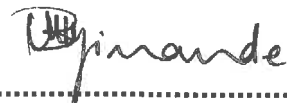


## **REPORT NO. 643**

**INCREASE IN THE GENERAL 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. 643: **INCREASE IN THE GENERAL 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**

**26.1021.2021**

# REPUBLIC OF SOUTH AFRICA

## INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

### REPORT NO. 643

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

##### Synopsis

Hall Longmore Holdings (Pty) Ltd (“applicant” or “Hall Longmore”) applied for an 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 7304.19.90, 7304.23.90, and 7304.29.90, from 10% *ad valorem* to 15% *ad valorem*, by way of creating additional 8-digit tariff subheadings; and those classifiable under tariff subheading 7304.39.35, from free of duty to 15% *ad valorem*, by way of creating an additional 8-digit tariff subheading.

The International Trade Administration Commission (“ITAC” or the “Commission”) considered the application in light of all the relevant information at its disposal. In particular, the Commission took the following factors into account:

- Locally manufactured welded tubes and pipes as well as the imported seamless tubes and pipes directly compete and are substitutable in a number of applications such as the oil and gas industry;
- The increased use of seamless tubes and pipes in traditional welded tube and pipe applications;
- The considerable decline in the level of production, sales and capacity utilisation of the domestic industry manufacturing welded tubes and pipes;
- The worsening competitive position of the domestic manufacturing industry as a result of escalating cost structures; and

- Diminishing domestic employment and investment opportunities.

The Commission concluded that tariff support should enable the domestic industry manufacturing tubes and pipes to compete more favourably vis-à-vis low-priced imported seamless tubes and pipes, utilise its existing under-utilised production capacity, achieve economies of scale, resulting in security of volumes with a reduction in the marginal cost of production.

The Commission recommended that the rate of customs duty on certain tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel, classifiable under tariff subheadings 7304.19.90, 7304.23.90, 7304.29.90, be increased from 10% *ad valorem* to 15% *ad valorem* and that the rate of customs duty on those classifiable under tariff subheading 7304.39.35 be increased from free of duty to 15% *ad valorem*, by way of creating additional 8-digit tariff subheadings.

The Commission further recommended that the duty be reviewed after a period of three (3) years from the date of implementation or such period as determined by the Commission to determine the performance of the domestic industry.

## **THE APPLICATION AND TARIFF POSITION**

1. Hall Longmore Holdings applied for an increase in the general rate of customs duty on certain tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel, classifiable under tariff subheadings 7304.19.90, 7304.23.90, and 7304.29.90, from 10% *ad valorem* to 15% *ad valorem*, and those classifiable under tariff subheading 7304.39.35, from free of duty to 15% *ad valorem*, by way of creating additional 8-digit tariff subheadings.
2. The applicant is based in Wadeville, Germiston, and manufactures and distributes Electric Resistance Welded (ERW), Spiral Welded and Submerged Arc Welded (SAW) steel pipes. These products are classifiable under tariff headings 73.05 and 73.06.
3. As motivation for the application, the applicant stated, *amongst others*, the following reasons:

- Imported seamless tubes and pipes of equivalent diameters to domestically manufactured welded tubes and pipes compete directly for market share in many applications;
  - The increasing levels of imports of seamless tubes since 2012, coupled with the decreasing price levels at which these are being imported, has put the viability of the SACU industry manufacturing welded tubes and pipes at risk;
  - The tariff increase requested will prevent imports from entering the country at low prices; and
  - An increase in the general rate of customs duty on the subject products will protect the domestic industry manufacturing welded tubes and pipes against competition from low priced imports from Asian countries.
4. The application was published in the Government Gazette No. 43288 under Notice No. 260 of 2020 on 08 May 2020 for comments by interested parties, as follows:

**Increase in the general rate of customs duty on:**

“Tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel, classifiable under tariff subheadings 7304.19.90, 7304.23.90, 7304.29.90, and 7304.39.35, from 10% *ad valorem* to 15% *ad valorem*.”

5. The existing tariff structure for the subject product is as follows:

**Table 1: Current tariff structure of the seamless tubes and pipes**

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
73.04		<b>Tubes, pipes and hollow profiles, seamless of iron or steel:</b>						
	<b>7304.19</b>	<b>Other:</b>						
	7304.19.10	Of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 170 mm	kg	15%	Free	Free	Free	15%
	7304.19.90	Other	kg	10%	Free	Free	Free	10%
	<b>7304.23</b>	<b>Other drill pipe</b>						

	7304.23.10	Of a wall thickness not exceeding 25 mm and an outside cross-sectional dimension not exceeding 178 mm	kg	15%	Free	Free	Free	15%
	7304.23.90	Other	kg	10%	Free	Free	Free	10%
	<b>7304.29</b>	<b>Other:</b>						
	7304.29.10	Of a wall thickness not exceeding 25 mm and an outside cross-sectional dimension not exceeding 178 mm	kg	15%	Free	Free	Free	15%
	7304.29.90	Other	kg	10%	Free	Free	Free	10%
	<b>7304.39</b>	<b>Other:</b>						
	7304.39.35	Of a wall thickness exceeding 25 mm or an outside cross-sectional dimension exceeding 170 mm	kg	Free	Free	Free	Free	Free
	7304.39.90	Other	kg	15%	Free	Free	Free	15%

Source: SARS 2020

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

7. The tariff structure as requested by the applicant is as follows:

**Table 2: Requested tariff structure of the seamless tubes and pipes**

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
<b>73.04</b>		<b>Tubes, pipes and hollow profiles, seamless of iron or steel:</b>						
	<b>7304.19</b>	<b>Other:</b>						
	7304.19.10	Of a wall thickness not exceeding 25 mm and an outside cross sectional dimension not exceeding 170 mm	kg	15%	Free	Free	Free	15%
	<b>New</b>	<b>of a wall thickness exceeding 4.3 mm but not exceeding 12.7 mm and an outside cross-sectional dimension exceeding 200 mm but not exceeding 600 mm</b>	<b>kg</b>	<b>15%</b>	<b>Free</b>	<b>Free</b>	<b>Free</b>	<b>15%</b>
	7304.19.90	Other	kg	10%	Free	Free	Free	10%
	<b>7304.23</b>	<b>Other drill pipe</b>						
	7304.23.10	Of a wall thickness not exceeding 25 mm and an outside cross-sectional dimension not exceeding 178 mm	kg	15%	Free	Free	Free	15%
	<b>New</b>	<b>of a wall thickness exceeding 4.3 mm but not exceeding 12.7 mm and an outside cross-sectional dimension exceeding 60 mm but not exceeding 115 mm</b>		<b>15%</b>	<b>Free</b>	<b>Free</b>	<b>Free</b>	<b>15%</b>
	7304.23.90	Other	kg	10%	Free	Free	Free	10%

	<b>7304.29</b>	<b>Other:</b>						
	7304.29.10	Of a wall thickness not exceeding 25 mm and an outside cross-sectional dimension not exceeding 178 mm	kg	15%	Free	Free	Free	15%
	<b>New</b>	<b>of a wall thickness exceeding 4.3 mm but not exceeding 12.7 mm and an outside cross-sectional dimension exceeding 60 mm but not exceeding 510 mm</b>		<b>15%</b>	<b>Free</b>	<b>Free</b>	<b>Free</b>	<b>15%</b>
	7304.29.90	Other	kg	10%	Free	Free	Free	10%
	<b>7304.39</b>	<b>Other:</b>						
	<b>New</b>	<b>of a wall thickness exceeding 4.3 mm but not exceeding 12 mm and of a cross-sectional dimension exceeding 200 mm but not exceeding 600 mm</b>	<b>Kg</b>	<b>15%</b>	<b>Free</b>	<b>Free</b>	<b>Free</b>	<b>15%</b>
	7304.39.90	Other	kg	15%	Free	Free	Free	15%

Source: Applicant 2019

## **INDUSTRY AND MARKET**

8. The subject products are seamless tubes and pipes, of a nominal diameter ranging from 219mm to 610mm and a wall thickness from 4.5mm to 12.7mm. They are considered by the applicant to be close substitutes to domestically manufactured welded tubes and pipes of similar dimensions.
9. The subject products are used for high pressure applications, generally in the petrochemical industry. They are known to handle high pressure and their thickness levels are known to tolerate abrasive materials.
10. The subject products are manufactured from low to medium carbon or alloy steel. The main input used in the production of seamless tubes and pipes is a steel billet and the production process entails the billet being cut to the required length as per the customer specifications. The billet is heated in a furnace in preparation for pipe production and then pierced with a mandrel bar to form a mother tube. The mother tube is then re-heated and reduced to specified dimensions by a stretch reducer. After being air cooled, the cooled tubes are straightened and bevelled to specification to enhance installation with other pipes.
11. Welded (ERW) tubes and pipes, on the other hand, are produced from steel coils, by way of forming and then welding the coil to produce a tube.

12. The applicant is one of the biggest domestic manufacturers of ERW (welded) tubes and pipes of the thicknesses and cross sectional dimensions that are subject to this application. While there are other domestic manufacturers of tubes and pipes, they manufacture the ranges which are outside the scope of this application, albeit with minor overlaps. These manufacturers include: Macsteel Tube and Pipe ("Macsteel"); and Robor (Pty) Ltd ("Robor"), both manufacturing to a maximum outside diameter of 219mm, with a maximum wall thickness of 6mm.

13. The following companies have been identified as some of the major importers of the subject products in the SACU region:

- Amalgamated Piping Industry (Pty) Ltd;
- Robor Pty (Ltd);
- Fully Supply Ltd;
- Bass Piping (Pty) Ltd;
- Stewarts & Lloyds Steel Suppliers; and
- Macsteel Tubes and Pipes.

1.1 The known domestic users of the subject products include:

- Anglo Gold Ashanti Ltd;
- Chevron Corporation;
- De Beers Group;
- Engen Petroleum Ltd;
- Hatch Africa (Pty) Ltd;
- Impala Platinum Holdings Limited;
- The Petroleum Oil and Gas Corporation of SA (SOC) Ltd;
- Shell and BP South African Petroleum Refineries (Pty) Ltd; and
- Sasol Limited.

14. It is generally true that welded pipes have a seam that makes it theoretically weaker than seamless pipes and, historically, the latter have been preferred by engineers and designers for high pressure applications.



15. However, the applicant submits that welding technology and quality assurance regimes in the manufacture of ERW pipes have improved to such an extent that a welded pipe, in many applications, will generally perform as effective as a seamless pipe when its tolerances are not exceeded. This has, according to information at the Commission's disposal, resulted in more substitutability between these two products, particularly in cases where the thicknesses and diameters overlap and specifically in high-pressure applications such as the oil and gas industry.
16. Furthermore, the prices of seamless pipes have historically been higher than prices of ERW pipes, providing some sort of protection to the applicant. However, this has changed in recent years and prices of seamless pipes have become relatively low. This has, according to information at the Commission's disposal, exposed the local industry manufacturing welded pipes to increasing import competition.
17. The applicant's production volumes and sales volumes for ERW pipes declined between 2017 and 2019, recording an average decline of 4 per cent during the three year period under investigation.

### **COMPETITIVE POSITION**

18. The domestic industry manufacturing welded tubes and pipes faces an escalating cost structure with regards to the manufacturing of the products and the main drivers of its production costs are the costs of raw materials (Hot Rolled Coil), which have rapidly increased over the three year period.
19. The domestic industry manufacturing welded tubes and pipes is not price-competitive against Asian imports of the substitute products of equivalent dimensions and it is currently selling its product at a loss.

### **COMMENTS RECEIVED**

20. Objections to the application were received from AIG Sales (Pty) Ltd and Process Pipe Co (Pty) Ltd. The main reasons for the objections included, but were not limited to, the following factors:

- Seamless Pipes of 200mm and above are not manufactured domestically;
- The subject products are mostly used in the mining industry where high pressure and safety are of utmost importance; and
- The applicant is the only manufacturer of welded pipes of 200mm and above, and already has a 15% duty protection against imports of such products.

21. Although the Commission has noted the concerns of the interested parties that the subject products are not manufactured domestically, information at the Commission's disposal suggests that welding technology and quality assurance regimes in the manufacture of welded pipes have improved over time. This means that a welded pipe, in many applications, will generally perform as effective as a seamless pipe when its tolerances are not exceeded. Over time, there has been increased substitutability between these two products, particularly in cases where the thicknesses and diameters overlap.

## **FINDINGS**

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

- Locally manufactured welded tubes and pipes as well as the imported seamless tubes and pipes directly compete and are substitutable in a number of applications such as the oil and gas industry;
- The increased use of seamless tubes and pipes in traditional welded tube and pipe applications;
- The considerable decline in the level of production, sales and capacity utilisation of the domestic industry manufacturing welded tubes and pipes;
- The worsening competitive position of the domestic manufacturing industry as a result of escalating cost structures;
- Diminishing domestic employment and investment opportunities; and

23. The Commission concluded that tariff support should enable the domestic industry manufacturing tubes and pipes to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in security of volumes with a reduction in the marginal cost of production.

### **RECOMMENDATION**

24. In light of the foregoing, the Commission recommends that the rate of customs duty on certain tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel, classifiable under tariff subheadings 7304.19.90, 7304.23.90 and 7304.29.90, be increased from 10% *ad valorem* to 15% *ad valorem* and that the rate of customs duty on those classifiable under tariff subheading 7304.39.35, be increased from free of duty to 15% *ad valorem*, by way of creating additional 8-digit tariff subheadings as contained in table 2 (Page 6) of this Report.

25. The Commission further recommends that the duty structure be reviewed to determine its impact on the industry value chain after three years from the date of implementation or such period as determined by the Commission,