

REPORT NO. 449

Increase in the rate of customs duty on coated fine
paper

The International Trade Administration Commission of South Africa herewith presents its Report No.449: **Increase in the rate of customs duty on coated fine paper**



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CHIEF COMMISSIONER

PRETORIA

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH
AFRICA

REPORT NO. 449

INCREASE IN THE RATE OF CUSTOMS DUTY ON COATED FINE PAPER

Synopsis

Sappi Southern Africa (Pty) Ltd, applied for an increase in the rate of customs duty on coated fine paper, currently classifiable under tariff subheadings 4810.13.20, 4810.13.90, 4810.14.10, 4810.14.90, 4810.19.90 and 4810.29.90 at free of duty.

The Commission considered the application in the light of the information at its disposal. It took into account the considerable levels of production, employment and investment across the full value chain.

The Commission found that increasing imports of coated fine paper into the SACU have eroded the domestic industry's market share; that price disadvantages are experienced by the domestic producer of coated fine paper; and that considerably underutilized manufacturing capacity has affected its profitability. The Commission is of the view that the choice by industrial consumers of using imported grades is based on price and not on quality, and that the domestic producer of coated fine paper, as a result of low-priced imports, is forced to produce other paper grades on the under-utilised machines.

The Commission concluded that a moderate increase in the general rate of duty on coated fine paper would substantially improve the domestic industry's price competitive position without an undue cost-raising impact on downstream industrial consumers. The support should enable the industry to utilise its manufacturing capacity and achieve economies of scale.

The Commission decided that the duty be reviewed after a period of five years, to determine its impact on the industry's further development, competitive position, and on the full value chain.

In the light of the foregoing, the Commission recommends that the general rate of duty on coated fine paper classifiable in tariff subheadings 4810.13.20, 4810.13.90, 4810.14.10, 4810.14.90, 4810.19.90 and 4810.29.90, be increased from free of duty to 5% *ad valorem*.

1. THE APPLICATION AND TARIFF POSITION

1.1. Sappi Southern Africa (Pty) Ltd, applied for an increase in the rate of customs duty on coated fine paper, currently classifiable under tariff subheadings 4810.13.20, 4810.13.90, 4810.14.10, 4810.14.90, 4810.19.90 and 4810.29.90 from free of duty to the WTO-bound rate of 5 per cent *ad valorem*.

1.2. As reasons for the application, the applicant stated that:

- The application is meant to enhance the competitive position of Sappi Southern Africa (Pty) Ltd against producers in low-cost countries, especially in East Asia. Due to over-capacity in these markets and consequent price-undercutting, Sappi continues to lose significant market share. This loss in market share has led to significant job losses through the closure of Sappi's Enstra pulp plant at the end of February 2012 as well as the Adams Mill; and
- The tariff relief sought will protect and retain employment opportunities in the manufacturing industry in both upstream and downstream activities. Currently the total number of employees at Sappi's Stanger mill is 406. The forestry sector has the potential to contribute significantly to rural and economic development. In this regard, the application is also aimed at encouraging investment and enabling the local industry to expand capacity and earn foreign currency through exports.

1.3 The tariff structure for coated fine paper reads as follows:

Current tariff position

CHAPTER 48		PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, OF PAPER OR PAPERBOARD					
Head	Sub Head	Article Description	Statistical Unit	General	EU	EFTA	SADC
48.10		Paper and paperboard, coated on one or both sides with kaolin (china clay) or other inorganic substances, with or without a binder, and with no other coating, whether or not surface-coloured, surface-decorated or printed, in rolls or rectangular (including square) sheets of any size:					
	4810.1	Paper and paperboard of a kind used for writing, printing or other graphic purposes, 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 consist of such fibres:					
	4810.13	In rolls:					
	481013.20	Of a width not exceeding 150 mm	kg	free	free	free	free
	481013.90	Other	kg	free	free	free	free

	4810.14	In sheets with one side not exceeding 435 mm and the other side not exceeding 297 mm in the unfolded state					
	481014.10	Other, with one side not exceeding 360 mm and the other side not exceeding 150 mm in the unfolded state	kg	free	free	free	free
	481014.90	Other	kg	free	free	free	free
	4810.19	Other:					
	481019.90	Other	kg	free	free	free	free
	4810.2	Paper and paperboard of a kind used for writing, printing or other graphic purposes, of which more than 10 per cent by mass of the total fibre content consists of fibres obtained by a mechanical or chemi-mechanical process:					
	4810.29	Other					
	481029.90	Other	kg	free	free	free	free

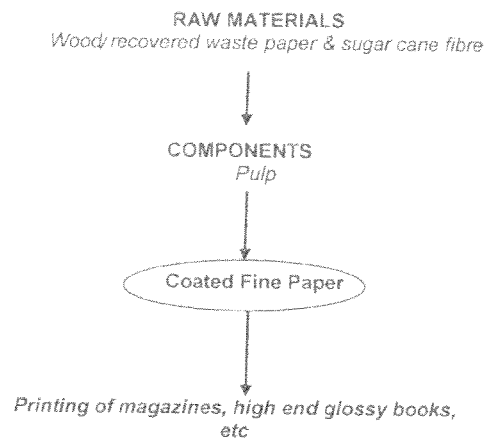
- 1.4 The coated fine paper manufactured by the applicant is classifiable under tariff subheading 4810.19.90. However, all paper classifiable under tariff heading 48.10 is interchangeable and substitutable. The tariff subheadings merely represent different sizes of the same grade paper and therefore all imports under the above-mentioned tariff headings directly compete with the product under investigation.
- 1.5 The application was published in the Government Gazette on 27 June 2013 for comments by interested parties.

2. INDUSTRY AND MARKET

- 2.1. South Africa has a large plantation forestry sector. Plantation forestry provides the raw materials for downstream industries such as pulp milling, paper manufacturing, saw milling and furniture manufacturing.
- 2.2 The subject product, coated fine paper (CFP), is a high-quality paper and paperboard generally used for the printing of reading material such as magazines, catalogues, annual reports and yearbooks. The product concerned includes both sheets and rolls suitable for use in sheet-fed ('cut star') printing machines. Rolls suitable for use in sheet-fed presses ('cutter rolls') are designed to be cut into pieces before printing, and are thus considered to be substitutable and in direct competition with sheets.
- 2.3 The product's technical characteristics and appearance are defined by high whiteness with a smooth surface available either in gloss, matt or silk finish and grammages ranging from 70 grams per square meter to 400 grams per square meter, suitable for half tone printing.

- 2.4 One of the main inputs for the production of CFP is pulp, which is usually a combination of chemical and mechanical pulp.
- 2.5 Chemical pulp is a watery fibrous substance made of fresh 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 from the cellulose fibres. Because lignin holds the plant cells together, chemical pulping frees the fibres and creates pulp. The pulp must be bleached in order to strengthen the paper and to prevent discolouring during storage or due to exposure to sunlight.
- 2.6 Mechanical pulp is a watery fibrous substance produced by mechanically grinding logs or wood chips. The pulp consists of ground wood that has not been cooked or chemically treated, and therefore consists of fibres separated entirely by mechanical means. Mechanical pulp has a high level of opacity, but its strength is relatively low due to its lignin content.
- 2.7 A quantity of additives (mainly natural mineral fillers) and dyestuffs are used together with traces of auxiliary chemicals to complete the CFP manufacturing input. A further important input is water, which is used in large quantities during the papermaking process but it is then recovered and reused, or returned to the watercourse from which it is extracted. The manufacture of CFP is an energy intensive process requiring the use of processed steam and electricity. Production process used in sequence:
- Mixing of wood pulp cellulose fibre into a water based slurry;
 - Transferral of slurry onto a screen (fibre felt) at various speeds and pressures to attain certain paper properties;
 - Drainage (gravitational or vacuum) of water from screen;
 - Pressing of paper to further reduce water content through a session of press rollers;
 - Steam drying of paper through steam heated cylinder arranged in sections;
 - Application of fillers such as clay or calcium carbonate;
 - Application of coating;
 - Calendering of paper to ensure required properties of smoothness and gloss levels;
 - Re-reeling or sheeting of paper; and
 - Wrapping of final product.

2.8 The diagram below depicts the manufacturing flow chart for coated fine paper:



- 2.9 The five largest manufacturers of pulp and paper products in the SACU are Sappi, Mondi, Nampak, Gayatri and Kimberly–Clark. The combined output of these five manufacturers constitutes 96% of South African pulp, paper and paperboard production. Sappi and Mondi are both fully integrated producers, being directly involved in the forestry industry as well as the pulp and paper manufacturing industries.
- 2.10 The applicant is currently the only SACU manufacturer of coated fine paper at their Stanger Paper mill and is currently producing below capacity.
- 2.11 The printing, publishing and packaging industries form part of the value chain. Paper is the main resource of the printing, publishing and packaging industries that add value to the paper by converting it into a variety of products including books, magazines and packaging material.
- 2.12 SAPPI employs 1 597 factory workers, and the Sappi Forest Division, that supplies all the timber, employs 733 workers. The total number of employees at Sappi's Stanger mill is 406. As stated by the applicant, the company has already suffered significant job losses through the closure of its Enstra, Tugela and Usutu pulp mills and Adamas paper mill. This closure impacted 1 500 positions.
- 2.13 Total imports of coated fine paper under tariff heading 48.10 decreased, in terms of volume, by 2% from 283 121 tons in 2010 to 276 629 tons in 2011, but increased by 8% to 297 674 tons 2012. Total imports of coated fine paper under tariff subheading 4810.19.90 decreased, in terms of volume, by 8% from 2010 to 2011 but increased by 4% from 2011 to 2012.
- 2.14 In 2012, 52 078 tons constituting 88% of coated paper imports, under tariff subheading 4810.19.90, originated from MFN countries, while 6 938 tons constituting 12%, originated from the EU. The Republic of Korea and the People's Republic of China constituted 38 910 tons (66%) and 8 676 tons (15%) of total imports, respectively.

- 2.15 Imports from the Republic of Korea decreased by 4% from 29 650 tons to 28 364 tons from 2010 to 2011, but increased to 38 910 tons in 2012, an increase of 37%.
- 2.16 Total exports of coated fine paper under tariff subheading 4810.19.90, decreased, in terms of volume, by 27% from 7 612 tons 2010 to 5 594 tons in 2011 and decreased by 38% from 5 594 tons 2011 to 3 485 tons in 2012. Most of the applicant's exports are destined for African countries.

3. COMPETITIVE POSITION

- 3.1. The Commission found that the applicant is experiencing price disadvantages vis-à-vis foreign producers of coated fine paper, especially from the Republic of Korea.

4. COMMENTS ON THE APPLICATION

- 4.1. The Printing Industries Federation of South Africa (PIFSA), Afripack (Pty) Ltd, Nampak Flexible, a division of Nampak products Limited, and Antalis South Africa objected to the application. The objections revolved around the cost raising effect of the duty, insufficient production capacity, the product range, and perceived sub-standard quality.
- 4.2. The Ministry of Trade and Industry of the Republic of Botswana submitted that it objects to the application, stating that Botswana's industry is of the view that the applicant is unable to meet the demand for coated fine paper and that avenues to import the products from outside SACU are needed. It was submitted that should the duties be imposed, an increase of inputs costs would adversely affect the performance of the local industry.

5. FINDINGS

- 5.1. The Commission considered the application in the light of the information at its disposal. It took into account the considerable levels of production, employment and investment across the full value chain.
- 5.2. The Commission found that increasing imports of coated fine paper into the SACU have eroded the domestic industry's market share; that price disadvantages are experienced by the domestic producer of coated fine paper; and that considerably underutilized manufacturing capacity has affected its profitability. The Commission is of the view that the choice by industrial consumers of using imported grades is based on price and not on quality, and that the domestic producer of coated fine paper, as a result of low-priced imports, is forced to produce other paper grades on the under-utilised machines.

- 5.3 The Commission concluded that a moderate increase in the general rate of duty on coated fine paper would substantially improve the domestic industry's price competitive position without an undue cost-raising impact on downstream industrial consumers. The support should enable the industry to utilise its manufacturing capacity and achieve economies of scale.
- 5.4 The Commission decided that the duty be reviewed after a period of five years, to determine its impact on the industry's further development, competitive position, and on the full value chain.

6. **RECOMMENDATION**

- 6.1 In the light of the foregoing, the Commission recommends that the general rate of duty on coated fine paper classifiable in tariff subheadings 4810.13.20, 4810.13.90, 4810.14.10, 4810.14.90, 4810.19.90 and 4810.29.90, be increased from free of duty to 5% *ad valorem*.

[15/2013]