

REPORT NO. 679

Application for an increase in the rate of customs duty on other paper and paperboard, not containing fibres obtained by a mechanical or chemi-mechanical process or of which not more than 10 per cent by mass of the total fibre content consists of such fibres classifiable under tariff subheadings 4802.56.90, 4802.55.20 and 4802.57.20, through the creation of additional 8-digit tariff subheadings

The International Trade Administration Commission of South Africa (“ITAC”) herewith presents its Report No. 679: Application for an increase in the rate of customs duty on other paper and paperboard, not containing fibres obtained by a mechanical or chemi-mechanical process or of which not more than 10 per cent by mass of the total fibre content consists of such fibres classifiable under tariff subheadings 4802.56.90, 4802.55.20 and 4802.57.20, through the creation of additional 8-digit tariff subheadings



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CHIEF COMMISSIONER**

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

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Synopsis

The Commission considered an application from Mondi South Africa (Pty) Ltd (“Mondi or “the Applicant”), for an increase in the general rate of customs duty on other paper and paperboard, not containing fibres obtained by a mechanical or chemi-mechanical process or of which not more than 10 per cent by mass of the total fibre content consists of such fibres classifiable under tariff subheadings 4802.55.20 and 4802.57.20 from free of duty to 20 per cent *ad valorem*, through the creation of additional 8-digit tariff subheadings, and tariff subheading 4802.56.90 from 10 per cent *ad valorem* to 20 per cent *ad valorem*, respectively.

During its deliberations the Commission took into consideration that on 9 November 2021 the application concerned was considered and, subsequently, the former Minister of Trade, Industry and Competition (“the Minister”) referred the Commission’s recommendation back for further investigation and consideration. As reasons for the referral back, it was submitted that ITAC should consider, *inter alia*, the latest trade statistics following recovery from COVID-19, the conditions in the domestic and international markets and other relevant factors.

In arriving at its recommendation, the Commission considered the information at its disposal, including comments received during the investigation period.

The Commission found that:

- (a) Information at the Commission's disposal, indicates that the Applicant and Sappi are the largest two known manufacturers of the subject products. The subject products are A4 paper and reels for printing and converting. A4 paper is the most widely used paper types/sizes, being used for, inter alia, photocopying, printing and general use in businesses, government, schools and homes. The demand for the subject products is largely dependent on the state of the economy and consumer preference (i.e. paper vs digital media).
- (b) Converting Reels are used as intermediate inputs by the downstream industries, and they are used on printing presses to produce a wide range of end products. These include general printing, advertising material, book and exam pad manufacturing, textbooks and exam material.
- (c) In terms of market and trade data analysis it was found that the Applicant is faced with various challenges. The industry is faced with a downward trend in market demand, and this was attributed to a combination of electronic media, electronic document storage, imports and the drive to reduce costs. Furthermore, there is a long-term declining trend due weak economic growth, digitisation and subdued demand for the subject products.
- (d) Both Applicant's total production and SACU sales of the subject products experienced a downward trend over the period 2021 to 2024. The Applicant was forced to curtail production (i.e. commercial downtime) in both 2020 (10,000 tons) and 2021 (1,400 tons) on its only remaining Uncoated Fine Paper Machine due to weak and subdued demand.
- (e) It should be noted that the average decline in A4 sales volumes over the period of investigation is partly attributable to the weak state of the economy as well as the post-effects of the COVID-19 pandemic. In addition, the emergence of new technologies and changes in consumer trends including increased preferences for digital media has a direct impact on the sales volumes of the subject products.

- (f) In terms of trade data, total import volumes of A4 paper increased exponentially during the period 2021-2024, driven mainly by imports from the European (“EU”) region, with total imports increasing their SACU market share over the investigation period from 7% to 13%. Import volumes from the EU region have increased its share in total imports, rising from 40% in 2021 to almost 50% by 2024. On the other hand, the share of imports under General to total imports has declined.
- (g) It was found that total import volumes of converting reels paper declined by an average of 21% during the period 2021-2024. However, it should be noted that the share of imports in the domestic market only accounted for 10% in 2021 and increased marginally to 12% in 2024. Be that as it may, the Applicant’s market share increased in 2024 with the total SACU market share of imports dropping over the period of investigation.
- (h) The Applicant’s total production cost per ton has been increasing over the period 2021-2024. On average, the Applicant’s production cost of A4 and converting reel paper increased during the period 2021-2024. The increase in total production cost was driven by rising direct variable costs, mainly the cost of fibre.
- (i) In terms of competitiveness, it was found that, the Applicant experienced an average price disadvantage in the period 2021-2024 on A4 paper. However, the price disadvantage on A4 paper declined over the period of investigation. Interesting to note that while import threat appears to be originating from the EU, particularly from Portugal; however, the Applicant enjoyed an average price advantage against imports from Portugal. This price advantage declined over the period 2022-2024. It was found that the Applicant enjoys a price advantage over imports of reel paper under General and experienced an average price advantage over the period 2022-2024.
- (j) In terms of reciprocity commitment, the Applicant submitted that should tariff support be granted, the total production volume of the subject products would increase. Despite the increase in production volume and decline in employment following tariff support. The Applicant submitted that the purpose of this application is to protect and retain current jobs and will most likely not create further job opportunities.

- (k) Should the requested tariff support be granted, the Applicant submits that the tariff support sought will result in a reduction in imports, and higher domestic sales volumes, thereby creating a more viable business environment for the sustainability of the Mondi Merebank mill.
- (l) Regarding comments received from manufacturers and stakeholders, most of the stakeholders objected to the application and there was only one comment which supported the application.

In light of the comments received, the WTO bound rate levels, as well as the analysis conducted, the Commission decided not to recommend an increase in the rate of customs duty on other paper and paperboard, not containing fibres obtained by a mechanical or chemi-mechanical process or of which not more than 10 per cent by mass of the total fibre content consists of such fibres classifiable under tariff subheadings 4802.56.90 from 10 per cent *ad valorem* to 20 per cent *ad valorem*, and 4802.55.20 and 4802.57.20, from free of duty to 20 per cent *ad valorem*, respectively, through the creation of additional 8-digit tariff subheadings. Further, there is no *prima facie* evidence that the Applicant is experiencing pressure or threats from imports under the General column and as such, any duty increase will not be effective in assisting the Applicant but would rather have a cost-raising effect. The threat from most imports emanates from the European Union (“EU”) which South Africa has a free trade agreement with. Consequently, the more appropriate trade instrument to address imports from the EU would be trade remedy measures such as safeguard or anti-dumping measures.

1. APPLICATION AND TARIFF POSITION

- 1.1. Mondi South Africa (Pty) Ltd, applied for an increase in the general rate of customs duty on other paper and paperboard, not containing fibres obtained by a mechanical or chemi-mechanical process or of which not more than 10 per cent by mass of the total fibre content consists of such fibres classifiable under tariff subheadings 4802.55.20 and 4802.57.20 from free of duty to 20 per cent *ad valorem*, through the creation of additional 8-digit tariff subheadings and tariff subheading 4802.56.90 from 10 per cent *ad valorem* to 20 per cent *ad valorem*, respectively.

1.2. The Applicant is one of the major local manufacturers of office paper, also known as cut sheet or uncoated copy paper used in printing or other graphic purposes (A3 and A4 office paper). The Applicant also manufactures uncoated fine paper in reels format for printing and conversions on large printing machines.

1.3. As reasons for the application, the Applicant stated, inter alia, the following:

- a) The paper industry is under significant pressure due to a structural decline in the South African market, which has been accelerated by COVID-19 impacts and ongoing threats from imports.
- b) The purpose of this application is to improve the industries' long-term sustainability, thereby protecting jobs, livelihoods and the economic contribution the industry makes towards the national fiscus.
- c) The Applicant's estimates in respect of market decline, South African Uncoated Fine Paper ("UFP") market contracted by 19% on a normalised basis from 2019 to 2024, where cut paper has been declining by 20% and reels declined by 18%. Imports have taken up a valuable portion of the domestic UFP market adversely impacting the sustainability of South African producers. The year 2023 showed some growth, however this is largely due to stock replenishment in 2023 following supply disruptions in 2022 due to the flood at the Mondi Merebank facility.
- d) The market decline was accelerated by COVID-19 as business and people have changed the way they work. Working from home and accelerated digitalisation has had a noticeable adverse impact on paper consumption.
- e) Imports continue to represent a significant portion of the South African market and compete directly with South African producers. Surplus global capacity and a decline in global consumption will result in ongoing and continued threats from imports. Cheap imports being offered into the South African market are normally the result of international producers trying to move goods from excess capacity at a marginal cost, which do not cover all production and transport costs. These international producers are generally protected in their own markets by import duties, subsidies or export incentives.
- f) The domestic producers already have approximately 91k tons more capacity than the domestic demand. The surplus capacity is sold into the export market. Imported products displace domestic volumes which would otherwise be

- supplied by the domestic producers, thereby increasing the volumes that the domestic producers must enter export markets, often at less favourable margins.
- g) The continued price undercutting by importers continues to make it challenging for local manufacturers to secure the required volumes to sustain profitable operations. The Applicant was forced to permanently close capacity in 2018 as it was not profitable to maintain the paper machine PM33. Recent comments from an antagonistic European importer stated that the objective was to close down one of the local mills by aggressively pricing at levels with which local producers cannot compete.
 - h) The Applicant indicated that South African producers face ongoing cost pressures, most notably annual labour and significant above inflation electricity increases. The Government regulated electricity prices with significantly higher than inflation annual increases, which is a major contributor to the domestic producers' global competitive position being eroded. Most of the Applicant's import competitors do not face the same ongoing cost escalations, which further weakens the South African competitive position.
 - i) The Applicant indicated that they were forced to curtail production in both 2020 (10 000 tons) and 2021 (1 400 tons) on its only remaining Uncoated paper Machine due to weak demand. Imports were listed as a significant factor in the decision to slow down production and implement days of production downtime.
 - j) The Applicant further indicated that they review the market on an on-going basis and there is a strong possibility that the Merebank mill will take commercial downtime if imports continue at current levels.

TARIFF STRUCTURE

- 1.4 Tariff subheading 4802.56.90 (A4 paper) currently attracts a 10 per cent *ad valorem* customs duty under General and Mercosur and 5 per cent when imported under the African Continental Free Trade Agreement ("AfCFTA") and is currently free of duty when imported from the European Union/United Kingdom ("EU/UK"), the European Free Trade Association ("EFTA") and the Southern African Development Community ("SADC").

1.5 However, tariff subheadings 4802.57.20 and, 4802.55.20 are currently free of duty when imported under the General, the EU/UK, EFTA, SADC and Mercosur.

Table 1: Tariff position for the subject products

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty				Mercosur	AfCFTA
				General	EU/UK	EFTA	SADC		
48.02		Uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, and non perforated punch-cards and punch tape paper, in rolls or rectangular (including square) sheets, of any size (excluding paper of heading 48.01 or 48.03); hand-made paper and paperboard:							
	4802.55	Of a mass of 40 g/m ² or more but not more than 150 g/m ² , in rolls:							
	4802.55.20	Other, of a width exceeding 150 mm	Kg	free	free	free	free	free	free
	4802.55.90	Other	Kg	free	free	free	free	free	free
	4802.56	Of a mass of 40 g/m ² or more but not more than 150 g/m ² , in sheets with one side not exceeding 435 mm and the other side not exceeding 297 mm in the unfolded state:							
	4802.56.20	In rectangular (including square) sheets with one side exceeding 360 mm and the other side exceeding 150 mm in the unfolded state	kg	5%	free	free	free	5%	2.5%
	4802.56.90	Other	kg	10%	free	free	free	10%	5%
	4802.57	Other, of a mass of 40 g/m ² or more but not more than 150 g/m ² :							

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty				Mercosur	AfCFTA
				General	EU/UK	EFTA	SADC		
	4802.57.20	Other, in strips or rolls of a width exceeding 150 mm; in rectangular (including square) sheets with one side exceeding 360 mm and the other side exceeding 150 mm in the unfolded state	kg	free	free	free	free	free	free
	4802.57.90	Other	kg	free	free	free	free	free	free

(Source: SARS)

1.6 The Applicant requested a duty increase on tariff subheading 4802.56.90 from 10 per cent *ad valorem* to 20 per cent *ad valorem* and on tariff subheadings 4802.57.20 and 4802.55.20 from free of duty to 20 per cent *ad valorem* duty. It should be noted that the World Trade Organisation (“WTO”) bound rate on HS 4802.55.20 and 4802.57.20 is 5% *ad valorem*.

Table 2: Requested tariff position

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty				Mercosur	AfCFTA
				General	EU/UK	EFTA	SADC		
48.02		Uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, and non perforated punch-cards and punch tape paper, in rolls or rectangular (including square) sheets, of any size (excluding paper of heading 48.01 or 48.03); hand-made paper and paperboard:							
	4802.55	Of a mass of 40 g/m ² or more but not more than 150 g/m ² , in rolls:							
*	4802.55.15	Of a mass of 55 g/m² or more but not more than 90 g/m², of a width exceeding 150mm in the unfolded state	kg	20%	free	free	free	20%	free
	4802.55.20	Other, of a width exceeding 150 mm	kg	free	free	free	free	free	free
	4802.55.90	Other	kg	free	free	free	free	free	free

	4802.56	Of a mass of 40 g/m ² or more but not more than 150 g/m ² , in sheets with one side not exceeding 435 mm and the other side not exceeding 297 mm in the unfolded state:							
	4802.56.20	In rectangular (including square) sheets with one side exceeding 360 mm and the other side exceeding 150 mm in the unfolded state	kg	5%	free	free	free	5%	2.5%
	4802.56.90	Other	kg	20%	free	free	free	10%	5%
	4802.57	Other, of a mass of 40 g/m ² or more but not more than 150 g/m ² :							
*	4802.57.15	Of a mass of 55 g/m² or more but not more than 90 g/m², in strips or rolls of a width exceeding 150mm in the unfolded state	kg	20%	free	free	free	20%	free
	4802.57.20	Other, in strips or rolls of a width exceeding 150 mm; in rectangular (including square) sheets with one side exceeding 360 mm and the other side exceeding 150 mm in the unfolded state	kg	free	free	free	free	free	free
	4802.57.90	Other	kg	free	free	free	free	free	free

(Source: SARS). NB: * new tariff subheading as proposed by SARS

2. DISCUSSION

2.1 The Applicant has three primary operations, namely: Mondi Forestry, Richards Bay Mill, which produce pulp, and the Merebank Mill, which produces the subject products.

Office paper

The subject product is office paper, which is used for writing, printing or other graphic purposes. Office paper is available in different sized cuts, mainly A3 and A4 copy paper. A3 copy paper, (actual size: 297mm x 420mm) which is

classifiable under tariff subheading 4802.56.20 has a mass of 40g/m² or more but not more than 150g/m², in sheets with one side 360mm and the other side 150mm in the unfolded state in rectangular (including square) sheets. A4 copy paper (actual size: 297mm x 210mm), which is classifiable under tariff subheading 4802.56.90, has a mass of 40g/m² or more but not more than 150g/m², in sheets with one side 210mm and the other side 297mm in the unfolded state.

Reels for printing and converting

Uncoated Fine Paper is also manufactured in reel format for printing and conversions on large printing machines. Reels for printing and converting, are often referred to as Converting Reels, which are available in a variety of weights and widths and used to produce several end products through its printing and converting operations. End products typically include envelopes, exercise books, other scholastic printing, wide format printing and other publishing applications. Reels, which are classified under tariff subheading 4802.55.20 are of a mass of 40 g/m² or more but not more than 150g/m², and in rolls of a width exceeding 150 mm. Reels are also classifiable under tariff subheading 4802.55.90 other reels of a mass of 40 g/m² or more but not more than 150g/m².

Pulp

Pulp is the main input used in the production of Uncoated Fine Paper, which is usually a combination of chemical and mechanical pulp. Chemical pulp is a watery fibrous substance made of virgin or recycled cellulose fibres. It is produced by means of the so-called chemical pulping process. In this process, wood is cooked in a digester with chemicals. This breaks down the chemical structure of lignin and renders it soluble in the “cooking” liquor. It is then washed to separate the cellulose fibres. Because lignin holds the plant cells together, chemical pulping frees the fibres to create pulp. The pulp is then bleached to improve strength and to prevent discolouring during storage or due to exposure to sunlight.

2.2 According to information at the Commission's disposal, the Applicant provided the names of three other local manufacturers of paper in the Southern African Customs Union (SACU), namely:

- a) SAPPI Ltd (SAPPI); and
- b) Corruseal Group (Pty) Ltd (Corruseal).
- c) Paper Manufacturers South Africa ("PAMSA")

2.3 The demand for the subject products is driven mainly by end-consumers. A4 paper is the most widely used copy paper, being used for, inter alia, photocopying, printing and for general use in businesses, government, schools and homes. Converting Reels are used on printing presses to produce a wide range of end products. These include general printing, advertising material, book and exam pad manufacturing, textbooks and exam material.

ECONOMIC, TRADE AND COST ANALYSIS

2.4 The demand for the subject products is largely dependent on the state of the economy and consumer preference (i.e. paper vs digital media). On the other hand, the production of the subject products also depends on the affordability and availability of input products (e.g. pulp).

2.5 The industry is faced with a downward trend in market demand, and this was attributed to a combination of electronic media, electronic document storage, imports and the drive to reduce costs. Furthermore, there is a long-term declining trend due weak economic growth, digitisation and subdued demand for the subject products.

2.6 The Applicant's production of the subject products experienced a downward trend over the period of 2021 to 2024. However, production volumes of A4 paper fluctuated with an increase in 2024. Whilst production volume of converting reel paper also fluctuated however, declining in 2024. The Applicant submitted that it was forced to curtail production (i.e. commercial downtime) in both 2020 (10,000

tons) and 2021 (1,400 tons) on its only remaining Uncoated Fine Paper Machine due to weak demand.

2.7 The Applicant's total production volume declined, and the Applicant's total SACU sales volume experienced an average decline over the period in question 2021 to 2024. It should be noted that the average decline in A4 sales volumes over the period of investigation is partly attributable to the weak state of the economy as well as the effects of the COVID-19 pandemic. In addition, the emergence of new technologies and changes in consumer trends including increased preferences for digital media has a direct impact on the sales volumes of the subject products.

2.8 The Applicant's production capacity utilisation is dependent mostly on local and export demand. Production capacity utilisation for A4 paper fluctuated from 2021 to 2024 while the Applicant's production capacity utilisation for converting reels of paper remained relatively stable over the period 2021 to 2024.

2.9 The price competitiveness is based on imports under "General". It should be borne in mind that most of imports of A4 paper originated from the "EU/UK" in 2024, mainly originating from Portugal. On the other hand, majority of imports of converting Reels paper originated from "General" in 2024, with Indonesia, China and United Arab Emirates, collectively, being major exporters.

2.10 The Applicant's total production cost per ton for both A4 and converting reels has been increasing over the period 2021-2024. The increase in total production cost was driven by rising direct variable costs, mainly the cost of fibre. Considering increasing production costs, the Applicant experienced an average price disadvantage over the period 2021-2024 on A4 paper. It is interesting to note that while the import threat appears to be originating from the EU/UK, particularly from Portugal, the Applicant enjoyed an average price advantage against imports from Portugal in 2022. On the other hand, the Applicant enjoys a price advantage over imports of converting reel paper under General and experienced an average price advantage over the period 2022-2024.

2.11 Following the decline in production and sales volumes, the Applicant's total employment declined by 26 jobs, of which 17 were due to retirement and reduction

of temporary employees. The Applicant currently employs 355 people, of which 272 are direct factory workers.

2.12 Imports of the subject products mainly originate from countries under “General”, followed by “EU/UK” and “Mercusor”. Total import volumes were on a downward trend over the period 2018-2020, with imports under “General” experiencing a sharp decline. Total import volumes for A4 paper and converting reel paper declined by 31% between 2018 and 2020. With import volumes declining over the period under investigation, the import share compared to the SACU market remained relatively flat at an average of 6% for A4 paper and 34% for reel paper. On the other hand, despite declining sales volumes, the Applicant’s SACU market share recorded a marginal increase. This is due to the fact that the decline in import volumes was much more than that the decline in the Applicant’s sales volume.

2.13 In general, import volumes of A4 paper from Russia and Indonesia declined sharply between 2018 and 2020, and continued to decline during the course of 2021 (end of August). On the other hand, despite an increase in 2019, import volumes from Portugal and Brazil remained constant between 2018 and 2020.

2.14 Similarly, import volumes of converting reel paper from Indonesia, Brazil and India declined between 2018 and 2020, while imports from the United Arab Emirates experienced a marginal increase.

2.15 Reciprocal commitments made by the Applicant for the requested tariff support were provided based on its projections and budget for the period 2021-2023. After tariff support, the Applicant submitted that it would result in a reduction in imports, and higher domestic sales volumes, thereby creating a more viable business environment for the sustainability of the Mondi Merebank mill.

2.16 According to information submitted by the Applicant, despite the increase in production volume, employment appears to be declining following tariff support (i.e. eight job losses). The Applicant submitted that the purpose of this application

is to protect and retain current jobs and will most likely not lead to the creation of further job opportunities.

COMMENTS RECEIVED

2.17 Comments were received from the Brazilian Tree Industry (IBA), Caxton and CPT Publishers and Printers Limited (“CTP”), Converted Paper Products (“CPP”), Formax (Pty) Ltd, Jackaroo South Africa Proprietary Limited (“Jackaroo”), Martin Smith cc, Nor Paper, Progress Boss, Sappi Paper & Paper Packaging (“SAPPI”), Shakti Distributors cc (“Shakti”), Printing SA, Ubuntu Printers and Stationers cc (“Ubuntu”).

2.18 In their objection, the interested parties cited, amongst others, the following:

- a) Market Dynamics: the data shows that the South African domestic paper industry is resilient and holds a dominant market share (79-80%). Imports supplement rather than replace domestic production, and their share remains relatively low (20-21% in recent years). This suggests that imports are not destabilising the local market.
- b) Implementing the tariff would result in closure of package insert printing business as a manufacturer/converter as material can only be sourced internationally. This is because the Applicant does not supply 40gsm-60gsm package insert paper in sheets or rolls. The tariffs would price us out of that market against international competition, affecting 40% of overall business.
- c) Not only would it result in lower employment capacity. The large tariff increase makes no sense given that Mondi will never supply this specific paper due to mill capacity and machinery availability for production. As such it appears the tariff increase is self-serving for Mondi and does not consider the industry wide impact.
- d) Increased tariffs would raise production costs, forcing price hikes or job cuts, especially for smaller enterprises. The downstream impact would affect publishing, education, and packaging sectors, increasing costs for consumers and the government.

- e) Limited local supply by manufacturers cannot currently meet quality and volume requirements, leaving businesses with fewer alternatives.
- f) On cut size paper, between Mondi and Sappi, they totally dominate the market with about 90% market share. The price point they sell in this market makes it very difficult for imports to compete. The 5% duty applies to non-European suppliers. Comments in Mondi's application point to a European supplier being very aggressive in South Africa, however said European supplier would not be affected by any increase in duties as Europe remains exempt.

2.19 Comments in support of the application were received from Sappi citing, amongst others, the following reasons:

- a) They have similarly seen a 17% decrease in the domestic cut market size from 2019 to 2024 in tons.
- b) Sappi is in agreement with this estimation. Mondi noted that domestic producers have +/- 75,000 tons excess capacity than current market requirement.
- c) Mondi noted the need in recent years to undertake periods of commercial downtime. SAPPI Stanger Mill was likewise required to undertake periods of commercial downtime particularly during 2024 due to weak domestic demand, imports being an exacerbating factor.
- d) Mondi noted the need in recent years to undertake periods of commercial downtime. SAPPI Stanger Mill was likewise required to undertake periods of commercial downtime particularly during 2024 due to weak domestic demand, imports being an exacerbating factor.
- e) Between 2022 and 2024, South Africa has witnessed a significant 85% increase in the volume of imported cut paper. This surge in imports has been driven by various factors, including more competitive pricing from foreign producers, global supply chain adjustments, and favourable exchange rates in certain countries. While the volume of imports has sharply risen, the pricing of imported paper has decreased by 11% over the same period.

APPLICANT'S RESPONSE TO INTERESTED PARTIES' COMMENTS

- 2.20 The Applicant submitted the following counter-responses in respect of comments received from interested parties. In its response, the applicant addresses concerns and clarifies Mondi's position on several issues.
- a) The Applicant indicated that the purpose of the application is to improve its competitive position in a declining global market, not to increase product prices. The sustainability of its Merebank mill is under threat due to rising imports and declining local demand.
 - b) The Applicant refutes claims that its products are incompatible with inkjet printers and highlights rising imports from Brazil, Thailand, Indonesia, and Portugal. European imports are excluded from the duty application due to trade agreements (i.e. free of duty).
 - c) The Applicant clarified that profits from its Richards Bay mill are irrelevant to the application and emphasised the need for support to sustain the Merebank mill. It also addresses erroneous claims about reduced imports and quality issues.
 - d) The Applicant highlights its investments in innovation and infrastructure, including floodproofing measures and energy cost improvements. It argues that customs duties will strengthen the local industry and protect jobs.
 - e) Mondi addresses concerns about folio sheets, pricing, and export challenges. It emphasised the importance of protecting the local industry and jobs while refuting claims about financial statements and cost details.
 - f) Mondi refutes inaccuracies in their objection, clarifying that folio/flat sheets are excluded from the duty application, correcting arithmetic errors, and addressing market share assumptions. Mondi highlights significant investments in its South African operations and its ability to meet market demand.
 - g) Mondi disputes claims about global dominance and its financial performance, emphasizing that each operation within the group operates independently. It explains its distribution strategy, which relies on resellers to serve smaller customers efficiently.

- h) Mondi addresses concerns about business development support and distribution strategies, reiterating its reliance on merchant partners like Paperlink. It clarifies that folio sheets and coloured papers are excluded from the application and highlights its focus on high-quality, virgin fibre products.
- i) Mondi emphasized its ability to meet local demand, its commitment to quality, and its flexibility in customer service. It highlights declining paper demand due to digitalization and post-Covid impacts.
- j) Mondi emphasized the threat posed by imports in a shrinking market and the need for duties to sustain its operations.
- k) Mondi refutes outdated claims, explaining its distribution strategy and the impact of imports on local pricing and market share. It highlights efforts to improve competitiveness and meet local demand.
- l) Overall, Mondi defends its application by addressing inaccuracies, emphasising its investments, and demonstrating its ability to meet market needs while deterring the growing threat of imports in a declining market.

2.21 The Applicant also noted that several respondents referred to an expectation that an increase or introduction of customs duties would naturally result in an increase in the pricing of Mondi's products in the market. The applicant argued that it should be clarified that the intention of its application is to improve Mondi's competitive position in an oversupplied global market, and not to increase market pricing of its products. Local and global demand is in structural decline, and the sustainability of its business is dependent on a stronger local position, which is under threat from imported products.

2.22 The Applicant emphasised the economic impact and the importance of local procurement policies and the risk of losing 897 jobs nationally if the application is unsuccessful.

2.23 The applicant further committed to improve its efforts in innovation, efficiency, and infrastructure investments to remain competitive globally. It concluded by reiterating Mondi's commitment to addressing objections and supporting the sustainability of its Merebank mill.

3. FINDINGS

- 3.1 Information at the Commission's disposal, indicates that the Applicant and Sappi are the only two known manufacturers of the subject products. The subject products are A4 paper and reels for printing and converting. A4 paper is the most widely used paper types/sizes, being used for, inter alia, photocopying, printing and general use in businesses, government, schools and homes. The demand for the subject products is largely dependent on the state of the economy and consumer preference (i.e. paper vs digital media).
- 3.2 Converting Reels are used as intermediate inputs by the downstream industries, and they are used on printing presses to produce a wide range of end products. These include general printing, advertising material, book and exam pad manufacturing, textbooks and exam material.
- 3.3 In terms of market and trade data analysis it was found that the Applicant is faced with various challenges. The industry is faced with a downward trend in market demand, and this was attributed to a combination of electronic media, electronic document storage, imports and the drive to reduce costs. Furthermore, there is a long-term declining trend due weak economic growth, digitisation and subdued demand for the subject products.
- 3.4 Both Applicant's total production and SACU sales of the subject products experienced a downward trend over the period 2021 to 2024. The Applicant was forced to curtail production (i.e. commercial downtime) in both 2020 (10,000 tons) and 2021 (1,400 tons) on its only remaining Uncoated Fine Paper Machine due to weak and subdued demand.
- 3.5 It should be noted that the average decline in A4 sales volumes over the period of investigation is partly attributable to the weak state of the economy as well as the post-effects of the COVID-19 pandemic. In addition, the emergence of new technologies and changes in consumer trends including increased preferences for digital media has a direct impact on the sales volumes of the subject products.

- 3.6 In terms of trade data, total import volumes of A4 paper increased exponentially during the period 2021-2024, driven mainly by imports from the EU region, with total imports increasing their SACU market share over the investigation period from 7% to 13%. Import volumes from the EU region have increased its share in total imports, rising from 40% in 2021 to almost 50% by 2024. On the other hand, the share of imports under General to total imports has declined.
- 3.7 It was found that total import volumes of converting reels paper declined by an average of 21% during the period 2021-2024. However, it should be noted that the share of imports in the domestic market only accounted for 10% in 2021 and increased marginally to 12% in 2024. Be that as it may, the Applicant's market share increased in 2024 with the total SACU market share of imports dropping over the period of investigation.
- 3.8 The Applicant's total production cost per ton has been increasing over the period 2021-2024. On average, the Applicant's production cost of A4 and converting reel paper increased during the period 2021-2024. The increase in total production cost was driven by rising direct variable costs, mainly the cost of fibre.
- 3.9 In terms of competitiveness, it was found that, the Applicant experienced an average price disadvantage in the period 2021-2024 on A4 paper. However, the price disadvantage on A4 paper declined over the period of investigation. Interesting to note that while import threat appears to be originating from the EU, particularly from Portugal; however, the Applicant enjoyed an average price advantage against imports from Portugal. This price advantage declined over the period 2022-2024. It was found that the Applicant enjoys a price advantage over imports of reel paper under General and experienced an average price advantage over the period 2022-2024.
- 3.10 In terms of reciprocity commitment, the Applicant submitted that should tariff support be granted, the total production volume of the subject products would increase. Despite the increase in production volume and decline in employment following tariff support. The Applicant submitted that the purpose of this application is to protect and retain current jobs and will most likely not create further job opportunities.

3.11 Should the requested tariff support be granted, the Applicant submits that the tariff support sought will result in a reduction in imports, and higher domestic sales volumes, thereby creating a more viable business environment for the sustainability of the Mondi Merebank mill.

3.12 Regarding comments received from manufacturers and stakeholders, most of the interested parties objected to the application, with only Sappi supporting the application.

4. **RECOMMENDATION**

4.1. In light of the comments received, the WTO bound rate levels, as well as the analysis conducted, the Commission decided not to recommend an increase in the rate of customs duty on other paper and paperboard, not containing fibres obtained by a mechanical or chemi-mechanical process or of which not more than 10 per cent by mass of the total fibre content consists of such fibres classifiable under tariff subheadings 4802.56.90 from 10 per cent *ad valorem* to 20 per cent *ad valorem*, and 4802.55.20 and 4802.57.20, from free of duty to 20 per cent *ad valorem*, respectively, through the creation of additional 8-digit tariff subheadings. Further, there is no *prima facie* evidence that the Applicant is experiencing pressure or threats from imports under the General column and as such, any duty increase will not be effective in assisting the Applicant but would rather have a cost-raising effect. The threat from most imports emanates from the EU with which South Africa has a free trade agreement. Consequently, the more appropriate trade instrument to address imports from the EU would be trade remedy measures such as safeguard or anti-dumping measures.