# REPORT NO. 751

## INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON RAILS, CLASSIFIABLE UNDER TARIFF SUBHEADING 7302.10, FROM 5% *AD VALOREM* TO 10% *AD VALOREM*

The International Trade Administration Commission herewith presents its **Report No. 751**: **Increase in the general rate of customs duty on rails, classifiable under tariff subheading 7302.10, from 5% *ad valorem* to 10% *ad valorem*,** with recommendations.

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**AYABONGA CAWE**
**CHIEF COMMISSIONER**

**PRETORIA**
02/07/**2025**

# REPUBLIC OF SOUTH AFRICA

## INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

## REPORT NO. 751

**INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON RAILS, CLASSIFIABLE UNDER TARIFF SUBHEADING 7302.10, FROM 5% *AD VALOREM* TO 10% *AD VALOREM***

**Synopsis**

ArcelorMittal Rail and Structures ("AMRAS"), a division of ArcelorMittal South Africa Limited ("AMSA"), hereon referred to as the applicant, applied for an increase in the general rate of customs duty on rails, classifiable under tariff subheading 7302.10, from 5% *ad valorem* to 10% *ad valorem*.

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

- The subject product is a rail product, an integral product with diverse applications across various sectors, particularly in transportation infrastructure. It is essential in constructing and maintaining railway networks for facilitating efficient and reliable movement over long distances.

- The continuing difficult global and domestic operating environment in the entire steel value chain, which has taken its toll on the domestic manufacturing sector. This is affecting investment decisions and further constraining possibilities for employment creation.

- The need for a value chain approach in dealing with the problems facing the steel industry, as envisaged in the South African Steel and Metal Fabrication Master Plan.

- The escalating cost structure faced by the domestic industry manufacturing rails over the period under consideration.

- While the applicant is the only manufacturer of the subject products in the SACU region, there exists sufficient installed capacity to supply the total domestic demand for the product.

- Capacity utilization remained considerably low over the period under investigation.

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

The Commission recommended that the general rate of customs duty on rails, classifiable under tariff subheading 7302.10, be increased from 5% *ad valorem* to 10% *ad valorem*.

Furthermore, the Commission recommended that the proposed duty on the subject product be reviewed after a period of 3 years following its implementation (unless otherwise determined by the Commission) to assess the performance of the domestic industry.

**THE APPLICATION AND TARIFF POSITION**

1. AMRAS, a division of AMSA, applied for an increase in the general rate of customs duty on rails, classifiable under tariff subheading 7302.10, from 5% *ad valorem* to 10% *ad valorem*.

2. The applicant is based in Emalahleni and is a manufacturer of mainline rail. This division of AMSA specializes in the manufacturing of a wide range of rail and structural steel products. The primary purpose of the subject product is to support infrastructure development and transportation needs. AMRAS produces various types of rails, including heavy haul and metro rails, which are essential for constructing and maintaining railway networks.

3. As motivation for the application, the applicant cited, *inter alia*, the following:
    - In 2022, AMSA launched the production of mainline rail at its newly acquired AMRAS facility in Emalahleni. The acquisition signals the revival of local mainline rail manufacturing capability, making AMRAS the sole producer of mainline rail in sub-Saharan Africa;

- Products needed for railway infrastructure development can now be sourced and developed locally, acting as a catalyst for the growth of the South African economy and the steel industry;
- This localisation effort enables the replacement of imported steel with local production, contributing significantly to the growth of the local steel industry;
- The majority of the country's rail imports are originating mainly from the EU and the Far East;
- The plant is currently operating at significantly low capacity. Therefore, import replacement will enable the company to reach sustainable operating levels, reduce marginal cost of production and enhance overall competitiveness; and
- The African Continental Free Trade Agreement strengthen South Africa's position as a supplier of rail products on the continent.

4. The application was published in Government Gazette No. 51114 of 23 August 2024 under Notice 2695 of 2024 for a period of four (4) weeks, for interested parties to comment, as follows:

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

*Rails, classifiable under tariff subheading 7302.10, from 5% ad valorem to 10% ad valorem.*

5. The existing tariff structure for the subject products is depicted in Table 1 below:

**Table 1: Current tariff position for the subject products**

| Tariff heading/ subheading | Description | Statistical unit | Rate of duty | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | General | EU/UK | EFTA | SADC | MERCOSUR | AfCFTA |
| 73.02 | Railway or tramway track construction material of iron or steel, the following: rails, checkrails and rack rails, switch blades, crossing frogs, point rods and other crossing pieces, sleepers (crossties), fish-plates, chairs, chair wedges, sole plates (base plates), rail clips, bedplates, ties and other material specialized for jointing or fixing rails: | | | | | | | |
| 7302.10 | Rails | Kg | 5% | Free | Free | Free | Free | 3% |

*Source: SARS, 2024*

6. The requested tariff position is illustrated in Table 4 below as follows:

**Table 2: Requested tariff position for the subject product**

| Tariff heading/ subheading | Description | Statistical unit | Rate of duty | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | General | EU/UK | EFTA | SADC | MERCOSUR | AfCFTA |
| 73.02 | Railway or tramway track construction material of iron or steel, the following: rails, checkrails and rack rails, switch blades, crossing frogs, point rods and other crossing pieces, sleepers (crossties), fish-plates, chairs, chair wedges, sole plates (base plates), rail clips, bedplates, ties and other material specialized for jointing or fixing rails: | | | | | | | |
| 7302.10 | Rails | Kg | 10% | Free | Free | Free | Free | 3% |

*Source: SARS, 2024*

7. The WTO bound rate for the subject product is 10% *ad valorem.*

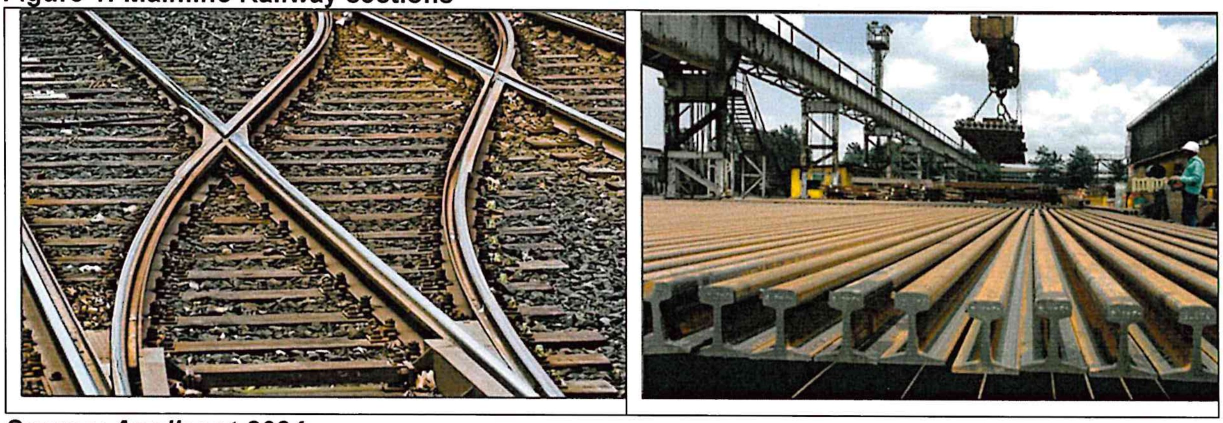
## INDUSTRY AND MARKET

8. The subject product is a mainline rail product, which has diverse applications across various sectors, primarily focusing on transportation and infrastructure. The subject product is essential in constructing and maintaining railway networks for facilitating efficient and reliable movement over long distances.

9. The subject product is used in other industrial settings, such as mining and manufacturing, to transport heavy loads and raw materials. Rail products also play a crucial role in building robust and durable structures like bridges and tunnels, ensuring safe and sustainable infrastructure development.

10. Figure 1 below depicts the manufactured mainline railway sections that are stockpiled at the end of the production line of the AMRAS facility.

**Figure 1: Mainline Railway sections**



***Source: Applicant:2024***

11. The mainline railway manufacturing sector in South Africa, particularly for the construction and mining sectors, encompasses a dynamic industry and market landscape. This sector plays a crucial role in supporting infrastructure development and logistics for these key industries. It involves the production of railway equipment and components tailored to meet the rigorous demands of heavy-duty applications in construction and mining. The market is characterized by the need for robust, durable, and efficient railway solutions that can transport heavy loads and materials over long distances, contributing significantly to the economic activities of these sectors.

12. The prospects of the mainline railway manufacturing sector in South Africa for the construction and mining sectors appear promising. With ongoing infrastructure development projects aimed at enhancing transportation networks, there is a growing demand for robust railway systems capable of supporting heavy freight and passenger traffic. Investments in railway electrification and sustainable transport solutions align with global trends towards reducing carbon footprints, potentially opening new avenues for growth and innovation within the industry.

13. AMRAS is the only known manufacturer of the subject product in the SACU region, while the known importers of the subject product include: Railcor (Pty) Ltd; Smt Scharf Africa (Pty) Ltd and Cosmo Africa Logistics CC.

## COMPETITIVE POSITION

14. The domestic industry manufacturing rails is experiencing an escalating cost structure, primarily driven by an increase in the raw material costs basket in 2023. The rise in input costs is largely attributable to an increase in international steel prices.

## COMMENTS RECEIVED

15. Support for the application was received from Zak Steel (Pty) Ltd, citing, *inter alia*, that:

- While the applicant acknowledged that the sizes in its mainline rail are limited, it also notes that the introduction of additional tariff lines for such rail categories not made locally might create loopholes for importers to evade duties through falsified certifications, a practice that has been observed in other steel imports, such as adding boron to flat steel to bypass duty protections.

- Zak Steel will not advocate for the inclusion of additional tariff lines for such rail categories. The company will rather work with the domestic manufacturing industry to create rebate provisions for those product categories not locally manufactured, such as 350 LHT or rails longer than 18 meters.

- These rebate provisions would allow for the duty-free importation through the appropriate channels, ensuring that duties are applied only when domestic alternatives are available.

**FINDINGS**

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

- The subject product is a rail product, an integral product with diverse applications across various sectors, particularly in transportation infrastructure. It is essential in constructing and maintaining railway networks for facilitating efficient and reliable movement over long distances.

- The continuing difficult global and domestic operating environment in the entire steel value chain, which has taken its toll on the domestic manufacturing sector. This is naturally affecting investment decisions and further constraining possibilities for employment creation.

- The need for a value chain approach in dealing with the problems facing the steel industry, as envisaged in the South African Steel and Metal Fabrication Masterplan.

- The escalating cost structure faced by the domestic industry manufacturing rails over the period under consideration.

- While the applicant is the only manufacturer of the subject products in the SACU region, there exists sufficient installed capacity to supply the total domestic demand for the product.

- Capacity utilization remained considerably low over the period under investigation.

17. The Commission concluded that the requested tariff support should enable the domestic industry manufacturing the subject product to utilise its existing under-utilised production capacity, achieve economies of scale, resulting in increased volumes with a reduction in the marginal cost of production.

## RECOMMENDATION

18. The Commission recommended that the general rate of customs duty on rails, classifiable under tariff subheading 7302.10, be increased from 5% *ad valorem* to 10% *ad valorem*.

19. Furthermore, the Commission recommended that the proposed duty on the subject product be reviewed after a period of 3 years following its implementation (unless otherwise determined by the Commission) to assess the performance of the domestic industry.