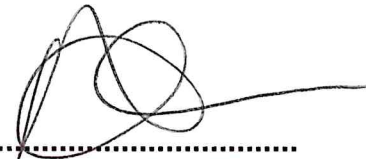


REPORT NO. 718

**INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON PLATE-TYPE
HEAT EXCHANGE ELEMENTS FOR AIR PRE-HEATERS, CLASSIFIABLE
UNDER TARIFF SUBHEADING 8404.90**

The International Trade Administration Commission of South Africa presents its Report No. 718: **INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON PLATE-TYPE HEAT EXCHANGE ELEMENTS FOR AIR PRE-HEATERS, CLASSIFIABLE UNDER TARIFF SUBHEADING 8404.90**, with recommendations.



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AYABONGA CAWE
CHIEF COMMISSIONER

PRETORIA

20 / 11 / 2023
...../2023

REPUBLIC OF SOUTH AFRICA
INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 718

**INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON PLATE-TYPE
HEAT EXCHANGE ELEMENTS FOR AIR PRE-HEATERS, CLASSIFIABLE
UNDER TARIFF SUBHEADING 8404.90**

Synopsis

Howden Power, a division of Howden Africa (Pty) Ltd (herein referred to as “Howden” or the “applicant”), applied for an increase in the general rate of customs duty on plate-type heat exchange elements for air pre-heaters, classifiable under tariff subheading 8404.90, from free of duty to the WTO bound rate of 5% ad valorem, by way of creating an additional 8-digit tariff subheading.

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

- The subject products are plate-type heat exchange elements for air pre-heaters commonly element packs that serve as an essential piece of capital equipment installed in power stations and plays an integral part in the efficient operation of power plants, such as those operated by Eskom Holdings Limited (“Eskom”);
- In terms of Industrial Policy, the subject product resides in the downstream industry, which remains an important pillar of South Africa’s industry landscape and contributes to job creation as well as economic growth;
- Howden is the only manufacturer of the subject product within the SACU region, with significant capital investments dedicated to the manufacture of the product;
- Import volumes of the subject products have increased over the three-year period under review;

- The increased imports into the SACU region have resulted in the displacement of local production, a decline in market share, production volumes, capacity utilisation and employment opportunities; and
- The SACU industry manufacturing the subject product is facing increasing costs of production, declining profitability and declining competitiveness against similar imported products.

The Commission concluded that tariff support of 5 per cent *ad valorem* would enable the SACU industry manufacturing the subject products to grow its market share, increase economies of scale and utilize its existing under-utilized capacity. This should enhance the competitive position of the industry *vis-à-vis* imports of similar products into the SACU market. In addition, tariff support would result in the retention of existing jobs and the creation of additional jobs within the sector.

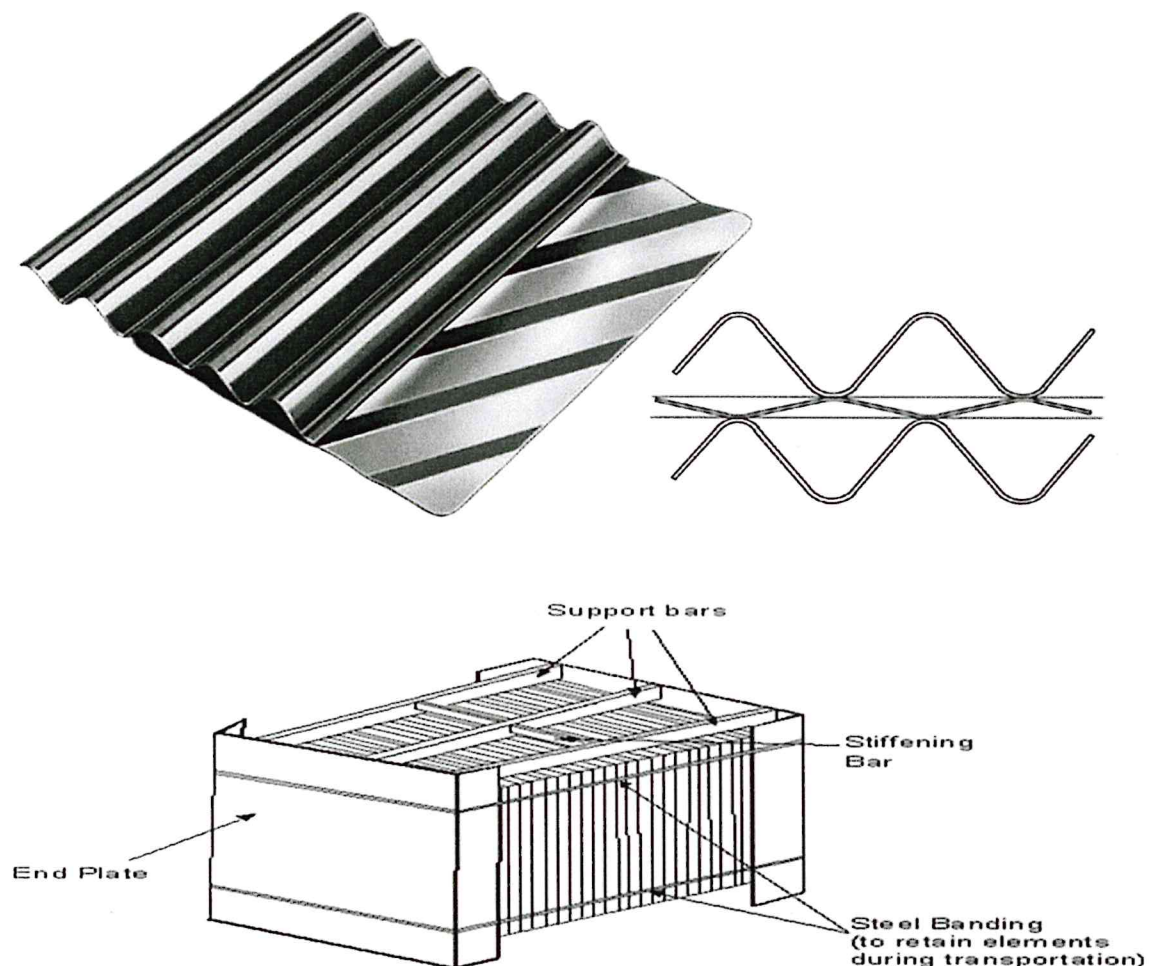
The Commission recommended that the rate of customs duty on plate-type heat exchange elements for air pre-heaters, classifiable under tariff subheading 8404.90, be increased from free of duty to the WTO bound rate of 5% *ad valorem*, by way of creating an additional 8-digit tariff subheading.

THE APPLICATION AND TARIFF POSITION

1. Howden Power, a division of Howden Africa (Pty) Ltd (herein referred to as “Howden” or the “applicant”), applied for an increase in the general rate of customs duty on plate-type heat exchange elements for air pre-heaters, classifiable under tariff subheading 8404.90, from free of duty to the WTO bound rate of 5% *ad valorem*, by way of creating an additional 8-digit tariff subheading.
2. The applicant is the only known manufacturer of the subject product in the Southern Africa Customs Union (SACU). The applicant designs, builds, installs and services highly engineered fans, compressors, blowers, rotary heat exchanges and steam turbines which support a sustainable world, and such products are supplied to major industries including: power generation, petrochemical, mining, oil and gas, iron and steel, mining, waste water treatment, cement manufacturing, and construction. The subject product is considered as a high integrity rotary heat

exchanger essential for key industries which demand high levels of efficiency, reliability and availability.

3. The applicant is based in Booyen, Johannesburg, and specialises in the world's largest range of fans, blowers, compressors, and rotary regenerative heat exchangers, amongst other products.
4. The subject products are plate-type heat exchange elements for air pre-heaters commonly known as element packs, classifiable under tariff subheading 8404.90. The applicant manufactures the subject products, which are an essential piece of capital equipment installed at power stations and plays an integral part in the efficient operation of power plants, such as those operated by Eskom.
5. The main raw materials used in the manufacture of the subject products include cold rolled steel coils, with thickness varying from 0.5mm to 1.0 mm and hot rolled mild steel plate flat bar.
6. Figure 1 below illustrates both the interior and the exterior of the subject products.



7. As motivation for the application, the applicant cited the following, amongst other reasons.

- There has been increased import competition from low priced products originating from China and India, and these pose a threat to the sustainability of the domestic industry manufacturing element packs;
- There is an anomaly in the tariff structure in that the input material (steel) attracts a 10% duty whilst the final product (element packs) is imported free of duty. This makes it more expensive to manufacture element packs locally, whether using local or imported steel;
- The applicant has made major capital investment that contributes to skills development in the country; and
- An increase in the rate of customs duty will assist in protecting the local industry and retaining jobs.

8. The application was published in the Government Gazette No. 48449 of 21 April 2023 under Notice 3327 of 2023 for interested parties to comment, as follows:

Increase in the rate of customs duty on:

“Plate-type heat exchange elements for air pre-heaters, classifiable in tariff subheading 8404.90, from free of duty to the WTO bound rate of 5% ad valorem, by way of creating an additional 8-digit tariff subheading.”

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

Table 1: Current tariff structure for the subject products

Tariff Heading / Subheading	Description	Statistical unit	Rate of duty					
			GENERAL	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA
84.04	Auxiliary plant for use with boilers of heading 84.02 or 84.03 (for example, economisers, super-heaters, soot removers, gas recoverers); condensers for steam or other vapour power units:							
8404.90	Parts	kg	Free	Free	Free	Free	Free	Free

Source: SARS, 2023

10.As shown in Table 1 above, the subject products, classifiable under tariff subheading 8404.90, can be imported free of duty under the general category and from anywhere else in the world.

11.For administrative purposes, the South African Revenue Service (“SARS”) provided the description for the increase in the rate of customs duty on plate-type heat exchange elements for air pre-heaters as follows:

“Plate-type heat exchange elements for air pre-heaters, classifiable in tariff subheading 8404.90, by the creation of a new 8-digit subheading for the said goods”.

12.The requested tariff position is illustrated in Table 2 below:

Table 2: Requested tariff structure

Tariff Heading / Subheading	Description	Statistical unit	Rate of duty					
			GENERAL	EU/UK	EFTA	SADC	MERCOSUR	AfCFTA
84.04	Auxiliary plant for use with boilers of heading 84.02 or 84.03 (for example, economisers, super-heaters, soot removers, gas recoverers); condensers for steam or other vapour power units:							
8404.90.**	Plate-type heat exchange elements for air pre-heaters	kg	5%	Free	Free	Free	Free	Free

Source: SARS, 2023

INDUSTRY AND MARKET

13.The applicant is the only known manufacturer of the subject products in the SACU region.

14.The known local importers of the subject products in the SACU region include, amongst others: Eskom Holdings Limited (“Eskom”), a major user of the subject product.

15.The subject products form part of the downstream ferrous metal industry, which forms and remains an important pillar of South Africa’s steel industry value chain and contributes to job creation as well as economic growth.

16.According to trade data, import volumes of the subject product increased significantly during the period under investigation, with the main proportion of the imports of the subject product from Asia.

17. While the applicant's production and sales volumes of the subject products appear to have increased over the same period, these increases have been marginal when compared to the increase in imports, suggesting that imports are capturing a bigger portion of any increase in demand for the product.

COMPETITIVE POSITION

18. Based on the information at the Commission's disposal, the applicant experienced price disadvantages vis-à-vis imports of similar products. The biggest contributing factors to the poor competitiveness included, amongst other factors, the increase in steel prices, which is a major cost component in the production of the subject products. There has also been an increase in fixed overhead costs over the three-year period under investigation.

COMMENTS

19. Comments in support of the application were received from Eskom, mainly citing the importance plate-type heat exchange elements as an integral part of the regenerative air preheater in the boiler plants of all fourteen (14) Eskom coal fired power stations. Eskom noted, in its support for the duty increase, that these elements need to be replaced on a periodic basis as they are subject to breakdowns due to fire in the air preheaters caused by different factors, such as erosion damage and soot blower damage. As a further reason for its support, Eskom cited the importance of having a local source available to be able to provide it with replacement elements in the event of a breakdown or an Air Heater fire.

20. No objection to the application was received from interested parties during the publication stage.

FINDINGS

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

- The subject products are plate-type heat exchange elements for air pre-heaters commonly known as element packs, classifiable under tariff subheading 8404.90. The applicant manufactures the subject products, which are an essential piece of capital equipment installed at power stations and plays an integral part in the efficient operation of power plants, such as those operated by Eskom.
- In terms of Industrial Policy, the subject product resides in the downstream industry, which remains an important pillar of South Africa's industry landscape and contributes to job creation as well as economic growth;
- Howden is the only known manufacturer of the subject product within the SACU region, with significant capital investments dedicated into the manufacture of the product;
- Import volumes of the subject products have increased over the three-year period under review;
- The increased imports into the SACU region has resulted in the displacement of local production, a decline in market share, production volumes, capacity utilisation and employment opportunities; and
- The SACU industry manufacturing the subject product is facing increasing costs, declining profitability and declining competitiveness against similar imported products.

22. The Commission concluded that tariff support of 5 per cent *ad valorem* would enable the SACU industry manufacturing the subject products to grow its market share, increase economies of scale and utilize its existing under-utilized capacity. This should enhance the competitive position of the industry *vis-à-vis* imports of similar products into the SACU market. In addition, tariff support would result in the retention of existing jobs and the creation of additional jobs within the sector.

RECOMMENDATION

23. In light of the foregoing, the Commission recommended that the rate of customs duty applicable to plate-type heat exchange elements for air pre-heaters, classifiable under tariff subheading 8404.90, be increased from free of duty to the WTO bound rate of 5% *ad valorem*, by way of creating an additional 8-digit tariff subheading.

24. The Commission further recommended that the duty on the subject product be reviewed to monitor the performance of the industry after a period of three years from the date of implementation, or such other period as decided by the Commission.