

REPORT NO. 708

**INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON ROCK
DRILLING OR EARTH BORING TOOLS, INCLUDING PARTS THEREOF,
CLASSIFIABLE UNDER TARIFF SUBHEADINGS 8207.13 AND 8207.19**

The International Trade Administration Commission herewith presents its **Report No. 708: INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON ROCK DRILLING OR EARTH BORING TOOLS, INCLUDING PARTS THEREOF, CLASSIFIABLE UNDER TARIFF SUBHEADINGS 8207.13 AND 8207.19**, with recommendations.



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AYABONGA CAWE
CHIEF COMMISSIONER

PRETORIA
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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

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INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON ROCK DRILLING OR EARTH BORING TOOLS, INCLUDING PARTS THEREOF, CLASSIFIABLE UNDER TARIFF SUBHEADINGS 8207.13 AND 8207.19

Synopsis

Daltron Forge (Pty) Ltd (“Daltron” or the “applicant”) applied for an increase in the general rate of customs duty on rock drilling or earth boring tools, including parts thereof, classifiable under tariff subheadings 8207.13 and 8207.19, from free of duty and 15% *ad valorem* to 20% *ad valorem*.

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

- The subject products are rock drilling or earth boring tools such as cutter picks, bits and parts thereof, of a kind used in underground coal mining, surface mining, trenching and road construction;
- While the applicant currently manufactures the product in its semi-finished form (conical shaped picks without tungsten carbide tips inserts), supplying it to other companies who assemble the final product, it has since invested in equipment to also assemble the final product;
- Aggregate import volumes of the subject product increased significantly over the three-year period under investigation;

- Domestic demand for the subject product increased over the three year period under investigation whilst the applicant’s production volumes and sales volumes for the subject product declined over the same period;
- The applicant faces an escalating cost structure with regards to the manufacturing of the subject products. The main driver of production costs is the cost of the main raw material, wire rod, which has rapidly increased over the three year period under investigation; and
- The applicant is currently operating at unsustainably low capacity utilisation levels.

The Commission concluded that tariff support should enable the industry manufacturing rock drilling or earth boring tools, including parts thereof, to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in increased volumes with a reduction in the marginal cost of production.

The Commission recommended that the rate of customs duty on certain rock drilling or earth boring tools be increased, as follows:

- An increase in the rate of customs duty on bits, classifiable under tariff subheading 8207.13.25, from 15% *ad valorem* to 20% *ad valorem*.
- An increase in the rate of customs duty on parts of bits, classifiable under tariff subheading 8207.19.10, from 15% *ad valorem* to 20% *ad valorem*
- By way of creating an additional 8-digit tariff subheading for “Conical shaped cutter picks, with tungsten carbide tips inserts”, classifiable under tariff subheading 8207.13.90, from free of duty to 20% *ad valorem*; and
- By way of creating an additional 8-digit tariff subheading for “Conical shaped cutter picks, without tungsten carbide tips inserts”, classifiable under tariff subheading 8207.19.90, from free of duty to 20% *ad valorem*

The Commission further recommended that the general rate of customs duty on “other” tools and “other” parts, classifiable under tariff subheadings 8207.13.90 and 8207.19.90, be maintained at the current level of free of duty due to the wide scope of products covered under these two tariff lines.

Finally, the Commission recommended that the duty be reviewed to monitor the performance of the industry after three years from the date of implementation, or such other period as decided by the Commission.

THE APPLICATION AND TARIFF POSITION

1. Daltron Forge (Pty) Ltd (“Daltron”), hereon referred to as the applicant, applied for an increase in the general rate of customs duty on rock drilling or earth boring tools, including parts thereof, classifiable under tariff subheadings 8207.13 and 8207.19, from free of duty and 15% *ad valorem* to the WTO bound rate of 20% *ad valorem*.
2. The applicant manufactures cold forged products and drilling rods for the underground mining, road construction and trenching industries in its factory in Boksburg, Gauteng Province. The subject products are rock drilling or earth boring tools, including parts thereof. Broadly, the subject products include: Conical shaped cutter picks, with tungsten carbide tips inserts; conical shaped cutter picks, without tungsten carbide tips inserts; bits; and parts of bits. They are used in underground coal mining, surface mining, trenching and road construction.
3. As motivation for the increase in the general rate of customs duty the applicant cited, *inter alia*, the following:
 - The downstream steel industry has been under distress for some time, largely due to low-priced import competition experienced from China and other Asian countries;
 - An increase in duty on the subject product will not only be essential to substantially improve the domestic industry’s price-competitive position in the face of fierce lower-priced competition from abroad, but it would go a long way in ensuring that current employment levels in the industry are retained; and
 - Increasing the duty will assist in resolving the duty anomaly wherein the imported finished product carries no import duty whereas the imported steel raw material carries a 10% import duty.

4. The application was published in the Government Gazette No.46959 under Notice No.1295 of 23 September 2022 for four (4) weeks for interested parties to comment, as follows:

Increase in the general rate of customs duty on:

Rock drilling or earth boring tools, including parts thereof, classifiable under tariff subheadings 8207.13 and 8207.19, from free of duty and 15% ad valorem to 20% ad valorem, as follows:

- *An increase in the rate of customs duty on bits, classifiable under tariff subheading 8207.13.25, from 15% ad valorem to 20% ad valorem*
- *An increase in the rate of customs duty on parts of bits, classifiable under tariff subheading 8207.19.10, from 15% ad valorem to 20% ad valorem*
- *An increase in the rate of customs duty on “Other” tools, classifiable under tariff subheading 8207.13.90, from free of duty to 20% ad valorem*
- *An increase in the rate of customs duty on “Other” parts, classifiable under tariff subheading 8207.19.90, from free of duty to 20% ad valorem*
- *By way of creating an additional 8 digit tariff subheading for “Conical shaped cutter picks, with tungsten carbide tips inserts”, classifiable under tariff subheading 8207.13.90, from free of duty to 20% ad valorem; and*
- *By way of creating an additional 8 digit tariff subheading for “Conical shaped cutter picks, without tungsten carbide tips inserts”, classifiable under tariff subheading 8207.19.90, from free of duty to 20% ad valorem.*

5. The existing tariff structure for the subject products is depicted in Table 1 below:

Table 1: Current tariff position for the subject products

Tariff Heading/ Subheading	Description	Statistical Unit	Rate of duty					
			General	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA
8207	Interchangeable tools for hand tools, whether or not power-operated, or for machine-tools (for example, for pressing, stamping, punching, tapping, threading, drilling, boring, broaching, milling, turning or screw driving), including dies for drawing or extruding metal, and rock drilling or earth boring tools:							
8207.1	Rock drilling or earth boring tools:							
8207.13	With working part of cermets:							
8207.13.25	Bits (excluding those of a diameter exceeding 100 mm but not exceeding 385 mm incorporating hemispherical shaped inserts of tungsten carbide, those of a kind used for raise boring and chisel blanks for rock drills)	kg	15%	free	15%	free	13.5%	12%
8207.13.90	Other	kg	free	free	free	free	free	free
8207.19	Other, including parts:							
8207.19.10	Parts of bits (excluding parts used for raise boring and other parts not incorporating cermets)	kg	15%	free	15%	free	13.5%	12%
8207.19.90	Other	kg	free	free	free	free	free	free

Source: SARS, 2022

6. The World Organisation Trade (“WTO”) bound rate for all the subject products is 20 per cent *ad valorem*.

7. The applicant requested an increase in the general rate of customs duty on the subject products as follows:

- An increase in the rate of customs duty on bits, classifiable under tariff subheading 8207.13.25, from 15% *ad valorem* to 20% *ad valorem*;
- An increase in the rate of customs duty on parts of bits, classifiable under tariff subheading 8207.19.10, from 15% *ad valorem* to 20% *ad valorem*;
- An increase in the rate of customs duty on “Other” tools, classifiable under tariff subheading 8207.13.90, from free of duty to 20% *ad valorem*; and
- An increase in the rate of customs duty on “Other” parts, classifiable under tariff subheading 8207.19.90, from free of duty to 20% *ad valorem*.

8. The applicant has also requested an increase in customs duty through the creation of two additional 8-digit tariff subheadings in order to differentiate between products with and without tungsten carbide tips inserts, as follows:

- By way of creating an additional 8-digit tariff subheading for “Conical shaped cutter picks, with tungsten carbide tips inserts”, classifiable under tariff subheading 8207.13.90, from free of duty to 20% *ad valorem*; and
- By way of creating an additional 8-digit tariff subheading for “Conical shaped cutter picks, without tungsten carbide tips inserts”, classifiable under tariff subheading 8207.19.90, from free of duty to 20% *ad valorem*.

9. The requested tariff position is depicted in Table 2 below:

Table 2: Requested tariff position for the subject products

Tariff Heading/ Subheading	Description	Statistical Unit	Rate of duty						
			General	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA	
8207	Interchangeable tools for hand tools, whether or not power-operated, or for machine-tools (for example, for pressing, stamping, punching, tapping, threading, drilling, boring, broaching, milling, turning or screwdriving), including dies for drawing or extruding metal, and rock drilling or earth boring tools:								
8207.1	Rock drilling or earth boring tools:								
8207.13	With working part of cermets:								
8207.13.25	Bits (excluding those of a diameter exceeding 100 mm but not exceeding 385 mm incorporating hemispherical shaped inserts of tungsten carbide, those of a kind used for raise boring and chisel blanks for rock drills)	kg	20%	free	20%	free	13.5%	12%	
8207.13.30	Conical shaped cutter picks, with tungsten carbide	kg	20%	free	20%	free	13.5%	12%	
8207.13.90	Other	kg	20%	free	20%	free	13.5%	12%	
8207.19	Other, including parts:								
8207.19.10	Parts of bits (excluding parts used for raise boring and other parts not incorporating cermets)	kg	20%	free	20%	free	13.5%	12%	
8207.19.20	Conical shaped cutter pick, without tungsten carbide tips inserts.	kg	20%	free	20%	free	13.5%	12%	
8207.19.90	Other	kg	20%	free	20%	free	13.5%	12%	

Source: Applicant, 2022

INDUSTRY AND MARKET

10. The applicant currently manufactures the product in its semi-finished form (the picks without tungsten carbide tips inserts) and supplies it to other companies to assemble the final product. In the form manufactured by the applicant, the product is referred to as a part and not the complete tool. The assemblers then combine the part with the tungsten carbide tips inserts to form the complete tool or final product. The applicant has, however, already invested in a production line to assemble the final product.

11. The main input used in the production of the subject product is a steel wire rod (in coils), mainly sourced locally. The product is manufactured through a cold forging or cold forming process. This is a high-speed forging process where coiled wire at room temperature is precisely sheared to length, and then moved through a succession of tool and die cavities to displace the working metal, either larger/smaller in diameter, longer/shorter in length, or to remove small amounts of material by trimming or piercing.
12. The raw material is forced beyond its yield limit and retains its altered shape upon removal from the die. It is, however, not forced beyond its tensile strength in order to avoid fracturing except when trimming or piercing. The whole process of cold forming the chosen material into a given part shape is governed by the material's structural properties.
13. The subject products are fitted into mining equipment consisting of a cutter head and rotating drums to perform drilling, boring and cutting activities, as illustrated in Figure 1 and Figure 2 below.

Figure 1: An Illustration of the subject product

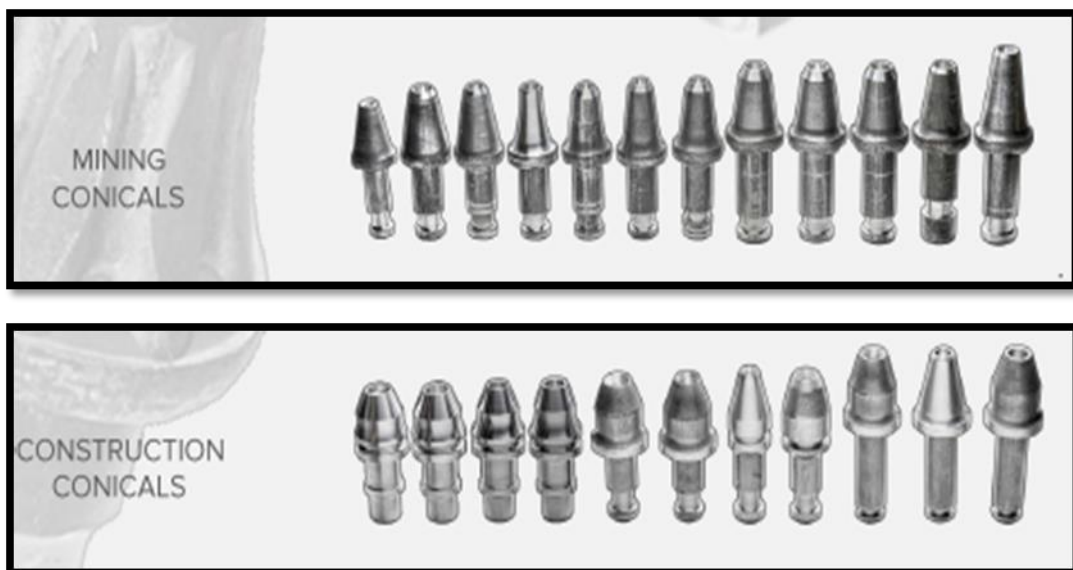


Figure 2: The subject product already fitted on a surface cutting equipment



14. The domestic manufacturing industry landscape is characterised by a few manufacturing companies, manufacturing the product in one form or another. While the applicant manufactures what is considered to be parts of the subject product (conical shaped cutter picks, without tungsten carbide tips inserts), others manufacture and assemble the complete product (conical shaped cutter picks, with tungsten carbide tips inserts).

15. The known manufacturers of the subject products in the SACU region include the following:

- Daltron Forge (Pty) Ltd (applicant);
- Kennametal South Africa (Pty) Ltd;
- Pilot Tools (Pty) Ltd;
- Conbrako Pty (Ltd);
- Pretoria Metal Pressings (PMP); and
- Expert Mining.

16. The known importers and users of the subject products include, amongst others:

- Kennametal South Africa (Pty) Ltd;
- Wirtgen South Africa (Pty) Ltd;
- Master Drilling (Pty) Ltd;
- Neizanne (Pty) Ltd t/a Drilling Project Services;
- Anglo Gold Ashanti Ltd;
- Chevron Corporation; and
- De Beers Group.

COMPETITIVE POSITION

17. Although the price competitiveness analysis suggested that the domestic industry manufacturing the subject products is price-competitive against imports, the supposed price advantage is likely the result of the impact caused on the import figures by high-valued finished products already fitted with the carbide inserts.

COMMENTS RECEIVED

18. Comments in support of the increase in customs duty on the subject products were received from Pilot Tools (Pty) Ltd and ArcelorMittal South Africa Limited, citing, amongst others, that:

- The proposed increase in duty will offer local manufacturers of both rock drill bits and the tungsten carbide inserts an opportunity to compete realistically against the plethora of Chinese and Indian imports of the products;
- Imports threaten to negatively affect the domestic manufacturing industry as a whole; and
- An increase in duty on the subject product will benefit the domestic industry, both up and down the value chain.

19. The European Union submitted comments mainly alerting ITAC to the commitments made by South Africa, and hence SACU, under the SADC-EU Economic Partnership Agreement (EPA), especially the specific sections of the agreement applicable to the subject products.

20. Wirtgen Group also submitted comments in support of the application, mainly citing that the proposed duty is mainly targeted at other international regions, especially Asia and not Europe from which it imports its products under the SADC-EU EPA.

21. Kennametal, a domestic manufacturer of and an importer of the subject products, also submitted comments citing mainly that the proposed increase in customs duties will have to be passed on to customers negatively affecting their industries and their current cost models.

22. Comments objecting to the application were received from XA Advisory (Pty) Ltd, representing Boart Longyear (Pty) Ltd, Focus Mining Services (Pty) Ltd and Rocbit

Drilling Equipment (Pty) Ltd. Objections to the proposed duty increase were also received from Master Drilling (Pty) Ltd, Neizanne (Pty) Ltd t/a Drilling Project Services, Vermeer Equipment Suppliers (Pty) Ltd, DG Capital and E Malan & Associates, representing Sorcit CC, citing, amongst other reasons that:

- There is a wide range of niche products that are not manufactured domestically, such as large diameter drill bits and rotary drill bits, mostly classifiable under tariff subheading 8207.19.90. An increase in duty on this tariff subheading will only have an unnecessary cost raising effect to the final users of these products;
- The domestic manufacturing industry does not have enough capacity to supply the demand. There will always be a need for imports in this industry;
- The quality of the domestically manufactured product is inferior and does not meet international standards; and
- The increase in customs duty would simply be passed on from contractors to mining houses, making local contractors more expensive and raising the cost of rock drilling/development contracts.

23. The Commission noted that the current applicable rate of customs duty on the subject products is 15% *ad valorem* as can be seen on the applied rate for tariff subheadings 8207.13.25 and 8207.19.10. The request by the applicant is effectively for an additional 5% (from 15% *ad valorem* to 20% *ad valorem*). The products under these two tariff subheadings already enjoy the 15% *ad valorem* protection because of the fact that there is an existing domestic manufacturing industry, comprised of a number of manufacturers, as outlined in paragraph 14 above. The descriptions of these two tariff subheadings already make specific exclusions for what is not locally manufactured, such as large diameter drill bits and parts used for raise boring. Any duty increase on these two tariff subheadings will already exclude what is not intended for protection under this current application.

24. Furthermore, the Commission noted that by contrast, tariff subheadings 8207.13.90 and 8207.19.90 are much broader and incorporate a wide variety of products currently not manufactured domestically. The applicant concedes to this and submits that these two tariff subheadings were only included in the application due only to the potential of duty circumvention that may arise if the duty on these

subheadings remains at 0%. Therefore, a duty increase on these two tariff subheadings would be unjustified and will only unnecessarily increase the cost to the end-user of the product.

FINDINGS

25. The Commission considered all the relevant information at its disposal. In particular, the Commission took the following factors into account:

- The subject products are rock drilling or earth boring tools such as cutter picks, bits and parts thereof, of a kind used in underground coal mining, surface mining, trenching and road construction;
- While the applicant currently manufactures the product in its semi-finished form (conical shaped cutter picks without tungsten carbide tips inserts), supplying it to other companies who assemble the final product, it has since invested in equipment to also assemble the final product;
- Aggregate import volumes of the subject product increased significantly over the three-year period under investigation;
- Domestic demand for the subject product increased over the three-year period under investigation whilst the applicant's production volumes and sales volumes for the subject product declined over the same period;
- The applicant faces an escalating cost structure with regards to the manufacturing of the subject products. The main driver of production costs is the cost of the main raw material, wire rod, which has rapidly increased over the three-year period under investigation; and
- The applicant is currently operating at unsustainably low capacity utilisation levels;
- Tariff subheadings 8207.13.90 and 8207.19.90 incorporate a wide range of products not manufactured domestically. As a result, any increase in the rate of customs duty on these two subheadings will only have an unnecessary cost-raising effect on final users of these products.

26. The Commission concluded that tariff support should enable the domestic industry manufacturing rock drilling or earth boring tools, including parts thereof, to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in increased volumes with a reduction in the marginal cost of production.

RECOMMENDATION

27. In the light of the foregoing, the Commission recommended that the rate of customs duty on certain rock drilling or earth boring tools be increased as follows:

- An increase in the rate of customs duty on bits, classifiable under tariff subheading 8207.13.25, from 15% *ad valorem* to 20% *ad valorem*.
- An increase in the rate of customs duty on parts of bits, classifiable under tariff subheading 8207.19.10, from 15% *ad valorem* to 20% *ad valorem*
- By way of creating an additional 8-digit tariff subheading for “Conical shaped cutter picks, with tungsten carbide tips inserts”, classifiable under tariff subheading 8207.13.90, from free of duty to 20% *ad valorem*; and
- By way of creating an additional 8-digit tariff subheading for “Conical shaped cutter picks, without tungsten carbide tips inserts”, classifiable under tariff subheading 8207.19.90, from free of duty to 20% *ad valorem*

28. The Commission further recommended that the general rate of customs duty on “other” tools and “other” parts, classifiable under tariff subheading 8207.13.90 and 8207.19.90, be maintained at the current level of free of duty due to the wide scope of products covered under these two tariff lines.

29. Finally, the Commission recommended that the duty be reviewed to monitor the performance of the industry after three years from the date of implementation, or such other period as decided by the Commission.