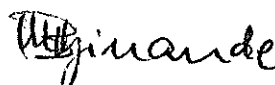


## **REPORT NO. 658**

**INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN BARS  
AND RODS OF IRON OR STEEL, WHETHER OR NOT ALLOYED,  
NOT FURTHER WORKED THAN COLD-FORMED OR COLD-  
FINISHED ("BRIGHT BAR")**

The International Trade Administration Commission herewith presents its Report No. 658: **INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN BARS AND RODS OF IRON OR STEEL, WHETHER OR NOT ALLOYED, NOT FURTHER WORKED THAN COLD-FORMED OR COLD-FINISHED (“BRIGHT BAR”)**, with recommendations.



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**MELULEKI NZIMANDE**  
**CHIEF COMMISSIONER**

**PRETORIA**

**7/5/2021**  
.....

## REPUBLIC OF SOUTH AFRICA

### INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

#### REPORT NO. 658

#### INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN BARS AND RODS OF IRON OR STEEL, WHETHER OR NOT ALLOYED, NOT FURTHER WORKED THAN COLD-FORMED OR COLD-FINISHED ("BRIGHT BAR")

##### Synopsis

Macsteel Service Centres SA (Pty) Ltd ("applicant" or "Macsteel") applied for an increase in the rate of customs duty on certain bars and rods of steel, whether or not alloyed, not further worked than cold-formed or cold-finished ("bright bar"), classifiable under tariff subheadings 7215.10, 7215.50, and 7228.50, from free of duty to 10% *ad valorem*.

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

- The generally subdued economic activity over the past three years and the negative impact it has had on the domestic industry manufacturing the subject product;
- The considerable decline in domestic capacity to manufacture the subject product over the years;
- The considerable decline in the level of production, sales and capacity utilisation of the domestic industry manufacturing bright bar;
- The anomaly in the tariff structure in that input material required for the manufacture of the subject bright bar are dutiable, resulting in the domestic industry manufacturing bright bars currently experiencing a negative effective rate of protection;

- The domestic industry's escalating cost structures and deteriorating profitability;
- The significant price disadvantage relative to low-priced imports of similar product, in particular, originating from Asian countries; and
- Diminishing domestic employment and investment opportunities.

The Commission concluded that tariff support should enable the industry manufacturing bright bar to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in security of volumes with a reduction in the marginal cost of production.

The Commission recommended that the rate of customs duty on certain bars and rods of steel, whether or not alloyed, not further worked than cold-formed or cold-finished ("bright bar"), classifiable under tariff subheadings 7215.10, 7215.50, and 7228.50, be increased from free of duty to 10% *ad valorem*.

The Commission further recommended that the duty be reviewed to determine its impact on the industry value chain after three years from the date of implementation, or such other period as decided by the Commission.

### **THE APPLICATION AND TARIFF POSITION**

1. Macsteel Service Centres SA (Pty) Ltd ("applicant" or "Macsteel") applied for an increase in the rate of customs duty on certain bars and rods of steel, whether or not alloyed, not further worked than cold-formed or cold-finished ("bright bar"), classifiable under tariff subheadings 7215.10, 7215.50, and 7228.50, from free of duty to 10% *ad valorem*.
2. The applicant is a manufacturer and a distributor of various steel products in the SACU region. It has nine (9) divisions, which include, amongst other, roofing, tubes and pipes and coil processing. Its manufacturing plant for the subject product is located in Alberton in the Gauteng Province.
3. As motivation for the application, the applicant stated the following:

- Prior to 2008, there were about five (5) manufacturers of bright bar products supplying the domestic market and to some export markets. This number has since reduced to only three (3) manufacturers due to increased import pressure, particularly from Asian imports;
  - While domestic production volumes of bright bar were on an upward trend prior to 2013, volumes have since plummeted to unsustainable levels recently;
  - Even with the closure of two domestic manufacturers of bright bar products by 2015, the applicant's annual production volumes of bright bar declined sharply;
  - The domestic manufacturing industry is not price competitive relative to imported bright bar products from Asia. Such imports are cheaper than the local raw material cost; and
  - Duty protection on the subject product will protect the bright bar industry against job losses and will ensure the future sustainability of the remaining domestic manufacturers.
4. The application was published in the *Government Gazette* No. 43834 under Notice No. 602 of 2020 on 23 October 2020 for interested parties to comment, as follows:

**Increase in the general rate of customs duty on:**

“Certain bars and rods of iron or steel, whether or not alloyed, not further worked than cold-formed or cold-finished (“Bright bar”), classifiable under tariff subheadings 7215.10, 7215.50, and 7228.50, from free of duty to 10% *ad valorem*”

5. The existing tariff structure for the subject product is illustrated on Table 1 below:

**Table 1: Current tariff structure of bright bar**

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty					
				General	EU	EFTA	SADC	MERCOSUR	AfCFTA
7215		Other bars and rods of iron or non-alloy steel:							
	7215.10	Of free-cutting steel, not further worked than cold-formed or cold finished	kg	Free	Free	Free	Free	Free	Free

	7215.50	Other, not further worked than cold-formed or cold-finished	kg	Free	Free	Free	Free	Free	Free
7228		<b>Other bars and rods of other alloy steel; angles, shapes and sections, of other alloy steel; hollow drill bars and rods, of alloy or non-alloy steel:</b>							
	7228.50	Other bars and rods, not further worked than cold-formed or cold-finished	kg	Free	Free	Free	Free	Free	Free

Source: SARS 2020

6. The subject product is currently imported free of duty and the WTO bound rate for the four tariff subheadings under investigation is 10% *ad valorem*.
7. Table 2 below illustrates the tariff structure of the subject product as requested by the applicant.

**Table 2: Requested tariff structure for bright bar**

Tariff Heading	Tariff Subheading	Description	Statistical Unit	Rate of duty					
				General	EU	EFTA	SADC	MERCOSUR	AfCFTA
7215		<b>Other bars and rods of iron or non-alloy steel:</b>							
	7215.10	Of free-cutting steel, not further worked than cold-formed or cold finished	kg	10%	Free	Free	Free	Free	Free
	7215.50	Other, not further worked than cold-formed or cold-finished	kg	10%	Free	Free	Free	Free	Free
7228		<b>Other bars and rods of other alloy steel; angles, shapes and sections, of other alloy steel; hollow drill bars and rods, of alloy or non-alloy steel:</b>							
	7228.50	Other bars and rods, not further worked than cold-formed or cold-finished	kg	10%	Free	Free	Free	Free	Free

Source: Applicant 2020

## **INDUSTRY AND MARKET**

8. The subject product is a cold-drawn or cold-reduced, pickled and cold-finished bar with a controlled roundness and straightness tolerance as required by its customers. Its surface finish is smooth and shiny, which appears to be bright.
9. The subject product is an industrial raw material which has several uses and applications, but is commonly used in construction, mining, industrial, automotive and general engineering sectors. It is available in different shapes and sizes.

10. Hot-rolled round long steel in sizes 7mm to 167mm in diameter is used as an input material for the manufacture of the subject product. The applicant sources the bulk of its input raw material requirements from ArcelorMittal Ltd (“AMSA”). Imports of the input material currently attract a 10% *ad valorem* ordinary customs duty whilst the subject product attracts zero customs duty. Due to this anomaly in the tariff structure, the domestic industry manufacturing bright bars is currently experiencing a negative effective rate of protection.

11. There are two primary production stages in the manufacture of the subject product, namely, the cold drawing and peeling of bright bar in sizes 6mm to 160mm. The raw material goes through either shot blasting (lengths) or acid pickling (coils) to remove the mill scale and thereafter the drawing and peeling process ensures a bright finish with a controlled roundness and straightness tolerance required by bright bar customers.

12. There are three known domestic manufacturers of the subject product, namely:

- Macsteel Service Centres SA (Pty) Ltd (the applicant);
- National Steel; and
- Turn Bar (Pty) Ltd.

13. The known importers of the subject product include:

- Hollowbar Distributors SA (Pty) Ltd;
- Moriah Metals; and
- Sanderson Special Steels (Pty) Ltd.

14. According to the South African Revenue Service (“SARS”) official trade statistics, aggregate import volume declined by an average of 24 per cent over the period under the investigation. However, imports from Turkey have increased by an average of 17 percent over the same period.

15. The increase in low-priced imports originating from Turkey has been specifically highlighted by the applicant as the main reason for lost sales locally, which has resulted in the erosion of local market share over the period under investigation.

16. The domestic industry's production volumes declined during the three-year period under investigation. In line with the decline in production volumes, the industry's sales volumes declined over the same period.
17. In line with the decline in production and sales volumes, capacity utilisation declined to unsustainable levels over the three-year period under investigation, declining from 79 per cent in 2017 to 62 percent in 2019.
18. Due to the slowdown in production and sales, the applicant's total employment in its bright bar manufacturing line declined over the three year period.

### **COMPETITIVE POSITION**

19. According to information at the Commission's disposal, subdued economic activity over the past three years, escalating cost pressures, in particular, raw material and labour costs, and the anomaly in the tariff structure i.e. input material enjoying tariff protection whilst the subject product is free of duty, are some of the factors that have had a negative impact on the overall competitiveness of the domestic industry manufacturing the subject product.
20. The applicant's pricing of the subject product is mainly influenced by the price movements from local steel mills and an annual Producer Price Index (PPI) increase on Intermediate Manufactured Goods as announced by Steel and Engineering Industries Federation of Southern Africa ("SEIFSA").
21. The domestic industry manufacturing bright bar is not price-competitive against Turkish imports of the subject products and is experiencing a significant price disadvantage. Also, the applicant was unable to adjust its net-ex factory price sufficiently to cover for increases in production costs, an indication of price suppression it experienced in the face of fierce import competition.

### **COMMENTS RECEIVED**

22. Comments objecting to the application were received from Cova Advisory & Associates (Pty) Ltd representing Lorbrand (Pty) Ltd ("Lorbrand"). Lorbrand sources all its



requirements of the subject products locally. The company is the manufacturer of conveyor belting systems including idlers and pulleys for various industrial applications. As reasons for its objection, Lorbrand cited, amongst others, the following.

- The global market is becoming increasingly competitive and any increase in raw material prices will significantly affect Lorbrand's chances of maintaining its export growth, given that most of its products are destined for the export market;
- The applicant has not invested in plant and machinery and is looking to use tariff protection to protect its inefficiencies; and
- In the event that the applicant is not able to supply the subject product, Lorbrand would need to import the subject products. Should the tariff support be granted, the company would have to incur 10% duty upon importation of the subject product and this would have a negative impact on the company and other users of the subject product.

23. Although the Commission has noted the concerns of the downstream industry that tariff protection would render it uncompetitive in the export market in the event of having to import the subject product, export-oriented companies are able to utilise existing facilities such as rebate item 470.03 and drawback item 521.00 in order to neutralise the impact of customs duty on imported input material used in the manufacture of products destined for the export market.

## **FINDINGS**

24. The Commission considered the application in light of information at its disposal. In particular, the Commission took the following factors into account:

- The generally subdued economic activity over the past three years and the negative impact it has had on the domestic industry manufacturing the subject product;
- The considerable decline in domestic capacity to manufacture the subject product over the years;
- The considerable decline in the level of production, sales and capacity utilisation of the domestic industry manufacturing bright bar;

- The anomaly in the tariff structure in that input material required for the manufacture of the subject bright bar are dutiable, resulting in the domestic industry manufacturing bright bars currently experiencing a negative effective rate of protection;
- The domestic industry's escalating cost structures and deteriorating profitability;
- The significant price disadvantage relative to low-priced imports of similar product, in particular, originating from Asian countries; and
- Diminishing domestic employment and investment opportunities.

25. The Commission concluded that tariff support should enable the industry manufacturing bright bar to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in security of volumes with a reduction in the marginal cost of production.

### **RECOMMENDATION**

26. In light of the foregoing, the Commission recommends that the rate of customs duty on certain bars and rods of steel, whether or not alloyed, not further worked than cold-formed or cold-finished ("bright bar"), classifiable under tariff subheadings 7215.10, 7215.50, and 7228.50, be increased from free of duty to 10% *ad valorem*.

27. The Commission further recommends that the duty be reviewed to determine its impact on the industry value chain after three years from the date of implementation, or such other period as decided by the Commission.