Portfolio Committee on Trade & Industry

Briefing by ITAC on steel and sugar tariffs

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Date: 12 June 2018

International Trade Administration Commission of South Africa

enabling FAIR TRADE

PRESENTATION OUTLINE

Points of discussion:

1. Background - Challenges faced by the steel & sugar industries
2. Tariff support given to these industries
3. Reciprocal commitments
4. Update on pending investigations

SUGAR INDUSTRY: BACKGROUND

- The continued influx of duty paid imports into the Southern African Customs Union (SACU); During the 2016/17 and 2017/18 seasons, duty free sugar from Swaziland accounted for approximately 45% and 40% of total imports into South Africa, respectively;

- The South African market is highly competitive as local millers compete with duty free imports from Swaziland and the Southern African Development Community (SADC), and duty-paid imports from elsewhere;

- Imports of sugar for the 2015/16 marketing period declined by 32%. In the 2016/17 marketing period, imports of sugar increased significantly by 253%, reaching a 3-year high. Imports from Brazil and United Arab Emirates (UAE) accounted for approximately 49.1% and 24.9%, respectively in 2016/2017, amounting to a combined total of approximately 74.1%.

- The current level of the Dollar Based Reference Price (DBRP) at US$566/ton is below cost of production;

- Long term downward trend: reduced profitability driven by increase in input costs and stagnant yields;

- The number of Small Scale Growers (SSG) is declining due in part to the 21% cut in their prices in 2015/16, compounded by one of the worst droughts in history and increased cost of production;

SUGAR INDUSTRY: BACKGROUND (CONT.)

- Inability to pass the escalating costs of production onto consumers. In 2015/2016, total costs increased by 22% while selling price only increased by 10%. This was unsustainable and in order to address this, in 2016/2017 net selling prices were increased by more than 30% against total cost increases of 16%;
- SSG face even tougher challenges because the smaller size of their operations, quality of land, distance from mills, different tenure system (farm on communal land) and other factors make their cost of production much higher than that of the average commercial farmer;
- Despite an increase in the SACU demand for sugar, the market share of domestic sugar producers declined from 95% in 2015/16 to approximately 84% in 2016/17, while the share of imports increased from 5% to 16% during the same period. On average, the share of imports was recorded at 10% between 2014/15 and 2016/17;
- Since the 2014/15 season to date, the South African sugar producers have been experiencing losses;
- According to SASA, the SA sugar industry's employment figures are based on a survey conducted in 2011, which indicated that a total of 105 739 people were employed in the sugar industry, with 76 418 employees directly involved in the production of sugar cane and sugar; and
- Health Promotion Levy.

TARIFF SUPPORT GIVEN TO THE SUGAR INDUSTRY

The level of tariff support is determined by a variable tariff formula, which is based on the Dollar-Based Reference Price (DBRP) currently set at US$566/ton. The DBRP is calculated taking into account the four year average global price, cost distortions, transportation costs and exchange rate.

Adjustments to the level of duty protection are triggered by sustained deviations from the DBRP. The current applied duty is 55%, up from 42% in March.

The maximum permissible duty is 105% in terms of South Africa's commitments at the World Trade Organisation (WTO) (the Bound Rate).

Current application seeks to raise the DBRP to US$856/ton. At the current trigger, the duty will exceed 105%. Any duty applied will have to be capped with the Bound Rate.

Advantages of variable tariff formula:

- It better suits the circumstances surrounding the production and trade of sugar than the normal *ad valorem* import duties.
- Swift reaction is required due to the high frequency of the peaks and troughs evident in the price cycles of this commodity.
- The formula also accommodates exchange rate fluctuations.

RECIPROCAL COMMITMENTS

Reciprocal commitments are those undertakings which applicants commit to in exchange for support.

SAFDA and SASA have prepared a reciprocity proposal which includes the following:

- Meaningful improvement in the price paid to SSGs for cane delivered, relative to commercial growers;
- An industry resolution to deal with challenges associated with current Daily Rateable Deliveries for SSGs (i.e. delays in processing of SSG cane by millers which result in the deterioration in quality and poor prices);
- Ensure access to New Cane Varieties for small-scale growers;
- The improvement of Cane Transport systems for small-scale growers;
- Meaningful and sustainable transformation in the sugar industry;
- Address diseconomies of scale between small-scale growers and large-scale growers;
- Accelerate land transfer to black growers;
- Sustain current employment and create new jobs;
- Promote productive and sustainable farming and business practises;
- Fast-track equitable economic participation by black owned entities in the sugar value chain; and
- Target youth development and stimulate and support entrepreneurial activities in rural areas.

RECIPROCAL COMMITMENTS (CONT.)

Reciprocal commitments linked to tariff support:

1. **SASA administered initiatives:**

a) Premium Payment to Black Growers Delivering Cane:
- The augmentation of the Supplementary Payment Fund;
- A Top-Up Cane Payment Fund for Small-Scale Growers; and
- Top-Up Cane Payment Fund for Black Land Reform Growers and New Freehold Growers.

2. **Establishment of a Sugar Industry Trust with the following responsibilities**

a) Seed Capital to Support Cane Establishment and Expansion of Cane Areas;
b) Seed Capital for land acquisition to complement the land reform programme, especially land restitution;
c) Seed Capital for Value chain participation initiatives in agro-processing and downstream activities;
d) Development finance for Small-Scale Black Growers and Land Reform Growers;
e) Youth development and rural enterprise development; and
f) Other Small-Scale Grower and Black Grower Related Subsidies.

RECIPROCAL COMMITMENTS (CONT.)

- According to SASA, the availability of funding for reciprocity projects will depend on the industry's ability to increase revenue through improved local market sales by raising prices to cover costs. Notwithstanding the level of the DBRP, the level of the world sugar prices and the maximum duty that can be gazetted becomes particularly important.

- SASA stated that the industry has committed a minimum of R1 billion to reciprocity projects over a three year period, to be initiated on the gazetting of a Dollar-Based Reference Price of US$856/ton. The amount will be evenly spread over three years unless circumstances require a different distribution of funding over the three years.

- SASA stated that the industry will work expeditiously to finalise a mechanism for funding over and above the minimum commitment of R1 billion referred to above, should the Bound Rate cease to adversely impact the local industry's ability to recover costs.

UPDATE ON PENDING INVESTIGATIONS

Timelines:

Action:	**Date:**
• Duly completed application:	09 April 2018
• 1st Commission meeting:	08 May 2018
• Publication date (3 weeks):	11 May 2018 ending 01 June 2018
• Extension provided based on specific requests until:	08 June 2018
• Special Commission meeting:	26 June 2018

- Oral presentations in equal slots to be made on 26 June 2018, include:
  - ✓ Sugar Task Team (DTI sector desk to lead presentation)
  - ✓ Sugar Importers
  - ✓ Downstream users of sugar
  - ✓ SAFDA
  - ✓ SASA

- Subsequently, the Commission’s recommendation will be forwarded to the Minister of Trade & Industry, who is the decision making authority and if he approves ITAC’s recommendation and it involves a tariff amendment, he will request the Minister of Finance to implement the amendment in the Customs & Excise Act through a publication in the Government Gazette.

STEEL INDUSTRY: BACKGROUND

The major challenges facing the steel industry include the following:

- the global overcapacity which still defines the international trade landscape and which is likely to remain as several steelmakers globally plan additional capacity increases in future.
- Concerns about the import diversion arising from President Trump's imposition of new tariffs of 25% on imports of steel into the US on the grounds of "national security" provided for in Section 232 of the US Trade Expansion Act of 1962. The local steel manufacturers which have significant exposure to the US market are likely to be materially affected by this decision.
- Subdued domestic steel demand due to subdued infrastructure spend and increasing costs (electricity, labour and raw material).
- Concerns regarding duty circumvention have been raised regarding the possible misuse of .90.90 and .99 "other" subcategories classifiable under tariff heading 7307 and 7326. The relevant tariff subheadings are usually free of duty.

Substantial trade support in the form of ordinary customs duties and safeguard duties has been provided to the local steel producers, particularly primary steel producers.

A steel committee has been set up to coordinate a response to the above mentioned challenges.

TARIFF SUPPORT GIVEN TO THE UPSTREAM STEEL INDUSTRY

NO.	APPLICANT	PRODUCT	STATUS
1.	South African Iron and Steel Institute (SAISI) - representing ArcelorMittal South Africa Limited (AMSA) & Safal (Pty) Ltd	Galvanised/ Coated & Painted Steel	Implemented on 25 September 2015.
2.	SAISI representing AMSA	Wire Rod	Implemented on 18 December 2015.
3.	SAISI representing AMSA	Re-enforcing Bar (Rebar)	Implemented on 18 December 2015.
4.	EVRAZ Highveld Steel and Vanadium Corporation (Pty) Ltd	Structural Steel	Implemented 04 August 2017.
5.	AMSA	Semi-finished Steel	Implemented on 12 February 2016.
6.	AMSA	Steel Plates	Implemented on 12 February 2016.
7.	AMSA	Cold-Rolled Steel	Implemented on 12 February 2016
8.	AMSA	Steel Sections	Implemented on 12 February 2016.
9.	AMSA	Hot Rolled Steel	Implemented on 10 June 2016.
10.	AMSA	Other Bars, Rods & Forges	Implemented on 24 June 2016.

RECIPROCAL COMMITMENTS

- ArcelorMittal South Africa Ltd (AMSA) and Safal Steel (Pty) Ltd (Safal) have made commitments on pricing, investment, employment, supply-side measures and output in general.

- The major manufacturer of primary steel, AMSA, has committed to the following:

  - Competitive prices for flat steel in line with the basket price model determined by government for the sustainability of the downstream industry;
  - No import parity pricing;
  - To invest R4.6 billion in plant and machinery in the next 5 years; and not to retrench, subject to financial and economic feasibility and market circumstances; and
  - Pricing model and rebate schemes on value added exports for the re-rollers.

- The establishment of a Committee comprising the primary steel producers, downstream users, the dti, EDD and other experts to monitor the reciprocal commitments and the impact of tariff support on the steel value chain.

TARIFF SUPPORT GIVEN TO THE DOWNSTREAM INDUSTRY

- ITAC initiated investigations during 22 July 2016 and 23 September 2016 on a number of downstream steel industry products. The review was as a result of a significant number of SACU downstream manufacturers expressing concerns regarding the lack of tariff protection against imports of finished products that enter the country at low prices.

- Responses from the downstream industry were received from the firms that manufacture steel wire; screws, bolts and nuts; tube and pipe fittings; white good appliances; pre-fabricated structures; grinding media; welded link chains; gabions of wire netting; stranded wire, ropes and cables.

- During the investigation on primary steel products, it was established that there are products which are not manufactured domestically but are classifiable under some of the tariff headings to which the duties apply. ITAC advised industry that it is prepared to consider other mechanisms to cater for such products. In this regards, on 20 October 2017 ITAC initiated an investigation into the creation of rebate provisions on ordinary customs and safeguard duties applicable to certain primary steel products not manufactured locally, classifiable under Chapter 72.

TARIFF SUPPORT GIVEN TO THE DOWNSTREAM INDUSTRY-CONT

NO.	APPLICANT	PRODUCT	STATUS
1.	ITAC review	Steel wire	Duty implemented from free of duty to 10%
2.	ITAC review	A range of fasteners which include screws, bolts nuts, screw hooks, rivets, cotters, pins, washers and similar articles of iron or steel	Duty implemented from free, 10% and 20% to the WTO bound rate of 15% and 30%
3.	ITAC review	Welded-link chains	Duty implemented from free of duty to 15%.
4.	ITAC review	Forged grinding balls	Duty implemented from free of duty to 15%
5.	ITAC review	Gabions of wire netting	Duty implemented from free of duty to 30%
6.	ITAC review	Prefabricated steel buildings	Duty implemented from free of duty to 20%
7.	ITAC review	Steel ropes, stranded wire and cables	Waiting for SARS to implement the proposed duty from 5% to 15%

Reciprocal commitments

- The tariff review on steel wire, fasteners, welded link chain, forged grinding media, gabions of wire netting, stranded wire, ropes and cables has resulted in commitments by the relevant industries to create 574 jobs, preserve jobs and not retrench in the next 3 years following tariff support.

- Periodic impact assessments will be conducted in this regard to monitor progress.

REBATES CREATED FOR THE DOWNSTREAM

NO.	APPLICANT	PRODUCT	STATUS
1.	Aveng Trident Steel (Pty) Ltd	Structural steel in form of U, I and H	Rebate implemented
2.	Fastenright (Pty) Ltd	Fasteners of stainless steel	Rebate implemented
3.	Afrit Proprietary Limited	Hot rolled steel classifiable under tariff headings 72.08 and 72.25.	Rebate implemented
4.	Leong Jin Special Steel(Africa) (Pty) Ltd	Hot-rolled steel plate classifiable under tariff subheading 7225.99	Rebate implemented
5.	SSAB South Africa (Pty)Ltd	Hot rolled steel classifiable under tariff headings 72.08 and 72.25	Rebate implemented
6.	ITAC review	Certain structural steel in form of I and H classifiable under tariff subheadings 7216.32 and 7216.33	Investigation in progress
7.	Aveng Trident Steel (Pty) Ltd	Coils, not further worked than hot rolled, pickled	Investigation in progress
8.	ITAC review	Certain steel plate - TW Profile Service (Pty) Ltd	Investigation in progress
9.	ITAC review	Certain steel plate - Traxys Africa (Pty)Ltd	Investigation in progress
10.	ITAC review	Certain hot-rolled steel - John Thompson-Division of Actom (Pty) Ltd	Investigation in progress
11.	Defy Appliances (Pty) Ltd	Coated steel for white goods e.g. refrigerators	Rebate implemented

Thank you