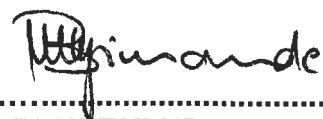


REPORT NO. 644

**INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY
ON STAINLESS STEEL FLAT PRODUCTS**

The International Trade Administration Commission herewith presents its Report No. **644: INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON STAINLESS STEEL FLAT PRODUCTS**, with recommendations.



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MELULEKI NZIMANDE
CHIEF COMMISSIONER

PRETORIA

29/01/2021
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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 644

INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON STAINLESS STEEL FLAT PRODUCTS

Synopsis

Columbus Stainless Steel (Pty) Ltd (“applicant” or “Columbus Stainless”) applied for an increase in the general rate of customs duty on stainless steel flat products, namely, hot rolled stainless steel coil and sheet (“Hot-Rolled”), cold-rolled stainless steel coil, sheet, slit (“Cold-Rolled”), and hot rolled stainless steel plates (“Plate”), classifiable under tariff headings 72.19 and 72.20, from 5% *ad valorem* to the World Trade Organisation (“WTO”) of 10% *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:

- The effects of the excess global supply of stainless steel and volatile global trade dynamics on the domestic industry;
- The negative impact of various trade barriers instituted by various countries against China, including the Section 232 tariffs by the USA, which have led to trade diversion to markets without or with low protection such as the SACU region;
- Increase in dutiable import volumes of the subject products from the Asian region eroding the market share of the SACU manufacturer;
- The effects of declining production and sales volumes of the subject products on the applicant’s overall operational efficiency;

- The domestic industry's low and declining capacity utilization over the period;
- The domestic industry's escalating cost structures and deteriorating financial position;
- The domestic industry's eroding competitive position vis-à-vis imports of the subject products; and
- The domestic industry's significant investment linked to the production of the subject products and the diminishing employment opportunities in the domestic industry.

The Commission concluded that the tariff support should enable the industry manufacturing stainless steel flat products to utilise its existing under-utilised production capacity, achieve economies of scale arising from increased output and operational efficiencies. The duty will also assist the domestic industry in retaining employment, creating new investment and employment opportunities.

The Commission found that the domestic industry manufactures a vast majority of products classifiable under the relevant tariff subheadings but that certain specifications may not be manufactured domestically. The Commission concluded that in cases where the specific products are not manufactured by the domestic industry, the Commission would consider applications for the creation of rebate provisions.

The Commission recommended that the general rate of customs duty on stainless steel flat-rolled products classifiable under tariff headings 72.19 and 72.20, be increased from 5% *ad valorem* to 10% *ad valorem*.

The Commission further recommended 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.

THE APPLICATION AND TARIFF POSITION

1. Columbus Stainless applied for an increase in the rate of customs duty applicable on stainless steel flat products, namely, stainless steel hot-rolled, cold-rolled and plates, classifiable under tariff headings 72.19 and 72.20, from 5% *ad valorem* to the WTO bound rate of 10% *ad valorem*.
2. The applicant is the sole manufacturer of the subject products in Africa. Its manufacturing facility for the subject products is located in the Mpumalanga province (Middelburg).
3. As motivation for the application, the applicant cited amongst others, the following:
 - Columbus Stainless is the only producer of stainless steel flat products in the SACU region and a key supporter of the government's local beneficiation drive;
 - The company is a significant employer in the Mpumalanga area and indirectly supports employment in both the upstream and downstream stainless steel industries;
 - In recent years, various key international markets have imposed several restrictive trade measures on imports of stainless steel flat products. This, combined with the significant global overcapacity for stainless steel flat products, will result in significant volumes of low-priced stainless steel flat products imported into SACU; and
 - As a result, Columbus' continued operation is faced with significant risk that would lead to reduced production volumes and job losses.
4. The application was published for interested parties to comment in the Government Gazette No. 43110 under Notice No. 181 of 2020 on 20 March 2020, as follows:

Increase in the general rate of customs duty on:

"Stainless steel flat products, classifiable under tariff subheadings 7219.11.90, 7219.12.90, 7219.13.90, 7219.14.90, 7220.12.90, 7219.21.90, 7219.22.90, 7219.23.90, 7219.24.90, 7219.31.90, 7219.32.90, 7219.33.90, 7219.34.90, 7219.35.90, 7219.90.90, 7220.20.90 and 7220.90.90, from 5% to 10% *ad valorem*".

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

Table 2: Current tariff structure

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
72.19		Flat-rolled products of stainless steel, of a width of 600 mm or more:						
	7219.1	Not further worked than hot-rolled, in coils:						
	7219.11	Of a thickness exceeding 10 mm:						
	7219.11.90	Other	kg	5%	Free	Free	Free	5%
	7219.12	Of a thickness of 4,75 mm or more but not exceeding 10 mm:						
	7219.12.90	Other	kg	5%	Free	Free	Free	5%
	7219.13	Of a thickness of 3 mm or more but less than 4,75 mm:						
	7219.13.90	Other	kg	5%	Free	Free	Free	5%
	7219.14	Of a thickness of less than 3 mm:						
	7219.14.90	Other	kg	5%	Free	Free	Free	5%
	7219.2	Not further worked than hot rolled, not in coils:						
	7219.21	Of a thickness exceeding 10 mm:						
	7219.21.90	Other	kg	5%	Free	Free	Free	5%
	7219.22.90	Other	kg	5%	Free	Free	Free	5%
	7219.22	Of a thickness of 4,75 mm or more but not exceeding 10 mm:						
	7219.23	Of a thickness of 3 mm or more but less than 4,75 mm:						
	7219.23.90	Other	kg	5%	Free	Free	Free	5%
	7219.24	Of a thickness of less than 3 mm:						
	7219.24.90	Other	kg	5%	Free	Free	Free	5%
	7219.3	Not further worked than cold-rolled (cold-reduced):						
	7219.31	Of a thickness of 4,75 mm or more:						
	7219.31.90	Other	kg	5%	Free	Free	Free	5%
	7219.32	Of a thickness of 3 mm or more but less than 4,75 mm:						
	7219.32.90	Other	kg	5%	Free	Free	Free	5%
	7219.33	Of a thickness exceeding 1 mm but less than 3 mm:						
	7219.33.90	Other	kg	5%	Free	Free	Free	5%
	7219.34	Of a thickness of 0,5 mm or more but not exceeding 1 mm:						
	7219.34.90	Other	kg	5%	Free	Free	Free	5%
	7219.35	Of a thickness of less than 0,5 mm:						
	7219.35.90	Other	kg	5%	Free	Free	Free	5%

	7219.90	Other:						
	7219.90.90	Other	kg	5%	Free	Free	Free	5%
72.20	Flat-rolled products of stainless steel, of a width of less than 600 mm:							
	7220.1	Not Further worked than hot-rolled						
	7220.12	Of a thickness of less than 4.75 mm:						
	7220.12..90	Other	kg	5%	Free	Free	Free	5%
	7220.20	Not further worked than cold-rolled (cold-reduced):						
	7220.90	Other:						
	7220.20.90	Other	kg	5%	Free	Free	Free	5%
	7220.90.90	Other	kg	5%	Free	Free	Free	5%

6. The requested tariff structure for the subject products is as follows:

Table 3: Requested tariff structure

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty				
				General	EU	EFTA	SADC	MERCOSUR
72.19		Flat-rolled products of stainless steel, of a width of 600 mm or more:						
	7219.1	Not further worked than hot-rolled, in coils:						
	7219.11	Of a thickness exceeding 10 mm:						
	7219.11.90	Other	kg	10%	Free	Free	Free	-
	7219.12	Of a thickness of 4,75 mm or more but not exceeding 10 mm:						
	7219.12.90	Other	kg	10%	Free	Free	Free	-
	7219.13	Of a thickness of 3 mm or more but less than 4,75 mm:						
	7219.13.90	Other	kg	10%	Free	Free	Free	-
	7219.14	Of a thickness of less than 3 mm:						
	7219.14.90	Other	kg	10%	Free	Free	Free	-
	7219.2	Not further worked than hot rolled, not in coils:						
	7219.21	Of a thickness exceeding 10 mm:						
	7219.21.90	Other	kg	10%	Free	Free	Free	-
	7219.22.90	Other	kg	10%	Free	Free	Free	-
	7219.22	Of a thickness of 4,75 mm or more but not exceeding 10 mm:						
	7219.23	Of a thickness of 3 mm or more but less than 4,75 mm:						
	7219.23.90	Other	kg	10%	Free	Free	Free	-
	7219.24	Of a thickness of less than 3 mm:						
	7219.24.90	Other	kg	10%	Free	Free	Free	-

7219.3	Not further worked than cold-rolled (cold-reduced):						
7219.31	Of a thickness of 4,75 mm or more:						
7219.31.90	Other	kg	10%	Free	Free	Free	-
7219.32	Of a thickness of 3 mm or more but less than 4,75 mm:						
7219.32.90	Other	kg	10%	Free	Free	Free	-
7219.33	Of a thickness exceeding 1 mm but less than 3 mm:						
7219.33.90	Other	kg	10%	Free	Free	Free	-
7219.34	Of a thickness of 0,5 mm or more but not exceeding 1 mm:						
7219.34.90	Other	kg	10%	Free	Free	Free	-
7219.35	Of a thickness of less than 0,5 mm:						
7219.35.90	Other	kg	10%	Free	Free	Free	-
7219.90	Other						
7219.90.90	Other	kg	10%	Free	Free	Free	-
72.20	Flat-rolled products of stainless steel, of a width of less than 600 mm:						
7220.1	Not further worked than hot-rolled:						
7220.12	Of a thickness of less than 4.75 mm:						
7220.12.90	Other	kg	10%	Free	Free	Free	-
7220.20	Not further worked than cold-rolled (cold-reduced):						
7220.90	Other:						
7220.20.90	Other	kg	10%	Free	Free	Free	-
7220.90.90	Other	kg	10%	Free	Free	Free	-

7. The WTO bound rate for the tariff subheadings under investigation is 10% *ad valorem*.

INDUSTRY AND MARKET

8. The subject products are stainless steel flat products in the following forms: hot rolled classifiable under tariff subheadings 7219.1, 7219.2 (except for 7219.21) and 7220.1; cold rolled classifiable under tariff subheadings 7219.3, 7219.90, 7220.20 and 7220.90; plate classifiable under tariff subheading 7219.21.

9. Stainless steel differs from carbon steel. Stainless steel contains 70% to 85% iron, it stays shiny and only rust when put in salt or acid, while carbon steel contains more than 95% iron and should be painted/coated in order to avoid rust.

10. The main input materials used in the manufacture of the subject products is

ferrochrome, nickel and iron scrap. Other raw materials that are used in smaller quantities (depending on the product) include molybdenum, niobium, titanium, copper, boron, manganese and fluxes such as lime and dolomite.

11. The applicant manufactures the subject products using an integrated plant. The Commission considered that the subject products have shared machine capacity in terms of the hot rolling, and cold rolling manufacturing processes. This implies that, a reduction in volume in one of the rolling processes would result in the overall decline in operational efficiency of the plant.
12. The production of the subject products starts with the melting of input materials followed by slab casting and grinding. Depending on the grade of stainless steel required, different combinations of iron, chromium, nickel, molybdenum, titanium and fluxes (such as lime and dolomite) are combined and melted in an electric arc furnace. Oxygen, argon and nitrogen are then blown into the molten steel in an Argon-Oxygen Decarburiser to refine and decarbonise it.
13. The refined stainless steel is then processed through a continuous casting machine to produce stainless steel slabs. The slabs can go through a surface grinding process to remove any possible matter that could cause surface defects before being cut.
14. The hot rolling process begins at the reheat furnace where the slabs are heated to between 1 100°C and 1 300°C, depending on the stainless steel grade. The slabs are then rolled on a reversing four-high roughing mill to gauges of between 65 mm and 25 mm, with thinner gauges continuing to the steckel mill. Once the predetermined gauge is reached, the material can either be coiled (black coil, also known as hot band, HR or HRA) or cut into plate (black plate (HRA)).
15. In order to manufacture cold rolled stainless steel, the hot rolled products are softened (annealed) and descaled (pickled with acids) to produce a No 1 finish product. This product has a light grey matt surface finish.
16. Cold rolling of the No 1 coils takes place on the sendzimer mills (Z-mills), which produce smooth, shiny finished, cold-rolled stainless steel. The material is then annealed (softened) and pickled (and passivated), before it is processed through the skinpass mill, to ensure a smooth surface, known as a 2B finish.

17. Alternatively, the cold-rolled material can be processed to a bright annealed (BA) finish achieved by annealing in a vertical furnace with an inert atmosphere, to retain the bright surface imparted by the cold rolling process.
18. Following the cold rolling, annealing and skin passing processes, the material can be given a uniform scratch finish by polishing with abrasive belts. These cold-rolled stainless steel coils can then be cut into smaller coils or sheets, or slit to narrower widths before being packed and shipped to customers.
19. The subject products are input material in a number of applications, such as, automotive, architectural, mining, power generation, transport; and domestic applications.
20. The identified importers of the subject products, amongst others, include: National Dairy Equipment (Pty) Ltd; Consolidated Steel Industries (Pty) Ltd; S A Breweries Ltd; Euro Steel Services (Pty) Ltd; Macsteel Service Centres SA (Pty) Ltd; Steelbank Merchants (Pty) Ltd; Benteler South Africa (Pty) Ltd; AMC Cookware; Stainless Bank (Pty) Ltd, Aluminium and Steelmor Industries (Pty) Ltd, Graytex Metals (Pty) Ltd; and Styria Stainless Steel Fabrication.
21. The South Africa Revenue Service ("SARS") official trade statistics reveal that there have been increases in dutiable imports from the Asian region. The share of Asian imports as a proportion of total SACU imports increased significantly over the period under investigation.

COMPETITIVE POSITION

22. The key constraints affecting this sector of the economy include, inter alia: (i) escalating electricity prices and the unreliability of supply rendering firms uncompetitive; (ii) subdued business confidence; (iii) access to quality scrap and pricing despite the price preference system implemented by ITAC; (iv) inefficiencies and high costs of road, rail and port infrastructure continuing to undermine the competitiveness of the industry; and (v) higher tariffs and non-tariff barriers in potential export markets.
23. Since the Commission's Report 535, the Commission found that there has been a

significant shift in the supply conditions of stainless steel products. Globally, there are growing concerns that excess capacity in the stainless steel industry is threatening the viability of producers worldwide. Furthermore, the Commission considered that globally, countries with stainless steel production capacity have imposed restrictive trade measures on imported stainless steel products.

24. On 08 March 2018, USA invoked national security concerns under Section 232 of the Trade Expansion Act of 1962 and enacted tariffs on stainless steel products including the subject products. Although, the impact of the USA tariff on the domestic manufacturers were minimised by the exemption on the stainless steel originating from South Africa, concerns of trade diversion still remain as some of the exporters are likely to redirect exports originally destined for the USA market to alternative markets, including South Africa.
25. The information at the Commission's disposal reveal that the domestic industry manufacturing stainless steel flat products competitive position is deteriorating vis-à-vis imports over the period under investigation.

COMMENTS

26. Comments were received from AMC Cookware; XA International Trade Advisors on behalf of the National Dairy Equipment Ltd, Stainlessbank (Pty) Ltd trading as Steelbank Stainless, Aluminium and Steelmor Industries (Pty) Ltd, Graytex Metals (Pty) Ltd and Styria Stainless Steel Fabrication; Euro Steel (Pty) Ltd; Stalcor (Pty) Ltd a division of Consolidated Steel Industries; and Fisher Stainless Steel Tubing.
27. Comments objecting the application centred on, *inter alia*, the following: the cost-raising effect of duty on specialised products not manufactured locally; the cost-raising effect of duty on downstream industries; that the applicant is a monopoly and may abuse its dominance in the absence of imports; and that there is no evidence of injury suffered by the applicant.
28. Comments supporting the application centred on the following: the applicant is the only domestic manufacturer of the subject products and has to be protected to guard the domestic downstream fabricators against international price fluctuations and supply distortions; the volatile global trade dynamics caused by the trade restrictive

measures imposed by the key international markets such as USA and the European Union; and that imports continued to increase following the introduction of the 5% customs duty on the subject products in March 2017.

29. The Commission considered all the comments and found the following:

- The Commission considered the scope of the products not manufactured domestically as submitted by the interested parties and found that the applicant manufactures the majority of products across all the tariff subheadings. In instances where specific products are not manufactured, the Commission will consider applications for creation of rebate provisions on the products not manufactured locally.
- The Commission considered the impact of the duty on the downstream industry and concluded that downstream industries operating in the export markets may utilize rebate item 470.03 and drawback item 521.00 in order to import material for use in the manufacture of product intended for the export markets.
- Furthermore, where policy space exists, the downstream industry is encouraged to apply for increases in the rate of customs duty on products facing increasing competition against low-priced imports.
- With regards to the allegation that the applicant may abuse its dominance as a monopoly, the Commission concluded that imports originating from Europe will continue to be imported free of duty and will continue to present significant competition to the domestic manufacturer. In addition, the applicant has submitted that it would not increase prices at the back of customs duty.
- The commission considered industry the overall declining performance of the domestic industry and found that imports, in particular those originating Asian countries have displaced locally manufactured stainless steel flat products over the period under consideration.

FINDINGS

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

- The effects of the excess global supply of stainless steel and volatile global trade dynamics on the domestic industry;
- The negative impact of various trade barriers instituted by various countries against China, including the Section 232 tariffs by the USA, which have led to trade diversion to markets without or with low protection such as the SACU region;
- Increase in dutiable import volumes of the subject products from the Asian region eroding the market share of the SACU manufacturer;
- The effects of declining production and sales volumes of the subject products on the applicant's overall operational efficiency;
- The domestic industry's low and declining capacity utilization over the period;
- The domestic industry's escalating cost structures and deteriorating financial position;
- The domestic industry's eroding competitive position vis-à-vis imports of the subject products; and
- The domestic industry's significant investment linked to the production of the subject products and the diminishing employment opportunities in the domestic industry.

31. The Commission concluded that the tariff support should enable the industry manufacturing stainless steel flat products to utilise its existing under-utilised production capacity, achieve economies of scale arising from increased output and operational efficiencies. The duty will also assist the domestic industry in retaining employment, creating new investment and employment opportunities.

32. The Commission found that the domestic industry manufactures a vast majority of products classifiable under the relevant tariff subheadings but that certain specifications may not be manufactured domestically. The Commission concluded that in cases where the specific products are not manufactured by the domestic industry, the Commission would consider applications for the creation of rebate provisions.

RECOMMENDATION

33. In light of the foregoing, the Commission recommended that the general rate of customs duty on stainless steel flat-rolled products classifiable under tariff headings 72.19 and 72.20, be increased from 5% *ad valorem* to the WTO bound rate 10% *ad valorem*.

34. The Commission further recommended 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.