REPORT NO. 774

INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON CERTAIN ROCK DRILLING EQUIPMENT PARTS, CLASSIFIABLE UNDER TARIFF SUBHEADING 8467.99.90.

The International Trade Administration Commission herewith presents its Report No. 774: INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON CERTAIN ROCK DRILLING EQUIPMENT PARTS, CLASSIFIABLE UNDER TARIFF SUBHEADING 8467.99.90, with recommendations.

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CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 774

INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON CERTAIN ROCK DRILLING EQUIPMENT PARTS, CLASSIFIABLE UNDER TARIFF SUBHEADING 8467.99.90.

Synopsis

Derry Engineering (Pty) Ltd (herein referred to as the “applicant” or “Derry”), applied for an increase in the general rate of customs duty on certain rock drilling equipment parts, classifiable under tariff subheading 8467.99.90, from free of duty to the WTO bound rate of 20% *ad valorem*.

The applicant specialises in the manufacture and supply of valve gear and consumable spares for rock drills. The Applicant considers itself a leader in the industry and manufactures quality niche machined components for use in the mining industry. The applicant operates in Wadeville, Germiston, Gauteng Province.

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 increase in imports of the subject products into the domestic market, with the majority of imports originating in Asia. This has the effect of eroding the market share of the domestic industry manufacturing the subject product;
- The decline in production and sales volumes of the domestic manufacturing industry, resulting in a decline in capacity utilization during the period under investigation;
- The price disadvantages experienced by the domestic manufacturing industry against imports of similar products, indicating that the industry is price uncompetitive against imports of the subject products, and the likelihood that this will continue into the foreseeable future;

- The negative effective rate of protection for the industry, indicating the negative impact of the current duty structure of the entire industry value chain. This is due to the duty anomaly in the value chain, with a higher rate of customs duty of 10% *ad valorem* for the main input material, steel bar, relative to a 0% tariff rate applicable to the subject products; and
- The subject product forms part of the domestic steel industry value chain. The South African Steel and Metal Fabrication Masterplan ("the Masterplan") identifies the decline in production volumes, increased imports, rising prices of electricity, and high prices of raw materials to be amongst the long-standing problems facing the domestic primary steel manufacturing industry and the entire value chain.

The Commission concluded that the requested tariff support should enable the domestic industry manufacturing the subject products 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.

In light of the foregoing, the Commission recommended an increase in the general rate of customs duty on certain rock drilling equipment parts, classifiable under tariff subheading 8467.99.90, from free of duty to the WTO bound rate of 20% *ad valorem*.

Furthermore, the Commission recommended that the proposed duty on the subject products be reviewed after a period of 3 years following implementation of the tariff support (unless otherwise determined by the Commission) to assess the performance of the domestic industry.

<u>THE APPLICATION AND TARIFF POSITION</u>

1. Derry Engineering (Pty) Ltd applied for an increase in the general rate of customs duty on certain rock drilling equipment parts, classifiable under tariff subheading 8467.99.90, from free of duty to the WTO bound rate of 20% *ad valorem*.

2. The applicant operates in Wadeville, Germiston, Gauteng Province and specialises in the manufacture and supply of valve gear and consumable spares for rock drills. The applicant considers itself a leader in the industry and manufactures quality niche machined components for use in the mining industry.

3. As motivation for the application, the applicant cited, amongst others, the following reasons:

- The rock drilling components subject to this application are currently imported into South Africa free of duty. By contrast, the main raw material used to manufacture the subject product carries an import duty of 10% *ad valorem*, resulting in a negative effective rate of protection;

- The intensified low-priced imports, mainly originating in Asia, have distorted the trading environment and effectively replaced local volumes;

- Due to increased import volumes, the applicant has lost significant market share, which has led to job losses;

- The applicant has made significant investments in the manufacture of the subject products, including investment in the latest machining technology; and

- Tariff support will enable the domestic industry to replace the high volumes of significantly low-priced imports, mainly originating from Asian countries. As imports are replaced by local production, new job opportunities could be created and domestic capability to manufacture the subject product would be preserved.

4. The application was published in Government Gazette No. 52523 of 17 April 2025 under Notice 3139 of 2024 for a period of four (4) weeks, for interested parties to comment, as follows:

   INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON:
   "rock drilling equipment parts, classifiable under tariff subheading 8467.99.90, from free of duty to the WTO bound rate of 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	Tariff subheading	Description	Statistical unit	Rate of duty					
				General	EU/UK	EFTA	SADC	Mercosur	AfCFTA
84.67		Tool for working in the hand, pneumatic, hydraulic or with self-contained electric or non-electric motor							
	8467.9	**Parts:**							
	8467.99.90	Other	kg	Free	Free	Free	Free	Free	Free

Source: SARS (2025)

6. The products are currently classifiable under tariff subheading 8467.99.90 and are imported free of duty. The WTO bound rate is 20% *ad valorem.*

7. Table 2 below shows the requested tariff structure for the subject products as follows:

Table 2: Requested tariff structure for the subject products

Tariff heading	*Tariff subheading*	*Description*	*Statistical unit*	*Rate of duty*					
				General	*EU/UK*	*EFTA*	*SADC*	*Mercusor*	*AfCFTA*
84.67		*Tool for working in the hand, pneumatic, hydraulic or with self-contained electric or non-electric motor*							
	8467.9	*Parts:*							
	8467.99.90	*Other*	*kg*	*20%*	*Free*	*Free*	*Free*	*xxx*	*xxx*

Source: Applicant (2024)

INDUSTRY AND MARKET

8. The subject products are parts (components) used in rock drilling equipment. The products include valve gear and consumable spares for rock drills such as S215 and S25 and also include valves, valve plug, valve box, front head and back head.

9. The product forms part of the domestic steel industry value chain. The South African Steel and Metal Fabrication Masterplan ("the Masterplan") identifies the decline in production volumes, increased imports, rising prices of electricity, and high prices of raw materials to be amongst the long-standing problems facing the domestic primary steel manufacturing industry and the entire value chain.

10. The applicant operates in accordance with the latest ISO rating and guidelines, and all components go through inspection at each stage of manufacture by both the operators and inspectors. The equipment is regularly calibrated and checked for any defects.

11. The illustration of the subject products as provided by the applicant is presented in Figure 1 below:

Figure 1: Depiction of the subject products

Source: *Applicant*

12. The subject products are manufactured using steel bar as the main input material, accounting for a significant share of the ex-factory sales value. Moreover, the entire set of materials and components used in the production of the subject products is sourced domestically.

13. One of the main challenges faced by the manufacturers in the rock drilling equipment market is the increasing cost of raw materials, particularly steel, which has seen significant price increases in recent years, squeezing profit margins and forcing manufacturers to increase prices.

14. The domestic industry is comprised of three local manufacturers of the subject products. Apart from the applicant, the other two local manufacturer of the subject products include NASA Engineering (Pty) Ltd ("NASA") and Victoria Engineering Works (Pty) Ltd ("Victoria") with their respective facilities located in Alberton and Brakpan in the Gauteng province.

15. While the applicant only manufactures five different spare parts for rock drills, the entire range of spare parts for various types of rock drills is manufactured domestically through the combined capacity of all three manufacturers.

16. Some of the known importers of the subject products into the domestic market include, amongst others, the following companies:

- Rock Breaking Demolitions CC;
- W D Hearn Machine Tools CC;
- Afritech Equipment Solutions (Pty) Ltd;
- TTA Hydraulics;
- Mactool Diamond & Construction Products CC;
- Minelog Supplies;
- Machine Tools Refabrication and Sales CC; and
- Columbit a Div of Columbit (Pty) Ltd.

17. Total imports of the subject products into the domestic market have increased throughout the period under investigation. Mainly, imports of the subject products originated from Asia, accounting for approximately 87% of total imports over the period under consideration.

18. As imports continued to increase, both the domestic industry's production and sales volumes declined over the period under investigation. In line with the decline in production volumes over the period, domestic capacity utilization also declined on average during the period under investigation.

COMPETITIVE POSITION

19. The domestic manufacturing industry is faced with an escalating cost structure in its manufacture of the subject products. The main cost driver is the cost of locally sourced steel bar which is the main input material used in the production of the subject products.

20. The domestic manufacturing industry is price uncompetitive against imports of the subject products, experiencing significant price disadvantages during the period under investigation.

21. The current effective rate of protection for the industry is negative, indicating the

negative impact of the current duty structure of the entire industry value chain. This is due to the duty anomaly in the value chain, with a higher rate of customs duty of 10% *ad valorem* for the main input material, steel bar, relative to a 0% tariff rate applicable to the subject products.

COMMENTS RECEIVED

22. Support for the application was received from the South African Iron and Steel Institute (SAISI), mainly citing the following:

- This application addresses a critical challenge facing the domestic manufacturing sector, namely, the misalignment between duty-free access for finished imported goods and the 10% import duty imposed on primary raw materials. This results in a negative effective rate of protection, which undermines local producers, deters industrial investment, and weakens South Africa's manufacturing base;
- The domestic industry has made substantial investments in advanced production technologies and is recognised for supplying high-quality products for the mining sector;
- A surge in low-priced imports, mainly originating from Asia has significantly disrupted the local market, displacing domestic production;
- Rock drilling components are not only integral to the mining industry, but they also generate demand throughout the steel value chain; and
- The localisation of mining consumables, particularly those with high steel content, presents a strategic opportunity to enhance South Africa's industrial capability, stimulate job creation, and strengthen linkages between the mining and manufacturing sectors.

FINDINGS

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

    - The increase in imports of the subject products into the domestic market, with the majority of imports originating in Asia. This has the effect of eroding the market share of the domestic industry manufacturing the subject product;
    - The decline in production and sales volumes of the domestic manufacturing industry, resulting in a decline in capacity utilization during the period under investigation;
    - The price disadvantages experienced by the domestic manufacturing industry against imports of similar products, indicating that the industry is price uncompetitive against imports of the subject products, and the likelihood that this will continue into the foreseeable future;
    - The negative effective rate of protection for the industry, indicating the negative impact of the current duty structure of the entire industry value chain. This is due to the duty anomaly in the value chain, with a higher rate of customs duty of 10% *ad valorem* for the main input material, steel bar, relative to a 0% tariff rate applicable to the subject products; and
    - The subject product forms part of the domestic steel industry value chain. The Masterplan identifies the decline in production volumes, increased imports, rising prices of electricity, and high prices of raw materials to be amongst the long-standing problems facing the domestic primary steel manufacturing industry and the entire value chain.

24. The Commission concluded that the requested tariff support should enable the domestic industry manufacturing the subject products 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

25. In light of the foregoing, the Commission recommended that the rate of customs duty on certain rock drilling equipment parts, classifiable under tariff subheading 8467.99.90, be increased from free of duty to the WTO bound rate of 20% *ad valorem*.

26. Furthermore, the Commission recommended that the proposed duty on the subject products be reviewed after a period of 3 years following implementation of the tariff support (unless otherwise determined by the Commission) to assess the performance of the domestic industry.