

REPORT NO. 665

**REDUCTION IN THE RATE OF CUSTOMS DUTY ON
STEMMING PLUGS FOR MINING AND CIVIL BLAST
HOLES, CLASSIFIABLE UNDER TARIFF SUBHEADING
3926.90.90, THROUGH THE CREATION OF AN
ADDITIONAL 8-DIGIT TARIFF SUBHEADING FOR THE
SAID GOODS UNDER TARIFF SUBHEADING 3926.90**

The International Trade Administration Commission of South Africa herewith presents its Report No. 665: **Reduction in the rate of customs duty on stemming plugs for mining and civil blast holes, classifiable under tariff subheading 3926.90.90, through the creation of an additional 8-digit tariff subheading for the said goods under tariff subheading 3926.90**



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CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 665

REDUCTION IN THE RATE OF CUSTOMS DUTY ON STEMMING PLUGS FOR MINING AND CIVIL BLAST HOLES, CLASSIFIABLE UNDER TARIFF SUBHEADING 3926.90.90, THROUGH THE CREATION OF AN ADDITIONAL 8-DIGIT TARIFF SUBHEADING FOR THE SAID GOODS UNDER TARIFF SUBHEADING 3926.90.

Synopsis

The Commission considered an application by ERG Industrial (Pty) Ltd (“the Applicant” or “ERG Industrial”), for a reduction in the rate of customs duty on stemming plugs for mining and civil blast holes, classifiable under tariff subheading 3926.90.90, through the creation of an additional 8-digit tariff subheading for the said goods under tariff subheading 3926.90.

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

The Commission found that:

- There are no known Southern African Customs Union (“SACU”) manufacturers or industry representative organisations of the subject product. Information submitted indicated that these types of stemming plugs for mining and civil blast holes have not been used on a large scale in the SACU market.
- All known stakeholders (Super Plugs SA, Impala Platinum Holdings, PricewaterhouseCoopers and AVA Solutions (Pty) Ltd) that have commented on the investigation, are in support of the application for a reduction in the rate of customs duties on stemming plugs. The reasons for the support are centred on the fact that there are no local manufacturers of the subject product in the SACU market.

- Information submitted indicated that ERG Industrial (Pty) Ltd has the sole distribution rights with Vari-Stem Stemming Plugs (Pty) Ltd, (a United States of America based company), to import and to distribute the plugs in the SACU and the entire African market.
- It was established that tariff subheading 3926.90.90 includes a host of 'other items' besides stemming plugs, which forms the basis of the application. This impeded making logical deductions of the import and export trends over time regarding the subject product.
- The Commission found that the Applicant has employed nominal employees during the period under investigation.
- The Applicant has committed that should this application be successful; it intends to increase its capabilities to import more volumes into the SACU. This will effectively result in a price reduction of the subject product coupled with an increase in the Applicant's employment force.

In light of the foregoing, the Commission decided to approve the application for a reduction in the rate of customs duty on stemming plugs for mining and civil blast holes, classifiable under tariff subheading 3926.90.90, from 20 per cent *ad valorem* to free of duty, through the creation of an additional 8-digit tariff subheading for the said goods under tariff subheading 3926.90, which reads as follows: "*Stemming plugs for mining and civil blast holes, classified in tariff subheading 3926.90.xx*", owing to the fact that the products concerned are not manufactured in the SACU.

1. APPLICATION AND TARIFF POSITION

- 1.1. ERG Industrial (Pty) Ltd ("the Applicant" or "ERG Industrial"), applied for a reduction in the rate of customs duty on stemming plugs for mining and civil blast holes, classifiable under tariff subheading 3926.90.90, through the creation of an additional 8-digit tariff subheading for the said goods under tariff subheading 3926.90 *ad valorem* to free of duty.
- 1.2. The Applicant is a Gauteng based company that is involved in the business of supply and distribution of specialised mining and civil blasting stemming plugs. The subject

product is imported by the Applicant from Vari-Stem Stemming Plugs (Pty) Ltd (“Vari-Stem”) situated in the United States of America (“USA”). The subject product is distributed by the Applicant to different mining and civil engineering companies for blasting of rocks activities.

1.3. As reasons for the application, ERG Industrial stated, *inter alia*, that:

- ‘There is no manufacturing industry for the product in the SACU;
- To satisfy the demand for such a product and create a rapid expanding market and industry within South-Africa; and
- To contribute to overall South African economic growth.’

1.4 The application was published in the *Government Gazette* Notice 217 on 23 April 2021 for comment by interested parties.

1.5 The current tariff structure for stemming plugs was as shown in Table 1 below:

Table 1: Current tariff position for the subject product

Heading	Sub-heading	Article Description	Stat. Unit	Rate of Duty					
				General	EU	EFTA	SADC	MERCOSUR	AfCFTA
3926.90	3926.90.90	Other	kg	20%	Free	10%	Free	20%	20%

Source: SARS

1.6 Table 1 above shows that the subject product was classifiable under tariff subheading 3926.90.90 under ‘Other’. The product concerned attracted a general rate of duty of 20% *ad valorem* when imported under General, Mercosur and the African Continental Free Trade Agreement (“AfCFTA”) and a 10% *ad valorem* duty when imported from the European Free Trade Association (“EFTA”) countries.

1.7 Table 2 below depicts the requested tariff structure for stemming plugs through the creation of an additional 8-digit tariff subheading, which reads as follows:

Table 2: Requested tariff structure for stemming plugs for mining and civil blast holes

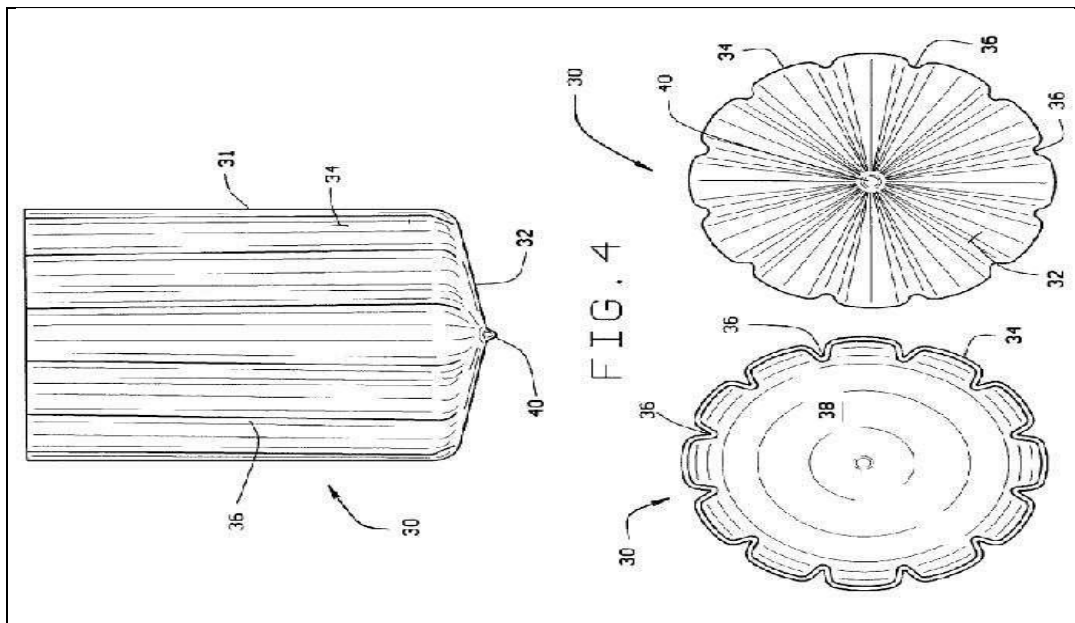
Heading	Sub-heading	Article Description	Stat. Unit	Rate of Duty					
				General	EU	EFTA	SADC	MERCOSUR	AfCFTA
3926.90	3926.90.xx	Stemming plugs for mining and civil blast holes	kg	Free	Free	Free	Free	Free	Free

Source: (SARS)

2. DISCUSSION

2.1 A stemming plug is constructed from a durable, resilient and flexible material (usually PVC urethane, rubber or similar products). The subject product is comprised of a circumferential wall defining an inner cavity, an end-wall at the first end and an open second end. The circumferential wall includes a plurality of evenly or unevenly spaced flutes as depicted in Figure 1 below:

Figure 1



Source: Applicant

2.2 Stemming plugs are an end product used very early in the production process at mines and quarries. The simplified diagram below provides a brief summary of the generic value chain. The plugs are applied in the explosives charging step in the value chain, and deliver benefits to all of the activities concerned.

2.3 Figure 2 below shows the position of stemming plugs in the value chain:

Figure 2: Value chain for the manufacturing of stemming plugs



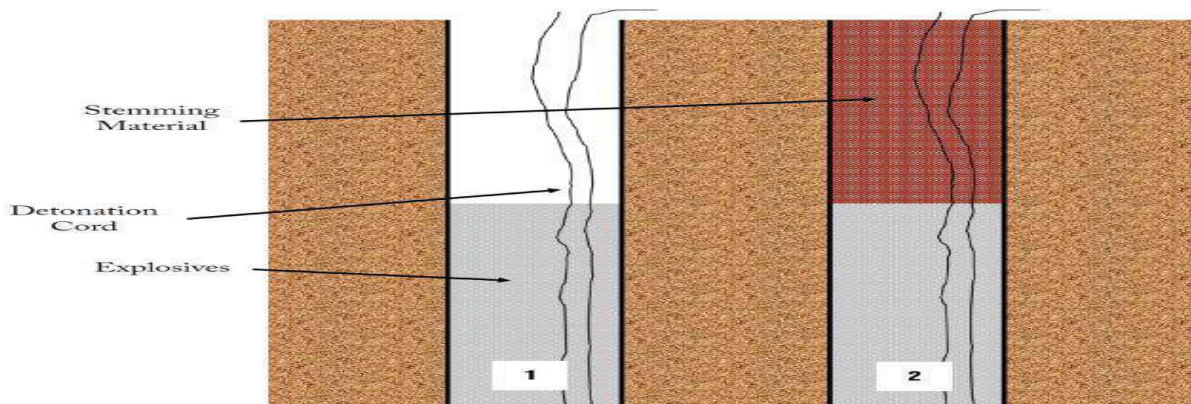
Source: Applicant

2.4 According to the Applicant, stemming plugs are inserted in the borehole and placed over the explosive charge. In the preferred embodiment, the circumferential wall is then fluted so that it can easily compress and sit in a borehole while maintaining a snug friction fit. Stemming material, preferably rock, is then placed on top of the stemming plug.

2.5 Information submitted further indicated that upon explosion, the blast energy forces against the stemming plug causing the circumferential wall to expand outwardly thereby engaging the stemming material above and the borehole wall, in order to secure the plug in place. The additional resistance produced by the lodged stemming plug enables more explosive energy to be transferred into the rock body, resulting in an improved fragmentation (breakage) of the rock body, less ejection of the stemming material and fly rock on the rock body surface.

2.6 Information submitted also indicated that the current status quo for mines and quarries is to only make use of stemming material (aggregates or drill chippings) to cover their explosives column, as illustrated in Figure 3 below:

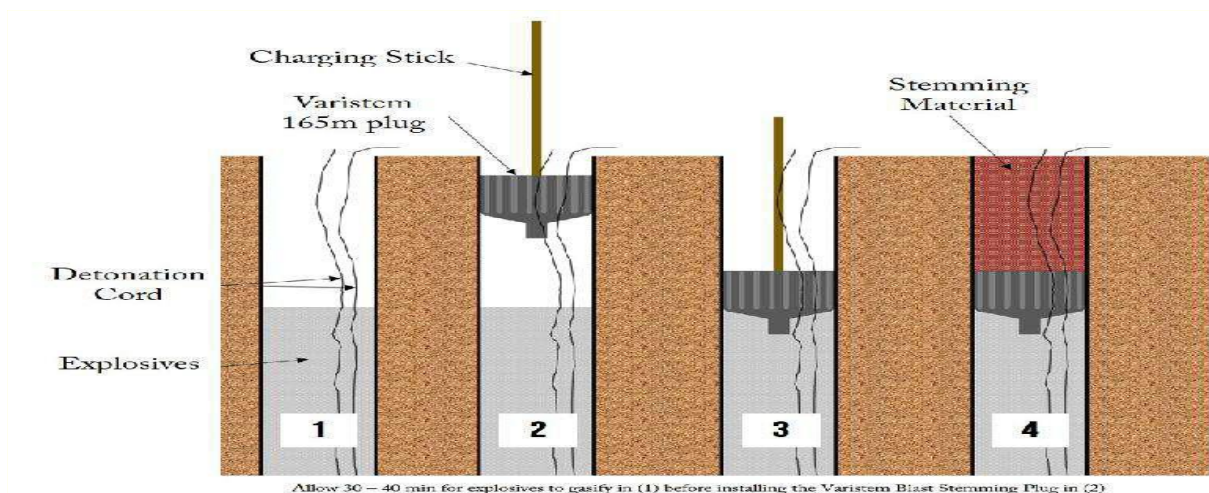
Figure 3: Current process without stemming plugs



Source: Applicant

2.7 Figure 4 below depicts the process when stemming plugs are used as part of the explosive process. As shown below, stemming plugs add an additional component to the current process and do not replace any existing products that the mines and quarries currently use.

Figure 4: Process with stemming plugs



Source: Applicant

2.8 Although it was stated that there are no local manufacturers of the exact product within the SACU market, Super Plug SA (Pty) Ltd (“Super Plug SA”) was identified as a local company that manufactures a product that is intended to provide the same benefit to mines and quarries. However, the Applicant argued that the products manufactured by Super Plug SA are fundamentally different to those manufactured by Vari-Stem in the USA.

2.9 According to information at the Commission’s disposal, Super Plug SA produced cylindrical concrete products for blast holes in sizes that overlapped blast stemming plugs manufactured by Vari-Stem. Super Plug SA was approached to comment on the application and submitted its support of the application for a reduction, stating that it will not have any negative effect on its current business.

2.10 In view of the fact that an overlap in size was apparent and that the only difference is that the Applicant’s product is made of plastic, a physical verification was conducted at

Super Plug SA's premises. Super Plug SA confirmed that they are registered as a manufacturing entity. The owner was made aware that should the duty be reduced, it could affect the domestic industry in a negative way. This is, amongst others, based on the fact that the duty cannot be increased at a later stage should competition from similar imported products be experienced from regions with which South Africa has free trade agreements. Super Plug SA maintained that they are in support of a reduction in the rate of customs duty on the products concerned stating that it will not negatively impact its business. The investigation team has also noted that the website belonging to Super Plug SA is now dormant.

- 2.11 According to information submitted, the benefits of using stemming plugs are, amongst others, to improve fragmentation, reduce flying rocks and reduce noise and vibration.
- 2.12 Tariff subheading 3926.90.90 includes a host of 'other items' besides stemming plugs. This inhibited the Commission from making logical deductions with regard to import and export trends of stemming plugs over a specified period. According to information at the Commission's disposal, stemming plugs are relatively new in the market and the product is currently only manufactured in the USA by Vari-Stem (Pty) Ltd.
- 2.13 According to information submitted, the Applicant employed nominal employees during the period under investigation. The Applicant is involved in the business of importing and selling final products to different stakeholders. As such no value addition is done on the subject product and no significant investments have been made by the company.
- 2.14 Reciprocal commitments made by the Applicant for the proposed tariff amendment were provided, particularly with respect to investment and employment creation, which is consistent with the New Growth Path ("NGP"). The Applicant indicated that should the application be supported by the Commission, this will allow it to increase its capabilities to import more volumes into the SACU and effectively result in a price reduction of the subject product.
- 2.15 The Applicant further submitted that this application is brought in the interest of the competitiveness of the entire value chain domestically and it intends to increase its employment in the next three years. In view of the ambitious increase in employment

against the backdrop of a projected increase in volumes; the Applicant stated that it intends to employ new staff members for their different divisions such as procurement, finance, transport, security, packers and product sales.

2.16 Comments in support of the application were received from Impala Platinum Holdings, Super Plug SA, PricewaterhouseCoopers (“PwC”) and AVA Solutions (Pty) Ltd.

3. FINDINGS

3.1. The Commission found that:

- There are no known Southern African Customs Union (“SACU”) manufacturers or industry representative organisations of the subject product. Information submitted indicated that these types of stemming plugs for mining and civil blast holes have not been used on a large scale in the SACU market.
- All known stakeholders (Super Plugs SA, Impala Platinum Holdings, PricewaterhouseCoopers and AVA Solutions (Pty) Ltd) that have commented on the investigation, are in support of the application for a reduction in the rate of customs duties on stemming plugs. The reasons for the support are centred on the fact that there are no local manufacturers of the subject product in the SACU market.
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- The Commission found that the Applicant has employed nominal employees during the period under investigation.
- The Applicant has committed that should this application be successful; it intends to increase its capabilities to import more volumes into the SACU. This will effectively

result in a price reduction of the subject product coupled with an increase in the Applicant's employment force.

4. RECOMMENDATION

4.1. In light of the foregoing, the Commission decided to approve the application for a reduction in the rate of customs duty on stemming plugs for mining and civil blast holes, classifiable under tariff subheading 3926.90.90, from 20 per cent *ad valorem* to free of duty, through the creation of an additional 8-digit tariff subheading for the said goods under tariff subheading 3926.90, which reads as follows: "*Stemming plugs for mining and civil blast holes, classified in tariff subheading 3926.90.xx*", owing to the fact that the products concerned are not manufactured in the SACU.