cannot pass through input cost increases; access to imports is essential and allows for security of supplies to avoid risks of business interruption; the proposed duty would create a monopoly in the market for high chrome grinding balls; there are differences in quality between locally manufactured product and the imported product; there are inconsistencies in the information supplied by the applicant and; the applicant lost sales volumes to other manufacturers in the SACU and SADC region.
24. Comments supporting the application were received from the Steel and Engineering Industries Federation of South Africa (SEIFSA) citing that the increase in customs duty would assist the industry in remaining competitive in a market that is saturated with imports. The proposed duty is intended to reduce cheap imports, enhance local selling price, boost domestic production and ensure that the industry remains competitive, sustainable and retains/grows jobs.
25. The Commission considered all the comments and found the following:
- The Commission considered the objectives of the Mining Charter, in particular the improvement of local procurement on mining inputs, including the subject product;

- There are five (5) known manufacturers of the subject product in the SACU industry. As such, the likelihood of the duty creating a monopoly are minimal and mitigates any risks to supply disruptions;
- Although the applicant has been manufacturing the subject product for a number of years, it should be noted that there are other manufacturers who have commenced manufacturing the subject in the SACU region in recent years;
- The Commission found that the domestic industry has the capability and capacity to manufacture the subject products to specifications required by the end-users; and
- The Commission considered industry wide information and found that imports have displaced locally manufactured products over the period under consideration.

FINDINGS

26. The Commission considered all the relevant information at its disposal. In particular, the Commission considered the following factors:

- In terms of industrial policy, the domestic industry remains a strategic sector with respect to its contribution to the beneficiation of ferrochrome in the SACU region;
- There has been a material increase in import volume of the subject products, in particular from India and China, resulting in the erosion of the market share of the SACU industry manufacturing the subject product;
- The significant decline in domestic industry's production and sales volumes resulting in significant levels of unutilised installed capacity;
- The significant price disadvantage experienced by the local manufacturers of high chrome grinding balls vis-à-vis imports originating from Asian economies, in particular, India; and

- Reciprocal commitments pertaining to job retention and creation and increase in investment in order to enhance efficiencies.

27. The Commission concluded that tariff support should improve the price-competitiveness of the domestic industry in the face of foreign competition; encourage beneficiation; improve the production capacity utilisation; achieve economies of scale; sustain current employment and create new job opportunities. The support would arrest the decline in manufacturing activity as experienced by the domestic industry and help maintain domestic capability as well as capacity.

PROPOSAL

28. In light of the foregoing, the Commission recommended that the rate of customs duty on high chrome grinding media, classifiable under tariff subheading 7325.91 be increased from free of duty to 15% *ad valorem*. The Commission further recommends that the duty be reviewed after a period of three (3) years from the date of implementation to determine the performance of the domestic industry unless otherwise determined by the Commission.