



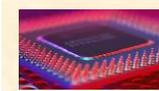
BRIEFING ON THE APP (2017/2018)

TO THE PORTFOLIO COMMITTEE ON ECONOMIC DEVELOPMENT

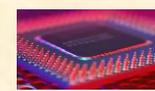
DATE: 03 May 2017

Chief Commissioner: Siyabulela Tsengiwe





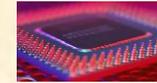
1. Introduction
2. Key Strategic Objectives & Performance Areas & Services.
3. Structure of the Core Functions
4. Tariff Investigations
5. Trade Remedies
6. Update on steel investigations
7. Update on poultry investigations
8. Import and Export Control
9. Impact Assessments
10. Judicial Reviews
11. Resources
12. Priorities for 2017/18



Minister Patel in his foreword to ITAC's APP states:

“ Globalization has reshaped the world in profound ways, with winners and losers. Last year saw the rise of economic nationalism, particularly in Europe and the United States, with greater focus on the costs of global economic integration. This development can impact on our economy, though the nature and extent of the impact is as yet not clear. South Africa is an important trading nation, with our trade to GDP ratio greater than many other economies. What happens on - and with the political economy of - global markets thus affect us very directly.

Given our focus on industrialization, it is clear that we need policy space on trade matters that enables short and medium term support to be given to industries with growth potential, whilst carefully weighing the costs thereof on consumers and competitiveness. Last year we sought to leverage greater economic impact from trade policy choices, particularly on encouraging recipients of tariff changes to continue to invest, upgrade skills and create jobs”.



Minister Davies in the 2017 February SONA debate provides a glimpse to the changes taking place in the global trade policy landscape. On how SA should respond, he states among others that:

“ As a small economy accounting for only 0.5% of world trade if we become overly protectionist, we risk being denied access to other markets on whom jobs and productive sectors in our country depend. If we break trade rules there will be consequences and we risk retaliation. But within these constraints, the emerging new circumstances call on us to be more resolute, and indeed smart in advancing and defending our own national interests. This will include defending our right to take tariff decisions based on our own needs and to deploy appropriate trade remedies”

Ensure contribution to employment creating growth and development through effective delivery of international trade instruments

International Trade Instruments

What will be pivotal in improving the provision of customs tariffs, trade remedies, and import and export control will be the quality and turnaround times.

Customs Tariff Investigations
[Increasing Duties, Reducing Duties, & Creation of Rebates]

Trade Remedies Investigations
[Antidumping, Countervailing & Safeguards]

Import & Export Control
[Permits & Enforcement]

Ensure strategic alignment and continued relevance with the Economic Development Department and national agenda

International Trade Technical Advice

ITAC will become more proactive in the provision of technical inputs and contributions to trade and industrial policy implementation, as well as trade negotiations at bilateral, regional and multilateral levels.

Technical Inputs on Trade and Industrial Policy including Sector Strategies

Technical Inputs on Trade Agreements
[WTO, SADC & SACU];
Bilateral Agreements
[EU, EFTA, MERCOSUR, & INDIA]

Ensure organisational efficiency and effectiveness of ITAC

Business Support Services

The performance of the institution will be driven through appropriate business solutions, efficient and effective utilisation of material, human and information technology resources.

- Human Resources
- Finance
- Information Technology
- Legal Services
- Policy and Research
- Office of the Chief Economist

Tariff Investigation I
Rika Theart

- Agriculture & Agro-processing
- Chemicals
- Textiles
- Clothing and Footwear

Tariff Investigation II
N. Somdaka

- Motors
- Metals and Machinery
- Automotive Production Development Programme (APDP)

Trade Remedies I
Z. Xabendlini

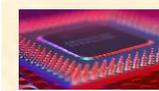
- Anti-dumping
- Countervailing
- Safeguards

Trade Remedies II
C. Van Vuuren

- Anti-dumping
- Countervailing
- Safeguards

Import and Export Control
M. Collins

- Import Permits
- Export Permits
- Enforcement

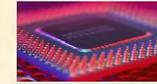


- The NDP provides the long-term vision.
- The NGP, IPAP and the South African Trade Policy and Strategy Framework provide clear policy parameters within which to execute our mandate.
- All the said frameworks are consistent in their call for developmental trade policies and how trade policy should contribute to structural changes in the economy.
- The NGP places employment creation at the centre of economic policy, which has meant that tariff policy has to be sensitive to employment outcomes.
- The Commission follows a developmental approach to tariff setting for both agricultural and industrial goods.

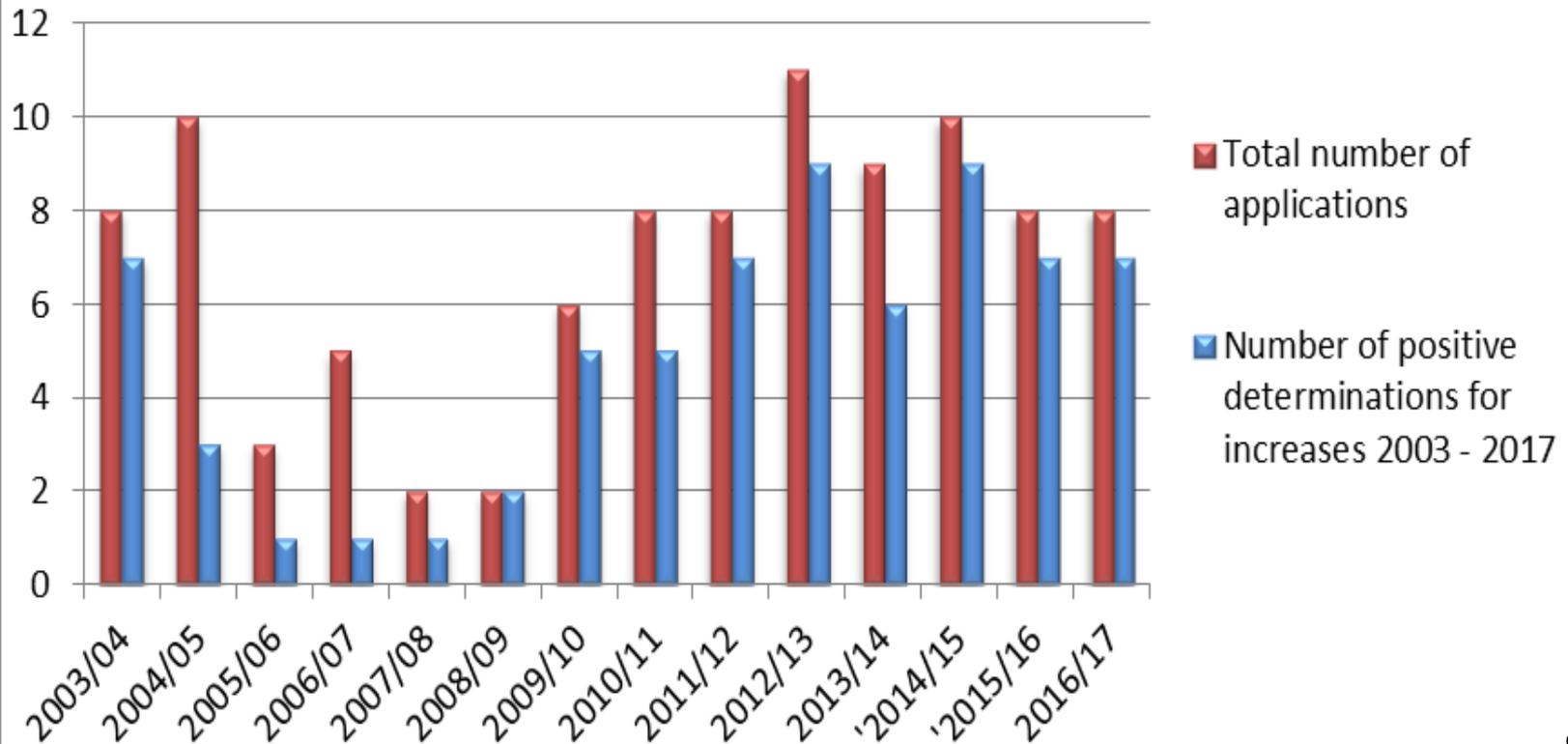


- It is neither a rigid blanket increase nor blanket reduction in tariffs. Tariffs are instruments of industrial policy. The Commission’s recommendations are evidence-based and conducted on a case-by-case basis. In some cases tariffs are increased, in others reduced and also rebates are created. The focus is on the outcomes: increased domestic production, investment, job retention and creation, as well as international competitiveness.
- The ITAC strategy also highlights the approach ITAC has taken and will take on the relevant “jobs drivers” (Infrastructure; Agriculture; Mining; Green Goods; Manufacturing)
- ITAC is placing more focus on measuring the outcomes of its interventions through impact assessments. Putting more emphasis on trade monitoring, conditionalities, proactive initiatives and coordination with relevant government agencies.

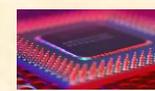




TREND ANALYSIS OF TARIFF INCREASES FOR THE PERIOD 2003 - 2017



- Total number of applications
- Number of positive determinations for increases 2003 - 2017



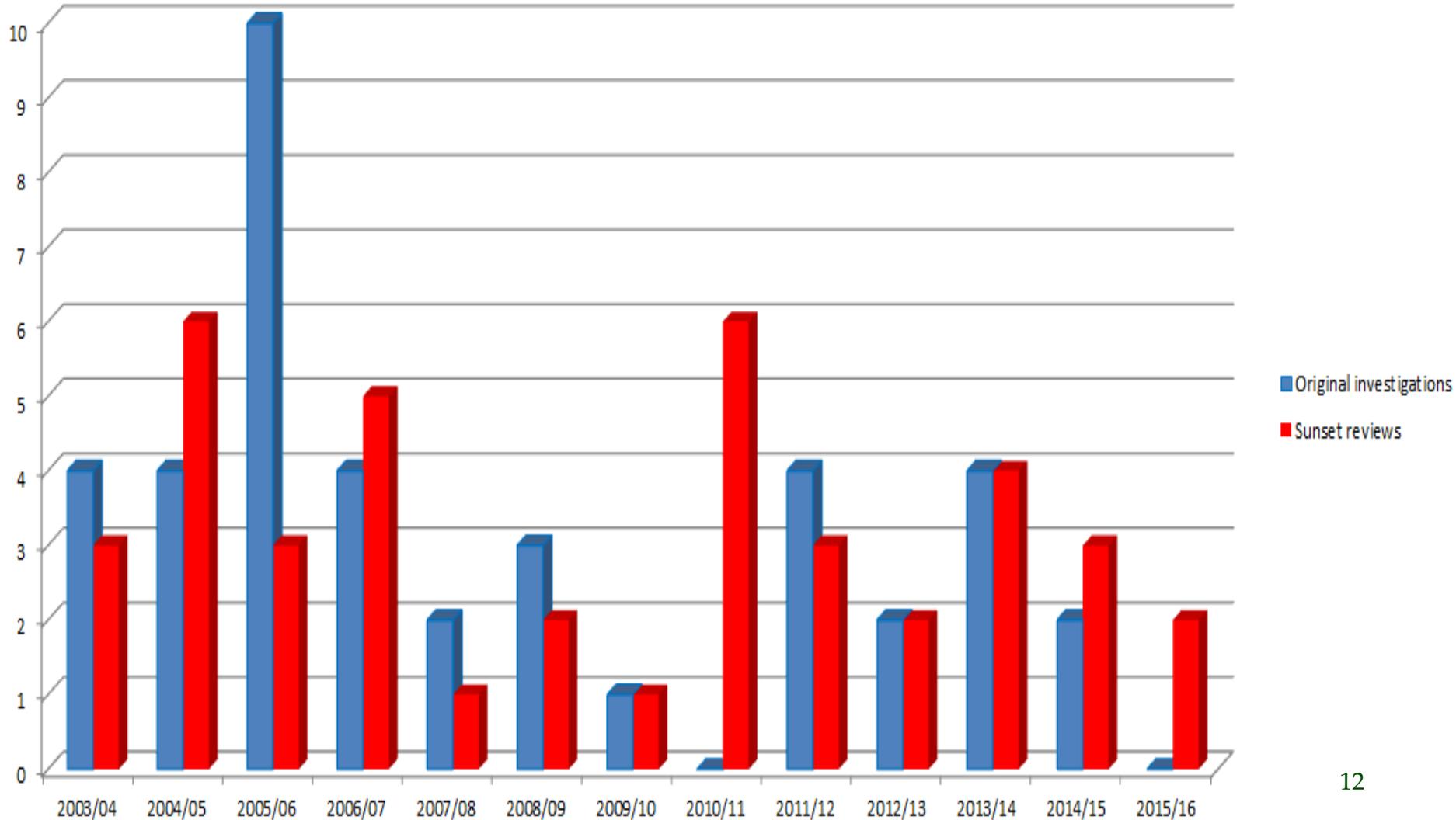
- There are three trade remedy instruments: anti-dumping duties, countervailing duties, and safeguard measures.
- Of these three, anti-dumping is the most frequently invoked, both globally and in South Africa.
- In the years 1995 to 2011, the Commission initiated 13 countervailing investigations, in comparison to the 216 anti-dumping investigations initiated and in the years 2007 to 2011, the Commission initiated two countervailing investigations.

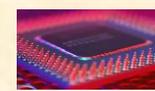


- Since 2012, more interest has been shown in the countervailing instrument and four new applications were received from industry.
- Although only one safeguard investigation, on lysine, has been conducted since 2003, more interest has been shown in this instrument since 2012. One investigation on frozen potato chips was initiated in 2013. Two, on chicory and graphite electrodes, were declined and one, on olive oil also failed to meet the standard. Two safeguard investigations on steel products were initiated in 2015.



Trend Analysis on Anti-Dumping Investigations





- In the year 2015 ITAC conducted ten investigations to increase MFN tariffs rates from zero to 10% based on applications by AMSA and one additional investigation by Evraz Highveld Steel and Vanadium.
- The ten tariff investigations in respect of AMSA covered:
 - galvanised/coated and painted steel; tin plate; wire rod; rebar; semi-finished products of iron or non-alloy steel; steel plate; cold rolled; sections; other bars and rods; and hot rolled.
- The one tariff investigation with regards to Evraz was on structural steel.
- Two safeguard investigations were initiated on Hot Rolled & Cold Rolled steel.
- On 22 August 2016 an investigation was self-initiated by ITAC to look at a possible increase in tariffs on a number of downstream products.
- These investigations take place in the context of tough global and domestic economic conditions that have seen ITAC having to exercise flexibility and pragmatism in response to real economic needs.
- The guiding principle in these investigations has been to ensure economic viability, sustainability of production, investment and jobs in the whole steel industry value chain. In other words SA needs both the upstream and the downstream.

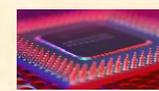


Duties Imposed on Primary Steel



enabling 

APPLICANT	PRODUCT	TARIFF SUBHEADINGS	STATUS
South African Iron and Steel Institute (SAISI) - representing ArcelorMittal South Africa Limited (AMSA)& Safal (Pty) Ltd	Galvanised/ Coated & Painted Steel	7210.70,7212.40, 7210.41,7210.49,7210.61,7210.90, 7212.30 and 7225.99 (8 THS)	Implemented on 25 September 2015.
South African Iron and Steel Institute (SAISI): representing AMSA	Wire Rod	7210.11 ,7210.12 and 7212.10 (3 THS)	Implemented on 18 December 2015.
South African Iron and Steel Institute (SAISI): representing AMSA	Re-enforcing bar (Rebar)	7213.91 and 7227.90 (2 THS)	Implemented 18 December 2015.
Evraz Highveld Steel and Vanadium Corporation (Pty) Ltd	Structural Steel	7214.20,7228.30, and 7228.60 (3 THS)	The implementation of the proposed 10% customs duty on structural steel was deferred until the industry resumes manufacturing the subject products in SACU.
AMSA	Semi-finished Steel	7216.31,7216.32, and 7216.33, and 7216.50 (4 THS)	Implemented on 12 February 2016.
AMSA	Steel Plates	7207.11, 7207.12, 7207.19, and 7207.20 (4 THS)	Implemented on 12 February 2016.
AMSA	Cold Rolled Steel	7208.40,7208.51,7208.52 and 7225.40 (4 THS)	Implemented on 12 February 2016
AMSA	Steel Sections	7209.16,7209.17,7209.18,7209.25,7209.26,7209.27,7209.90,7211.23,7211.29,7211.90,7225.50,7226.92 & 7226.99 (13 TSH)	Implemented on 12 February 2016.
AMSA	Tinplate	7216.10,7216.21,7216.22,7216.31,7216.32,7216.40,7216.50,7216.99, and 7228.70 (9 TSH)	This application was withdrawn as the local industry doesn't manufacture the double reduced tinplate (latest technology).
AMSA	Hot Rolled Steel	7208.10,7208.25,7208.26,7208.27,7208.36,7208.37,7208.38,7208.39,7208.53,7208.54,7208.90,7211.13, 7211.14,7211.19,7225.30,7225.99, 7226.91(17 THS)	Implemented on 10 June 2016.
AMSA	Other Bars, Rods and Forges	7213.20,7213.99,7214.10,7214.30, 7214.91,7214.99,7215.90,7228.30,7228.40,7228.60 and 7228.80 (11 THS)	Implemented on 24 June 2016.



- There has been an increase in imports of primary steel and in particular from China. These low-priced imports have resulted in price disadvantages for the domestic firms. This takes place at the back of a global oversupply of steel that has depressed global steel prices.
- The domestic firms market share declined, reduction in sales volumes and production and its capacity utilisation had to fall.
- We witnessed domestic firms making losses and Evraz closing down.
- Employment has been on a decline in the various plants across the country.
- The distress has not been encouraging on investments.
- A very strategic sector in terms of both backward and forward linkages.

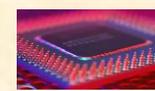


- AMSA and SAFAL made reciprocal commitments on prices so that the downstream users accesses the products at affordable prices.
- AMSA will continue with its value added exports rebate schemes for the re-rollers.
- Pricing model offered by AMSA to the domestic re-rollers must be adhered to.
- AMSA must cooperate with government on developing a pricing model.
- AMSA must retain jobs in the next three years.
- AMSA will invest R4.6 billion in plant and machinery in the next three years.
- ITAC will establish a Committee comprising the primary steel industry, downstream users, government and other relevant experts to monitor the impact of the change in tariffs and steel prices on downstream users as well as the performance of AMSA against the commitments that it has made.
- ITAC will initiate an immediate review of the tariff dispensation in case of a default by the primary steel industry on the above conditions.

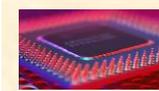


- There has been a concern that there are some types and grades of materials not manufactured by AMSA, which are part of the tariff lines where duties have been imposed. For these the Commission is considering applications for rebates.
- Price commitments were made by AMSA to mitigate the price effect of tariffs for the downstream. There are contesting views as to what has been the cause of the price increases that have been seen in 2016.
- For those downstream producers including re-rollers that are export oriented they will benefit from an existing rebate and duty drawback scheme (470.03 and 521.00) for their imported input materials.
- The Commission has self-initiated an investigation to look at increasing tariffs for the downstream that faces stiff competition from imports of their finished goods.





- The Minister of Economic Development established the Committee of the Commission on Steel in terms of section 14 of the ITA Act, 2002, on 10 June 2016. The purpose is to monitor: the impact of changes in import tariffs; reciprocal commitments made by the applicants; jobs in the whole value chain; and import and export trends. The Committee makes recommendations to the Commission.
- The Committee's membership constitutes the commissioners and industry representatives. **thedti** and EDD officials attend and participate in the Committee. It is only the component of Commissioners that has decision-making powers. The Committee has been established for a period of five years.
- The Committee shall report to the Commission at least bi-annually and its first report to the Commission was made in December 2016.
- Its first meeting was held on 20th June 2016 in which among others presentations were made by the primary industry(SEIFSA and SACCA) and downstream (SAISC and NEASA) and the 2nd meeting was held on 28th July in which presentations were made by NUMSA and Solidarity and continues to meet and engage all the relevant stakeholders.



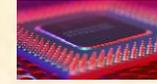
- Import Tariffs on poultry meat were increased towards the end of 2013.
- The increases were based on an application brought by SAPA on behalf of: Rainbow Farms Ltd; Astral Operations Ltd; Sovereign Food Investments Ltd; AFGRI Poultry Ltd; and Supreme Poultry Ltd (Country Bird Holdings).
- The justification to increase tariffs included the rising levels of imports and loss of market share by domestic producers; Decreasing profitability in the face of low priced imports; price disadvantages; and input cost pressures.

Table 3: Requested rates of duty

Tariff subheading	Product description	Current duty	Proposed duty	Ad valorem equivalent	Type of duty requested
0207.12.20	Carcasses (excl. necks and offal) with all cuts (e.g. thighs, wings, legs and breasts) removed.	27%	991c/kg with a maximum of 82%	213%	Specific duty capped with the bound rate
0207.12.90*	Whole bird	27%	1111c/kg with a maximum of 82%	146%	Specific duty capped with the bound rate
0207.14.10	Boneless cuts	5%	12% or 220c/kg with a maximum of 82%	12%	Combination duty capped with the bound rate
0207.14.20	Offal	27%	67% or 335c/kg with a maximum of 82%	67%	Combination duty capped with the bound rate
0207.14.90**	Bone-in portions	220c/kg	56% or 653c/kg with a maximum of 82%	56%	Combination duty capped with the bound rate

*Classification of Other (which includes whole bird)

**Classification of Other (which includes bone-in portion)

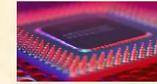


Tariff Subheading	Product	Approved Tariff Regime
0207.12.90	Whole bird	82% bound rate
0207.14.10	Boneless cuts	12%
0207.14.90	Bone-in portions	37%
0207.14.20	Offal	30%
0207.12.20	Carcasses	31%

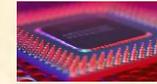


- There are anti-dumping duties on bone-in chicken meat portions originating from the USA that were imposed in 2000.
- These anti-dumping duties have been maintained through sunset reviews in 2006 and 2012.
- In December 2015 a temporary rebate was created to allow for a free anti-dumping duty importation of 65 000 tons of US bone-in chicken portions annually. This was done in the context of SA's continued participation under AGOA.
- There are also anti-dumping duties on bone-in chicken portions against imports from Germany, Netherlands and the UK that were imposed in February 2015.
- ITAC is currently in the final stages of an investigation for a safeguard measure in terms of Article 16 of the TDCA on frozen bone-in portions of chicken originating from the EU.

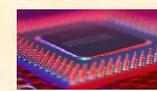




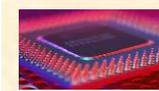
- Import control measures or restrictions in a more globally integrated economy are limited to those allowed under the relevant World Trade Organization (WTO) Agreements.
- Import control measures are essentially for health, safety and environmental reasons. In this regard, ITAC makes a contribution to the green economy. In the enforcement of standards and the curbing of illegal and fraudulent trade, ITAC has positioned itself to play a more strategic role with regard to import control measures and enforcement.
- Minerals beneficiation has been identified as one of the areas where jobs will be created and this has meant an alignment of ITAC's export control measures to give support to beneficiation.



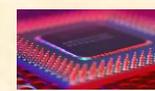
- ITAC has strengthened its export control measures on scrap metal through the introduction of a price preference system to promote investment and employment opportunities in the domestic metals beneficiation and fabrication industries and supply to governments infrastructure programme.
- This followed a policy directive by the Minister of Economic Development aimed at enabling affordable access to quality scrap metal by the consuming industry.
- Since this is the first time that ITAC administers such a system, focus was placed in ensuring its effective administration and managing litigation.



- Different and conflicting interests in the value chain of each investigation may lead to court challenges by parties that stand to lose.
- In respect of court cases, ITAC appeared in domestic courts 28 times (High, Supreme and Constitutional courts) since its establishment in 2003.
- Out of the 28 cases, 20 were ruled in favour and 8 against ITAC (the eight were mostly in the early days of ITAC).
- Other jurisdictions face similar challenges, although in differing degrees.
- There is also the WTO Dispute Settlement Mechanism within which government to government disputes are addressed.



- Government's outcomes approach provides a framework for the enhanced monitoring of service delivery, including guidelines for results-driven performance.
- To ensure continued relevance and alignment to both the dti and EDD, the Commission has begun to gauge the performance of the beneficiaries of its instruments against the policy objectives set out in the NGP, IPAP and TPSF.
- Whether or not ITAC's instruments have made a positive impact depends on the extent to which the support has resulted in increased domestic manufacturing, investment, employment, value addition and competitiveness after the support was given in comparison to the periods before the support, using firm-level data.



The impact of rebate provision on the manufacturer of light aluminium and composite parts for passenger aeroplanes: The case of Aerosud

- ✓ The estimated customs duties rebated and therefore saved by Aerosud is about R16.9 million on average each year.
- ✓ Exports increased almost 4 times from 100 513kg prior to the support to 400 208kg, an average growth rate of 44%. Aerosud's exports accounted for 43% of South Africa's total exports.
- ✓ The provision of the rebate support has contributed to the employment of 33 additional people over the past five years. Gains were made in domestic value addition, which increased by 78% following the continued rebate support. Total factor productivity growth increased sharply from 3% in to 10.7%.

The Impact of Rebate Provision in 2010 on Certain Fabrics for the Manufacture of Home Textiles

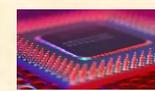
- ✓ The industry has invested an additional R3.3 million (or 40% of the total investment) following the support, contributed to the employment of 35 additional people, and there has been an improvement in domestic value addition from 28.3% to 33.1% after the support.
- ✓ However, illegal imports of finished products and a shortage of skills in design are some of the challenges still facing the industry.
- ✓ It takes SA companies 56 days to go through the production process, but 14 days for a company in Mauritius.



The Impact of a Rebate Provision in 2009 on Television Manufacturing: The case of Vektronix

- ✓ With the rebate amendment, the firm commenced the local manufacture of flat-panel televisions (LCD and plasma)
- ✓ The firm created 87 additional direct jobs during 2010-2012. This rose to 150 jobs in July 2013. Further 43 indirect jobs were also created in the following contracting firms: Isolite, Coral Print and Shave and Gibson
- ✓ The success of Vektronix has revealed how co-operation between government institutions could help promote industrialisation in South Africa. After ITAC laid the foundation through the provision of the rebate support, the IDC, in complement, provided the firm with a loan, and both institutions therefore contributed to the aforementioned achievements by the firm





The Impact of Customs Duty Increase in 2013 on Poultry industry

- ✓ Despite the tariff support and depreciation of rand, imports are landed on South African market at prices below domestic ex-factory prices.
- ✓ Broiler feed costs, which constitute about 60-70 per cent of total production costs have been increasing, putting pressure on margins and competitiveness, especially when part of it has to be sourced internationally. The long-term cost competitiveness of the industry depends on low cost supplies of maize and soya.
- ✓ Taking advantage of the rapidly growing exports in Africa to address underutilisation is essential for expanding and sustaining domestic production and employment.

The impact of customs duty increase in 2013 on uncooked pasta, not stuffed or otherwise prepared

- ✓ Domestic value addition increased by 1.6%. Total factor productivity growth increased from negative 3.34% to 3.7%.
- ✓ However, despite a 2.3 per cent loss of post-support production volumes, the industry managed to retain about 198 jobs over the period of support, leaving only a total of 11 jobs yet to be recovered.
- ✓ Despite tariff support and depreciation of rand, imports are landed on South African market at prices below domestic ex-factory prices.
- ✓ To address underutilisation and job losses, the industry plans to increase its export base as South African retailers take advantage of the growing African markets.



The Impact of the customs duty increase on a tower and lattice masts manufacturing: The Case of TRICOM

- ✓ The negative effect of the loss in export share to total production – due to uncompetitive export pricing from China, India and Turkey – was partly offset by the provision of the tariff support, as the firm switched from depending on exports to focusing largely on the local market in order to sustain output.
- ✓ The firm was able to retain 50 per cent of jobs, following the recovery in domestic production after the support was made available. Nonetheless, the firm’s production capacity is still underutilised by about 2000 tonnes per month



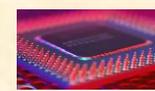


The impact of the anti-dumping duties on acrylic blankets originating in or imported from China & Turkey

- ✓ Continued large volumes of cheap imports from China – in this case, of knitted polyester blankets and no longer the acrylic blankets for which the duties were imposed – has neutralised other gains that could have been made from the continuation of the anti-dumping support.
- ✓ Most of the imports are now directed through Lesotho to take advantage of the existing free trade agreement between both countries.
- ✓ The SARS modernisation system is expected to take care of imports which are directed through SACU since all imported goods whether from BLNS or otherwise into South Africa are now to be declared.

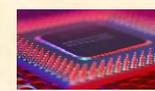


HUMAN RESOURCES

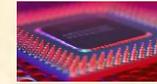


- ITAC has a total of 131 funded positions within its establishment.
- This number excludes 20 contract and internship positions categorised as follows:
 - PPS Contractors: x 4 Senior Investigators;
 - I & E Controls : x 4 (2 Administrators; 2 Assistant Managers)
 - Internal Audit Contractors: x 3 (2 Administrators; 1 Assistant Managers)
 - Finance x 2 (Administrators)
 - HR x 1 (Administrators)
 - Trade Remedies x 2 (Administrators)
 - Internship x 4 (1 x Legal Services; 1 x HR; 2 x Tariff Investigations)
- The workforce as at 31 March 2017 was 126 with 5 vacant positions, excluding contract and internship positions. Of the 126, Core business:69; and Support services: 55; excluding 2 executive management positions.
- The following is the break down in terms of the employee profile:
 - Gender: Males (44%); and Females (56%).
 - Race: African (83%); Whites(10%); Coloured (2%); and Indians (5%).

FINANCIAL RESOURCES



- Over the past years ITAC's total expenditure has been steadily rising against the total revenue.
- During the 2014 MTEF allocations, ITAC's baseline budget for 2015/16 and 2016/17 financial years was reduced by R4.8 million and R7.3 million respectively, a total reduction amounting to R12.1 million.
- The shortfall caused by that reduction was financed from ITAC's accumulated surpluses, which as at the end of the 15/16 financial year was R19.9 million.
- The remaining accumulated surplus amount is expected be fully utilised by the end of the 2017/18 financial year.



The following are the priority projects for the 2017/18 financial year:

- ITA Amendment Bill;
- Review of AD Regulations;
- Strengthening Reciprocal Commitments;
- Impact Assessments;
- Review of Safeguard Guidelines in line with the EPA and
- Impact study on the Price Preference System



Thank You

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