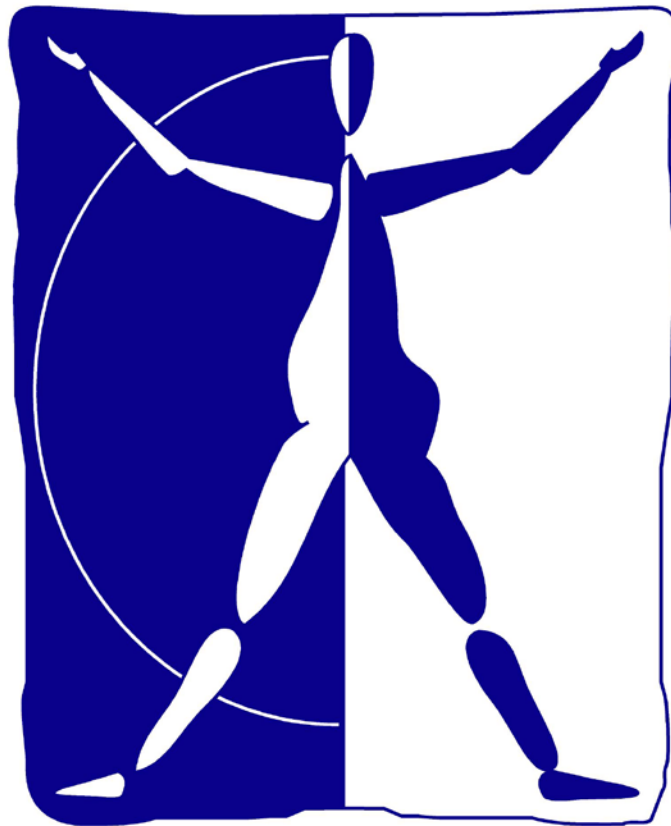


Development of Sector Strategies
for
South African Exporters to Overcome NTBs
Stainless Steel



BLUEPRINT



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SUMMARY OF NTBs FOR STAINLESS STEEL- BY REGION

Figure 1- Summary NTB Status Quo

NTB	CHINA	INDIA
Additional Taxes	YES	YES
Customs Procedures	YES	YES
Rules of Origin	NO	NO
Environmental Protection	NO	NO
Trade Remedies	YES	YES
Standards & Technical Requirements	YES	YES
Regulatory System	YES	YES
Product Approval and Control	YES	YES
Labelling Requirements	YES	YES
Government Procurement	YES	YES
Intellectual Property Rights	NO	NO
Licensing	YES	YES
Health regulations	YES	NO
Transportation	YES	YES
Unstable Policies	YES	YES
Inefficient Infrastructure	YES	YES
Export Taxes	NO	YES
Import Quotas	YES	YES



SECTION ONE- BRIEF

1. Project Overview

FRIDGE wishes to develop specific strategies for South African exporters to overcome non tariff barriers (NTBs). In order to achieve this, FRIDGE wishes a review of the outcomes of the FRIDGE sector studies on non tariff barriers and then the preparation of a draft strategy to support South African exporters to overcome the identified barriers. This strategy is to be included in the implementation strategies to be developed for each trade agreement. Regions to be reviewed are Mercusor, India, China the US and EFTA. Sectors are Automotive, Stainless Steel, Other Metals, and Chemicals. This document deals with the Stainless Steel Sector and deals only with India and China as per the brief.

2. Approach and Methodology

Blueprint accessed and reviewed all relevant sector study reports supplied by the IDC and had relevant discussions with various parties.

This document offers a brief summary of all Stainless Steel Sector reports relevant to NTBs, and outlines various strategies for exporters to deal with each specific NTB in each region under review.



SECTION TWO- REVIEW OF STAINLESS SECTOR STUDIES

India

Background

India supports multi-lateral trade relations through the WTO. It is India's view that the multilateral system cannot drive south-south trade and it therefore pursues bilateral and regional trade agreements. India is willing to open its economy and import more from regional countries. Implementation of the policy entails numerous trade agreements with regions, trading blocs and bi-lateral ones with countries.

India's current strategy is to secure economic relations with key developing countries, firstly within the Asian region and secondly with selected countries in other regions. Delhi seeks to tie the trade interests of its South Asian neighbours with its own growing economy. While the agreements focus on trade facilitation a number of them extend beyond that in the form of Comprehensive Economic Cooperation agreements. When negotiating future FTAs with developed countries in particular, India seeks to secure benefits for its service sectors where its economy enjoys comparative advantages while at the same time protecting some Indian services. India will also be cautious to sign an FTA with China given China's comparative advantage in manufacturing, discrepancies like the low cost of finance in China and the notion that China will benefit more than India because India's tariffs are higher than China's.

India does not want to be omitted from the preferential benefits of regional and bi-lateral trade agreements especially with Asian partners. This entails numerous trade agreements with regions-, trading blocks- and bi-lateral ones with countries. India's current strategy is to secure economic relations with key developing countries, firstly within the Asian region and secondly with selected countries in other regions. India seeks to tie the trade interests of its South Asian neighbours with its own growing economy. While the agreements focus on trade facilitation a number of them extend beyond that in the form of Comprehensive Economic Cooperation agreements.

India's population is 23 times that of South Africa and its GDP just less than four times. Sustained rapid growth (8%p.a.), a high investment ratio (28% of GDP) and a large population, promise to propel the Indian economy to one of the largest mass markets in the world in the longer term. The Indian economy is already the 10th largest in the world. Indian firms can thus expect to benefit from economies of scale. Competition from Indian producers will in all probability be a threat to their South African counterparts but Indian markets will offer opportunities to South Africans.

The Indian government has traditionally had a legacy of protectionism toward the economy and this has translated into a bureaucratic system that is inefficient and infected with some measure of corruption. However, as part of the reform process, the government has endeavored to address bureaucratic obstacles and to reduce corruption. Despite significant economic reforms, India still suffers from an underdeveloped financial sector while India's infrastructure faces the twin challenges of expansion and modernisation. Incentives are to be introduced for investment in



certain sectors, which include telecommunication, ports, airports, railways, roads, energy and construction. These interventions will be to the benefit of the demand for stainless steel.

Growth in the Indian economy is robust with an investment ratio to GDP of 28% compared with South Africa's 16.5%. The norm for growth in GDP in recent years came to 6% for India. Investment in India and the financing thereof is on a sound footing but growth in the Indian economy is constrained by bottle necks in all spheres of infrastructure and by stringent labour regulations and opposition to privatisation. Therefore, inefficiency overhangs persists in large pockets of the Indian economy that are in the hands of the public sector.

Programmes are underway to improve the supply of infrastructure. Construction of infrastructure is a source of growth in its own right. In the mean time private concerns find it necessary to erect own infrastructure to safeguard their operations. The production structure of India portrays the pattern found in developing countries with a dominant agricultural sector. The South African economy (66%) is substantially more exposed to international trade than India's (31%). Both countries run deficits in the import and export of merchandise. However, India balances its deficit with strong IT export services and by remittances from Indians living abroad. South Africa relies on capital inflows to balance the trade account.

The Indian government has endeavored to address bureaucratic obstacles for foreign investors through the creation of investment agencies for investment approvals such as the FIPB, reducing the necessary licensing requirements and ceding more authority to state governments to allow for easier investment and business facilitation. The government has also made it a priority to reduce corruption. An Inter-State Trade Council was established to promote involvement of the States in export promotion, assist in developing export related infrastructure, assist in removing taxes and local levies imposed on inputs required for export production. The Indian Government has a range of incentives and concessions available to eligible corporations in certain specific industries of the chemical sector. Broadly, the tax incentives include tax holidays for corporate profits, accelerated depreciation allowances and deductibility of certain expenses subject to certain conditions. Concessions apply to profits from new undertakings like for example the greenfields investment in new fertilizer manufacturing capacity based on natural gas and location in special economic zones. Various rebate and duty drawback schemes such as the DEPB and EPCG exist to promote exports.

India has implemented significant economic reforms, but still suffers from an underdeveloped financial sector while India's infrastructure faces the twin challenges of expansion and modernisation. The major area requiring upgrading and investment is the transportation infrastructure - roads, ports and airports - which is currently far below the standard of other emerging market economies and poses a serious obstacle to FDI in the country. Incentives are to be introduced for investment in certain sectors, which include telecommunication, ports, airports, railways, roads, energy and construction development with a view to improving competitiveness of the Indian economy. Tax incentives, customs duty concessions for imports of equipment/machinery and the implementation of SEZs within the country are further incentives for investment. .



In recent years, India has emerged as a favourite investment destination due in part to its low cost base. FDI into India targets the IT and automotive industries and some metal industries. The retail sector offers major opportunities and many global players have indicated interest. However, FDI is not fully allowed in this sector. The Indian chemical industry attracted FDI of US\$ 2.9 billion for the period 1991 to 1999. This investment was equivalent to just over 7% of total FDI in India.

Intellectual property rights in India, including patents, trademarks, copyright issues and industrial designs are protected by a well-established statutory, administrative and judicial framework that is constantly improved. However, the protection of intellectual property remains an area of concern for foreign investors.

A range of incentives is in force that includes tax holidays, accelerated depreciation, tax concessions, EPZ and other development zones. Liberal draw back of duty compensation to exporters apply and exporters have preferential access to finance. The applied tariff rates of some product groups will be subject to reduction over a period of time in terms of NAMA (non-agricultural market access) if the Doha Round is successfully concluded. NAMA introduces a degree of uncertainty with respect to future MNF tariff levels that may render bilateral concessions premature.

Indian Stainless Steel Industry

The Indian stainless steel industry has grown at a rate of 16% over the last fifteen years and has averaged growth of 20% over the last four years. The exceptional growth of the last four years can be attributed to growth in exports to China. Exports expanded by 55% p.a. between 1999 and 2004. Production has increased from a low level in the early nineties to approximately 1.7 million tonnes in 2004-2005, at a value of about US\$ 2.2 billion. India's share of world production has increased from 2% in 1991-1992 to approximately 7% in 2004-2005. It is estimated that by 2010, the production of stainless steel will amount to 2.618 million tonnes and 4 million tonnes in 2016. The production of the CR-MN200 grade in which India has a competitive advantage is mainly used in the manufacture of utensils.

Flat bars manufactured by primary producers are cold rolled (by stainless steel re-rollers) into utensil grade sheets (referred to as Patta) and this is used primarily for utensils applications. According to estimates, there are approx. 410 stainless steel re-rollers in India in the production of patta (Cr-Mn grade stainless steel with a nickel content of less than 1% usually 0.5% nickel content). It is estimated that patta production in India amounted to 872 000 tonnes in 2005.

India currently holds a 10% share in the global market for kitchenware. The global kitchenware market is currently dominated by China, but India has experienced an increase in market share, rising from 5% in 2001-2002 to the 2005 figure of 10%. India would like to capture 25% market share by 2015. Consumption in this sector is estimated at approx. 772 000 tonnes with the remaining 1000 000 tonnes destined for the export market. Approx. 40% of the kitchenware sector is export based and exports of kitchenware products have been growing at a rate approx. 25% over the last four years



Stainless steel consumption in India is growing at 11.5% to 12% annually. It amounted to approximately 1.153 million tonnes in 2004-2005. Flat products constitute the majority of products consumed at 86% (CR-MN grade 72.4%) , whilst the balance is made up by long products. The high consumption ratio of flat products is explained by the structure of Indian downstream stainless steel consumption where the manufacture of utensils constitutes 70% of production as against a world average of about 36%.

Industry specific policies are developed by the industry in conjunction with government. The industry aims at improved availability; expansion of process capacity; moving up the value chain; pricing and affordability; and extending and expanding the market. Incentives available to industry include the duty drawback scheme that reimburses producers for the import duties on raw materials.

Use of stainless steel in construction and the transport sectors are predicted to enter a steep growth phase while the remaining applications are also expected to increase in proportion to consumption while the dominance of use of stainless steel in utensil manufacture is set to decline to 62% of consumption in 2010.

Exports is 46 % of production. The Indian stainless steel industry is thus export orientated and especially in the upstream part of the industry where the export of flat rolled stainless steel >600mm is half of the total in tonnes. Imports of stainless steel are 9% of production and also predominantly flat rolled stainless steel >600mm. Exports is predicted to grow by 9% to 12 % p.a. over the next ten years and imports by 12% to 15% annually.

South Africa's consumption of stainless steel in 2005 was 149 928 tonnes (54 684 t exported after processing). Sectors consuming stainless steel include Architecture, Building and Construction, Automotive, Infrastructure, Petrochemicals and Mining.

Indian producers of primary products import raw materials like iron pellets, nickel etc. The high prices of nickel on the global market pose a challenge for producers. The Indian stainless steel industry is on an expansionary path and geared toward product improvement, capacity building and global expansion.

The Indian stainless steel market is currently on a wave of expansion. The opening of the Indian economy and the economic growth that followed has provided the impetus for the development and growth of the stainless steel market. The creation of the 200 series grade has provided India with a niche in the global steel market and the Indian stainless steel sector has expanded at a rate of 16% p.a. in recent years to reach a production high of 1.7 million tonnes in 2004-2005. The challenge for the Indian stainless steel industry is to promote growth, as stainless steel is consumed primarily for the manufacture of utensils. Globally, 36.5% of the stainless steel consumption is in utensils, 15% in transport, 11% in construction, 19.4% in process equipment and 12% in welded tubes. In India approximately 70% of consumption is in the form of utensils.



However, as economic growth in India continues, stainless steel is being increasingly used in infrastructure development projects. Consumption of stainless steel is also on the rise and is set to continue on an upward trend in the medium to long term

According to ISSDA (Indian Stainless Steel Development Association), the following strategy for the strategic growth and direction of the stainless steel industry is to be implemented in order to ensure continued and sustained growth. The domestic steel industry is classified into three different segments:

- **The technology dictated market:** This refers to the need identified by Indian manufacturers to update their technology. It is dependent on the growth of the usage of end use products and has immense growth potential. In order to achieve this potential, the grades and quality of stainless steel will have to be improved over time, in order to keep up with technological advancements. This segment is expected to grow at 15% per annum and improve its share from 22% to 32% in the next ten years.
- **The consumer dictated market:** This segment is dependent on product delivery at affordable prices. It is already a strong growing sector and is set to continue along its present growth trend.
- **Market development dictated:** This refers to the introduction of new products and applications in the Indian market. (an example is the introduction of 300 series hollowware to a targeted, upper income market.) This is dependent on market development toward the integration of new applications. Market development will involve education, promotion, new application and design development etc. This market is expected to capture the primary focus in the near future and will increase at an annual rate of 27%.

Strategic issues in the development of the stainless steel industry that still need to be addressed include: Improved availability: While access to goods is not a current problem, it could emerge in the future as demand continues to increase at high levels. The strategy is that increased capacity should drive demand, rather than waiting for demand to lead to an increase in capacity.

Processing capacity expansion: The capacity at the processing levels is currently not sufficient to cater for demand. The processing capacity in consumer dictated markets like kitchenware etc are well established. Concerns regarding capacity apply to the fabrication segment where there is a shortfall in skills, technology, practices and quality of output. Effective capacity building is required in this area.

Moving up the value chain: The stainless steel market is currently in a state of evolution, whereby it is moving up the value chain. As a result, the share of the lower quality Cr-Mn grade in the market is set to decrease, as other higher end grades come into play.

Pricing and affordability: Related to the above point is the question of pricing and affordability in the market. Pricing has been a vital factor to consider in the Indian market. The creation of the Cr-Mn series was to offer the end users a more affordable option and remains a popular product. Whilst it is projected that the prominence of other products is set to increase, the Cr-Mn grade will continue to have a significant market hold in the medium to long term.



Extending and expanding the market: The Indian market is regarded as being very trade centric and inward looking, as opposed to proactively exploring outside opportunities. This strategic plan, as conceptualised by the main industry players in India is aimed at internationalising the Indian stainless steel industry, not only in terms of building up domestic capacity, but also with regard to developing and improving Indian stainless steel to international standards.

Previously, the stainless steel industry received various financial support mechanisms from the Government in the form of duty drawbacks and duty exemptions for raw material inputs for manufactured products for exports, tax breaks for exporters provided by local governments in their respective states, preferential finance at lower bank interest rates and export insurance in the event of non-payment by the importing party.

However, the majority of these schemes, most significantly the Duty Entitlement Passbook Scheme (DEPB) have been cancelled by the Government. Currently the only scheme still in place is the duty drawback scheme, whereby manufacturers are reimbursed their import duty costs, if their products are to be exported. According to Dr A.S Firoz, Chief Economist, Ministry of Steel, this is not regarded as an incentive by the government, but simply as a measure to offset the high input costs of imported raw materials

The Indian stainless steel industry is regarded as rather large and fragmented. It consists of an elite group of large manufacturers who hold the majority of market share, several small and medium enterprises and thousands of companies who operate in the informal sector. The stainless steel industry in India has grown by 16% over the last fifteen years and has averaged growth of 20% over the last four years. Production, which amounted to only 228,000 tonnes in 1991-1992, has risen to 1.7 million tonnes in 2004-2005, at a value of approximately US\$ 2.2 billion. Driven by this high growth rate, the current per capita consumption of stainless steel in the country is 1.06kg. However, this remains below the world consumption figure of 4.1kg, indicating that there is still room for significant growth.

India's share of world production has increased from 2% in 1991-1992 to approximately 7% in 2004-2005. It is estimated that by 2010, the production of stainless steel will amount to 2618 million tonnes.¹ This is an indication of the scope of the Indian stainless steel market and the potential for growth in the next few years. India experienced a sharp rise in production from 2001 onwards, which was driven largely by the demand for stainless steel that was coming from China. Domestic demand also increased simultaneously and as a result, India's production of stainless steel rose sharply. In contrast, stainless steel production in South Africa has experienced a decline in growth. In 2005, production declined sharply, almost to 2001 levels, reaching only 440 000 tonnes. In comparison, production in India increased to 1.7 million tonnes.

Currently, the largest consumer of stainless steel in the country is the metals sector, for the production of utensils, which accounts for 70.5% of total consumption. The majority of utensil products are manufactured in the informal sector, which consists of more than 6000 production

¹ Indian Stainless Steel Market Report 2005, Prepared by the Indian Stainless Steel Development Association.



units across the country. India currently holds 10% share in the global market for kitchenware. The global kitchenware market is currently dominated by China, but India has experienced an increase in market share, rising from 5% in 2001-2002 to the 2005 figure of 10%. According to estimates by ISSDA, India would like to capture 25% market share by 2015. Consumption in this sector is estimated at approx. 874 000 tonnes and is forecast to grow to 2186 000 tonnes by 2015-2016. Approx. 40% of the kitchenware sector is export based and exports of kitchenware products have been growing at a rate approx. 25% over the last four years.

The utensils sector is a traditional sector making use of stainless steel, but recently, new stainless steel consumers have emerged. The ABC sectors i.e. architecture, building and construction sectors are emerging as significant end users of stainless steel in India, as economic and infrastructure development in the country is on the increase. Stainless steel is now being used in the transportation sector also, with a significant portion of Delhi's new railway system consisting of stainless steel. Lastly, consumption in the automotive sector is also on the increase, though it has not yet reached significant levels.

Figure 2-Consumption Segments (2004 – 2005)

Segment	000' tonne
Process Industry	111
Engineering	53
Electro mechanical / Electronics	17.5
Construction	28
Transport	24
Metal Products(utensils)	874
Others	45
Total	1152.5

India South Africa Trade

Although imports of intermediate products grew significantly in latter years, most of South Africa's imports are downstream stainless steel products. Prominent among the latter are seamless pipes and tubes, knives, spoons and forks and food industry machinery. Imports from the world amounted to US\$ 282 million in 2004. Most imports come from Germany, China and Italy. 4% of imports are from India. South African imports of stainless steel products from India more than doubled from US\$5.5 million in 2000 to US\$11.9 million in 2004. Most categories showed increases but the more prominent were imports of bars, rods and angles; wire; hollow and other kitchenware, and knives spoons and forks. Imports of kitchen and hollowware trebled between 2000 and 2005 and are the single most important stainless steel imports from India.

In 2004 India imported about US\$500 million worth of stainless steel products. Of that 45% was seamless pipes and tubes and a further 36% flat rolled products. Imports of stainless steel products are thus growing to be highly concentrated. In 2004. Import of seamless tubes pipes were almost 4 times and that of flat rolled products 3 times higher than in 2000. South Africa increased its supply of stainless steel products to the Indian market from 1 % in 2000 to 2% in 2004. In 2004



South Africa exported US\$ 1037 million, more than double the exports in 2000. However, exports remain concentrated in flat rolled intermediates. Export growth in US\$ averaged 29% p.a. between 2000 and 2004. Italy and China are the major destinations of South African stainless steel exports. About 2% of exports (90% flat rolled) went to India in 2004 up from 1% in 2000.

Figure 3: -Stainless Steel exports, imports: of India and South Africa 2000 and 2004 US\$ million

Year	Exports		Imports	
	India	SA	India	SA
2000	434	479	162	143
2004	1051	1037	509	245

Exports of stainless steel products by South Africa and India in US\$ are similar in size but South Africa's imports less stainless steel products than India. Both countries have a positive trade balance in the trade in stainless steel products while South Africa has a positive balance with India. India is exporting intermediate stainless steel products complemented by downstream products especially hollowware and kitchen articles as well as cutlery. However, compared to 2000 exports of stainless steel products by India, in 2004 came to be dominated by intermediate products. The destinations of Indian stainless steel exports are dispersed with the single most important clients being China, USA and UAE. South Africa is the destination of 1% of India's stainless steel exports.

Revealed comparative advantages for India have been calculated in its exports to the world in the products below and any concessions to India on them should be avoided:

Figure 4- Indian Stainless Advantage

HS 7222 Other bars and rods of stainless steel; angles, shapes and sections.

HS 7223 Wire of stainless steel.

HS 7323 Table, kitchen or other household articles and parts thereof, of iron or steel; iron or steel wool; pot scourers and

HS 7221 Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.

HS 8214 Other articles of cutlery (for example, hair clippers, butchers' or kitchen cleavers, choppers and mincing knives)

In addition to the products mentioned above India has a comparative advantage against South Africa in:

- 7220 Products of stainless steel of a width of less than 600 mm.
- 8215 Spoons, forks ladles, skimmers, cake-servers, fish-knives, butter-knives, sugar-tongs and similar kitchen or tableware.



- 8212 Razor and razor blades (including razor blades blanks in strips).
- India is rapidly building a comparative advantage in kitchenware (HS 7323)

Tariff Barriers to Trade

India's bound tariff rates for industrial products are quite high, mostly at 40%. Many sensitive products are not bound against tariff increases. In the chemicals, plastics and rubber sectors many lines are not bound. All South Africa's tariff lines are bound with the exception of a few chemical lines. India's basic duties are very uniform, mostly at 15% (as from 1 March 2005). However the tariff structure is not transparent with the contents of a large number of notifications and general exemption notices not incorporated in the basic duty schedule. India applies additional taxes on imports. Cost of exporting can be higher than expected and tariff concessions granted by India may in certain cases be of no real value. During negotiations on tariff concessions, SACU should make sure that the preferences offered by India will result in actual reductions in the currently applied rate.

All South African tariff lines are bound with the exception of Chapters 3 (fish), 27 (mineral oil and fuels) and 93 (arms and ammunition) and a few lines in chemicals. The binding coverage is 96.4%. The average bound rate for industrial products is 16.6%. The highest bound rate is 30% with the exception of two product groups, namely clothing (45%) and motor vehicles (50%).

Only 68.2% of India's tariff lines for industrial products are bound. Bindings are at the 6-digit level, as India implemented an 8-digit tariff system only in 2003. The average bound rate for industrial (non-agricultural) products is 37.7%. South Africa's bound rates show a distinct structure with an escalation from primary products to final products in most chapters. India's binding schedule consists mostly of ceiling bindings with more than 90% of the lines bound at a rate of 40%. South Africa's tariffs are applied on the FOB value of imports. The simple average tariff rate for industrial products is 11.4% according to the recent exercise of compiling the bound rates of the tariff lines as at 1 January 2005, and the applied rates, for the purpose of the Doha Round NAMA analysis. India's customs duties are applied on a CIF basis. This means that the value for calculation of the basic duty is up to 20% higher than South Africa's FOB value basis. Furthermore, the assessable value is CIF + 1%. This has the following effect:

Figure 5- Customs Duty Comparison

	Basic customs duty	Effective customs duty
South Africa	15%	15%
India	15%	18.15%

In addition to the basic duty, India applies additional duties. These are dealt with under non-tariff barriers. The WTO Report shows an average MFN applied tariff rate of 31.1% for India in 2001/02. On the surface, India's tariff structure, at least in respect of the basic duties, looks very simple and uniform. In some chapters the duty shown in Schedule 1 is 15% without any exceptions. However, these rates may not be the actual rates as there are numerous 'notifications' or 'general exemptions' that exempt certain products from a duty or reduce the rate (sometimes for specified uses or subject to elaborate conditions). In fact, India's customs tariff system is extremely complex



and lacks transparency. This is confirmed in the WTO (TPR) Report which states that "... the tariff remains complex and a number of exemptions applied to products, industries, and end-users add to its complexity and lack of transparency". Similar statements are made a number of times in the Report and in other study reports.

India's bound tariff rate for stainless steel is 40%. Only 64% of the tariff headings of Chapter 74 (Metal products) are bound. . India's basic (applied) duties nowadays are very uniform, mostly at 15% (as from 1 March 2005). The duty on stainless steel of Heading 72.19 is 10% (actual applied rate), on other stainless steel (apparently) 20% and on products of stainless steel 15%.The South African applied tariff is 5% (now reduced to zero) on primary products going up in steps of 5% to 20% on household products.

Figure 6-Metals: Summary Comparison Between SA and India (basic) Duty Rates Per Chapter: January 2006

Chapter	Brief description	India: %	RSA: %	Comments
72	Iron and steel	20	0/5	Primary and some intermediates – 0
73	Articles of iron & steel	15	0/5/10/15/20	Household articles at 20
74	Copper & articles	15	0/10/20	Household articles at 20
76	Aluminium & articles	15	0/5/10/20	Household articles at 20

Although the basic duty rate shown for Chapter 72 is 20%, domestic exporters report that the actual basic duty payable is only 5%. Every effort was made to establish the source for this, tracking the schedules, exemption notices and available notifications, but without success. The trail stopped at Exemption Notice 107 in terms of which imports under Chapter 72 are exempted from basic duties of more than 10%.

The India Ministry of Steel website contains a summary of applied tariffs since the 2005-06 Budget (March 2005). It shows that most steel products of Chapter 72 are in fact subject to duties of 5%. However, in respect of stainless steel, only Heading 72.19 is included in the list with an applied rate of 10%. It must be assumed that the other headings are subject to the rate of 20% shown in Schedule No 1.



Figure 7-Comparison of India and SA Applied Tariffs on Stainless Steel and Certain Products as at January 2006

HS4	Description	India: % (Frequency)	RSA: % (Frequency)
7219	Flat-rolled products of stainless steel, of a width of 600 mm or more	20 (54)	5 (14)
7220	Flat-rolled products of stainless steel, of a width of less than 600 mm	20 (20)	5 (4)
7221	Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel	20 (4)	0 (1)
7222	Other bars and rods of stainless steel; angles, shapes and sections of stainless steel	20 (26)	0 (5)
7223	Wire of stainless steel	20 (4)	0 (1)
7304	Tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel	15 (29)	0 (5) 10 (3) 15 (5)
7304.10	Line pipe of a kind used for oil or gas pipelines:	15(4)	
7304.10.20	Of stainless steel		0 (1)
7304.4	Other, of circular cross-section, of stainless steel:		
7304.41	Cold-drawn or cold-rolled (cold-reducing)	15(1)	0(1)
7304.49	Other	15(1)	0(1)
7306	<i>Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel</i>		
7306.40	Other, welded, of circular cross-section, of stainless steel	15 (1)	10 (1)



HS4	Description	India: % (Frequency)	RSA: % (Frequency)
7323 7323.93 7323.93.20 7323.93.90	Table, kitchen or other household articles and parts thereof.... : Of stainless steel: Hollowware for kitchen or table use (excluding those plated with precious metals) Other	15(2)	30 20
7324 7324.10	Sanitary ware and parts thereof, of iron and steel: Sinks and wash basins, of stainless steel	15(1)	20(1)
8211	Knives with cutting blades, serrated or not (including pruning knives), (excluding knives of heading 82.08), and blades therefore*	15 (7)	0 (7) 15 (6) 20 (7)
8212	Razors and razor blades (including razor blade blanks in strips)*	15 (6)	0 (3)
8213	Scissors, tailors' shears and similar shears, and blades therefore*	15 (1)	0 (1)
8214	Other articles of cutlery (for example, hair clippers, butchers' or kitchen cleavers, choppers and mincing knives, paper knives); manicure or pedicure sets and instruments (including nail files)*	15 (6)	0 (2) 15 (2) 20 (1)
8215	Spoons, forks, ladles, skimmers, cake-servers, fish-knives, butter-knives, sugar tongs and similar kitchen or tableware*	15 (4)	30 (4)



HS4	Description	India: % (Frequency)	RSA: % (Frequency)
8421	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases *	15 (22)	0 (13) 15 (4) 16 (1) 19 (1)
8434	Milking machines and dairy machinery*	15 (4)	0 (3)
8438	Machinery, not specified or included elsewhere in this Chapter, for the industrial preparation or manufacture of food or drink (excluding machinery for the extraction or preparation of animal or fixed vegetable fats or oils)*	15 (15)	0 (8)

* Products of stainless steel not separately specified

However India's tariff structure is not transparent with the contents of a large number of notifications and general exemption notices not incorporated in Schedule 1 (basic duty schedule). Furthermore, India applies additional taxes on imports and their structure is not transparent. The most important of these is an additional duty of generally 16%, which is actually a central excise or value added duty. Tariff concessions granted by India may, therefore, in certain cases be of no real value. During negotiations on tariff concessions, SACU should make sure that the preferences offered by India will result in actual reductions in the currently applied rates.

Non Tariff Barriers to Trade

NTBs remain a major problem for exporters to India although the situation has improved over the past few years. The NTBs with the most effect are policy unpredictability and uncertainty; customs procedures and delays; customs valuation; port and other transport infrastructural problems; general burdensome red tape; and labelling requirements. India is also prone to using trade remedies and uses anti-dumping measure more than any other country. NTBs remain a major problem for exporters to India although the situation has improved over the past few years. The NTBs with the most affect on exports to India are policy unpredictability and uncertainty; customs procedures and delays; customs valuation; port and other transport infrastructural problems; general burdensome red tape; and labelling requirements.

India has become the country that uses anti-dumping duties most of all countries. The sectors most subject to anti-dumping measures imposed by India are base metals and products thereof (33.1%) that would include stainless steel. Of countries against which anti-dumping investigations have



been initiated, India is fifth on the list in regard to the number of initiations. India is subject to more countervailing measures than any other country. Stainless steel and products thereof do not appear to be subject to sector specific NTBs but are affected by the overall NTB position.

Detail of NTBs

Policy Unpredictability

Exporters to India and Indian importers suffer from policy unpredictability. The EU Trade Obstacles Report summarises the situation as follows: *"The rules of EXIM (export and import) Policy are published and available to operators. However, it cannot be denied that import and export rules are complex and frequently modified. This obliges operators to be constantly aware of the EXIM Policy rules and their modifications. These constant changes in EXIM policy engender an obstacle for EU SME wishing to develop trade with India. These companies must work in close co-operation with Indian partners. The importers and exporters stated that the transparency and their understanding of EXIM policy and other trade rules affecting their daily trade could be improved through consultation with private sectors prior to adoption of the rules. According to private sector, over-regulation is one of the main problems of doing business in India. In several cases, the rules are adopted without prior notification and explanation of rules to private sectors' representatives."*

Inefficient Infrastructure in respect of ports and internal transport are major problems. **Red tape** is also a disincentive. The World Bank estimates that Indian senior managers spend about 14 percent of their time dealing with regulatory issues (compared with about 8 percent for their Chinese counterparts). Starting a business in India takes 89 days, on average—more than twice as long as in China. Closing a business is just as difficult. **There seems to be widespread government intervention in India's chemicals sector. The sector is governed by a Ministry of Chemicals & Fertilizers. The Ministry has two separate Departments, namely The Department of Chemicals & Petrochemicals and The Department of Fertilizers. ?? not stainless**

Additional duties and taxes - the EU Trade Obstacles Report sums up the situation in India as follows: *"Multiplicity and complexity of import, and to a lesser extent, export rules, has been identified as a real concern for private operators. For example, India's duty calculation is highly complex. According to Member States, trade representatives, importers and EU companies, despite the duty structure rationalisation of January 2004, duties remain high. The method of calculation of import duties and the administration of tariffs through numerous notifications makes the tariff structure extremely complicated and non-transparent."*

The duty structure has however been substantially simplified through the removal of some of the additional duties. In addition to the ordinary rate of duty – called the 'basic duty' - there are an 'Additional Duty of Customs' – also called a 'Countervailing Duty (CVD)' – which is generally 16% but different for certain products. This is actually a central excise duty or value added tax. There also used to be a 'Special Additional Duty of Customs', also called an 'Additional Duty for Special Excise Duty' of 8% or 4%. Some products were exempted from these 'additional' duties or a lower rate applied. This duty has been removed for most products. In addition to the basic duty and the additional duty, India also applies an educational cess of 2% to imports. This is calculated on the sum of the basic and CVD. The basic and additional duties and other charges are calculated on a compounded (cumulative) basis. A levy of 1% is added to the CIF value to come to the assessable



value. When the transport and insurance costs cannot be established, or is challenged, 20% is added to the invoice price to come to the CIF value.

Figure 8 - Additional Charges –India

	Charge no	Type of charge	Value %/ton
Illustrative CIF Price			2,000
	1	Landing charge at 1% of CIF	20
	2	Customs Duty: 15% of CIF + charge 1	303
	3	Countervailing Duty: 16% of CIF + charges 1 + 2	372
	4	CESS (Educational levy): 2% of charge 3	7
	5	Additional CESS on total duty: 2% of charges 2+3+4	14
	6	Terminal handling charges: Variable, approximately 3%	60
Delivered Price (excluding inland transport)			2,776
Increased over CIF price			39%

Under the provisions of Packaged Commodities Rules, 1977, all commodities sold in prepackaged form are required to have a label declaration of retail sale price in the form of MRP inclusive of all taxes. This concept is well accepted and is being used for all packaged consumer goods in India except drugs. **The system of applying the additional or excise duty has however also now been extended to pharmaceuticals. The duty is based on the MRP with an abatement of 40%. The duty is therefore applied on 60% of the MRP. ?? Stainless**

Customs procedures and delays -Even if applied tariffs remain high for various products a survey (EU Trade Obstacles Report) confirmed that business losses suffered through delays at borders and complicated customs procedures may exceed in many cases the costs of tariffs. In the case of India, this involves a complex array of sometimes, opaque documentation requirements, valuation issues and multiple submissions of data to different agencies (Customs, Ministry of Health, Ministry of Agriculture, etc.). Various surveys have already stressed how these problems represent a serious threat in meeting trade commitments and development objectives.

These requirements combined with delays in clearance of goods, lack of, appropriate infrastructures for the storage of goods or their testing negatively affect importers daily business. The following table presented at a UNCTAD – World Bank Trade Facilitation Seminar, May 2004, shows a comparison of the number of days for imports and exports to clear customs in Brazil compared to India, China and Bangladesh:

Figure 9- Imports and exports - average days to clear customs

<i>Category</i>	<i>Brazil</i>	<i>India</i>	<i>China</i>	<i>Bangladesh</i>
Imports				
<i>Average</i>	14.0	7.1	7.9	11.7
<i>Longest</i>	32.0	12.8	12.5	23.2
Exports				
<i>Average</i>	8.7	5.4	5.4	8.8
<i>Longest</i>	16.8	8.0	8.0	14.0

Another comparison at the same Seminar shows port transit times as follows. While there are differences in the number of days, particularly in respect of India, these can be explained by the fact that the results are from different studies and that one measures customs clearance and the other port transit times.

Figure 10-Port transit times (days)

<i>Category</i>	<i>Brazil</i>	<i>India</i>	<i>China</i>	<i>Malaysia</i>
Imports				
<i>Average</i>	13.8	10.4	7.5	3.4
<i>Longest</i>	32.4	21.6	12.2	7.4
Exports				
<i>Average</i>	8.4	6.1	6.6	2.6
<i>Longest</i>	16.9	9.3	8.1	6.1

Delays are caused mainly by compliance with requirements to be followed prior to import; Inadequate port facilities leading to congestion; Burdensome documentary requirements; Customs valuation and classification issues; and Inspections to verify products' compliance to requirements of other agencies.

Import restrictions and conditions

The Import of goods into and export of goods out of India is governed by the Export-Import Policy, 2002-2007 (EXIM policy), which is framed every five years. India's current five-year trade policy has further liberalised imports and exports. India used to have extensive import restrictions but has had to remove these in terms of its Uruguay Round WTO commitments. The removal of import restrictions did not happen at the entry into force of the Uruguay Round Commitments but substantially later and over an extended period of time, partly after pressure from other WTO members (consultations by several countries and a dispute by the US). In many cases this was accompanied by an increase in tariffs. For the most current information on India's Prohibited Import List, see <http://exim.indiamart.com/freedlist/prohibited.html>. There are currently 58 items on the



list, most of which are animal, plant food products. India prohibits or restricts the importation of all used goods except capital equipment.

Licensing

In April 2001, Indian Authorities implemented a significant liberalisation of the import restrictions through the removal of Quantitative Restrictions (QRs). All goods not classified as prohibited or restricted in the ITC (HS) Classification of Export and Import of items can be freely imported. A list of goods still subject to licensing is not available as the list is being reviewed. According to the EU Trade Barriers Report, **the removal of trade barriers has in some instances been followed by an increasing number of new non-tariff barriers** affecting the importation of EU products. **In particular, India has strengthened the implementation of labelling and certification requirements.** There are four major categories of concern as follows:

- The standards are complex and sometimes difficult to comply with (e.g. for food products);
- There is a lack in personnel (e.g. health officers) and infrastructures to send samples to the laboratories, to conduct the testing in accredited laboratories, lack of testing equipment;
- There is a multiplication of authorities involved in the same type of controls;
- There is a lack of efficient appeal procedures to challenge the ruling made after controls."

Customs valuation

According to the EU Trade Obstacles Report, Customs are alleged to challenge discretionary and quite systematically the declared value of specific products. (textile and clothing, watches, cosmetics and other consumer products). The importer is required to deliver documents proving the accuracy of the declared value. In addition to the invoice and the packing list, the importer must supply a price declaration assessment together with a document from the chamber of commerce of the country of origin. In some cases, catalogues of the product are required in order to prove the accuracy of the declared value. In several cases, these investigations are justified by the high level of under-invoicing. However, these procedures are also considered in many cases as completely discretionary. In practice, given the limited efficiency of appeal procedures, importers prefer to settle the problems directly with Customs than to wait for a lengthy appeal decision confirming the first customs decision (demurrage costs). While the difference in estimation remains "bearable" (20%), the importer will prefer accepting the modified customs value than paying demurrage costs.

Reference pricing and minimum import prices

The Government of India has removed minimum import prices.

Labelling requirements

In April 2001, Indian Authorities implemented a significant liberalisation of the import restrictions (removal of Quantitative Restrictions (QRs) and a reduction of import duties. All goods not classified as prohibited or restricted in ITC (HS) Classification of Export & Import of items can be freely imported. However, since November 2000, the DGFT has started the imposition of various non tariff barriers: the extension of packaging and labelling requirements to imported consumer goods, the extension of mandatory registration of BIS standards to imported products, etc. India applies stringent labelling requirements in respect of pre-packaged good. All pre-packaged goods imported into India have to carry the following declarations:



- Name and address of the importer;
- Generic or common name of the commodity packed,
- Net quantity in terms of standards units;
- Month and year of packing in which the commodity is manufactured or packed or imported;
- The maximum retail sale price (MRP) at which the commodity packaged form may be sold to the ultimate consumer, which must include all taxes local or otherwise, freight, transport charges, commission payable to dealers, and all charges towards advertising, delivery, packing, forwarding and the like.

The MRP is calculated on the basis of different criteria (freight, insurance, internal taxes). In India, each State has a different rate of sales tax and other taxes. Sales tax varies from 8% to 20% in the state of final destination. It is often not possible to know in advance the identity of products and of consumers, as well as the quantities, which will be sold. Even if the importer can give to the exporter an accurate indication of internal taxes to the importer, he will not be able to guarantee that the information on the exchange rate is correct.

If an exporter supplies products aimed to be sold in various states, he will have to produce as many different labels as there are States of final destination for each item sold. This results in significant additional costs. This issue is further complicated by the Customs requirement to provide one invoice by different MRP, even for the same items (i.e. same product aimed to be distributed and sold in various States). According to various freight forwarders, if the importer cannot comply with this requirement, Customs will charge the additional duty on the highest MRP.

Compliance of the above-stated requirements has to be ensured before the import consignments are cleared by Customs in India. **The import of pre-packaged commodities such as raw materials, components, bulk import etc., that needs to undergo further processing before they are sold to end consumers are not included under this labeling requirement.**

Standards

Indian standards are formulated by the Bureau of Indian Standards (BIS), which was established as a statutory body under the Bureau of Standards Act, 1986, and became operational on 1 April 1987. Standards are developed through 15 division councils, covering a wide number of sectors. From its formation until 1 April 2001, the BIS had developed 17,428 voluntary standards relating to a number of sectors. In order to ensure their continued relevance, Indian standards are reviewed as and when considered necessary, but at least once every five years.

Indian and foreign manufacturers who meet a BIS standard may carry the BIS Certification Mark. The BIS Certification Mark was made mandatory for 133 items (both locally produced and imported). The BIS laboratories provide conformity testing for products (both domestic and imported) requiring BIS certification. Voluntary certificates are also issued for environmentally friendly products (Ecomark), environmental management systems, quality systems, and hazard analysis and critical control points (HACCP). Licences granted for quality systems, environmental management systems, and HACCP are valid for three years and must be renewed. The BIS carries out regular surveillance audits and inspections to ensure that the systems and products



meet the relevant standards. All the BIS certification schemes are operated according to the relevant ISO/IEC guides.

BIS is operating a product certification scheme for foreign manufacturers. In this scheme, a license can be granted for any product against an Indian Standard specifying product characteristics, which is amenable to certification. The schemes operate on self-certification basis, whereby the manufacturer is permitted to apply the Standard Mark on the product after ascertaining its conformity to the Indian Standard licensed for. Through its surveillance operations the Bureau maintains a close vigil on the quality of goods certified. Those desirous of obtaining the BIS license have to apply to BIS in the prescribed application form, which can also be downloaded from BIS web-site at <http://www.bis.org.in> along with an application fee of Rs.1000/-.

The foreign manufacturer must set up a liaison/branch office located in India with the permission of Reserve Bank of India, which must meet all liabilities with respect to BIS Act, Rules and Regulations for purpose of the BIS licence. The requirement to set up an office in India does not apply, if BIS enters into an MOU with the respective Foreign Government for implementation of BIS Act, Rules, and Regulations including the punitive provisions, or if the foreign manufacturer nominates an Authorized representative located in India who declares his consent to be responsible for compliance provisions of BIS Act 1986, Rules and Regulations on behalf of the manufacturer as per terms and conditions of the Agreement signed between BIS and the foreign manufacturer. Processing charges of US \$ 300 are required to be paid after scrutiny and recording of application.

The applicant has to bear expenditure of travel, stay, miscellaneous expenses like visa etc and per diem as applicable by BIS regulations for a team of officers (normally not more than 2 officers) for their inspection visit to the manufacturing premises.

Government procurement

It has been reported that Indian government procurement practices and procedures are neither transparent nor standardized. Foreign firms do not generally win Indian government contracts.

Investment

According to the US Trade Summary of India (2004), Press Note 18, introduced by the Ministry of Industry on December 14, 1998, poses major impediments to investment in India. The following are the two most restrictive provisions of Press Note 18:

- The automatic approval route is not available to foreign investors who wish to set up new ventures in India or who wish to enter into new technical collaborations or trademark agreements in India, if such foreign investors have or have previously had any joint venture, technology transfer or trademark agreement in the same or allied field in India. Such foreign investors would have to obtain an approval from the Indian government; and
- In its application, such foreign investor would have to give reasons for which it finds it necessary to set up a new venture or enter into a technical collaboration or trademark agreement. The onus is on the investor to provide adequate justification to the satisfaction of the Indian government that its new proposal would not jeopardize the interests of the existing venture or the stakeholders thereof.



The government may, at its discretion, approve or reject the application giving reasons for such rejection. In addition, the foreign investors who already have an equity stake in a venture in India, and who want to increase their equity stake in the company, are required to obtain a resolution of the Board of Directors of the Indian company prior to seeking Indian government permission. India also has extensive rules in regard to setting up an office in India, in terms of what each type of office is allowed to do and not allowed to do. Generally, FDI rules have been substantially liberated and FDI of up to 100% equity is allowed under Automatic Route for all sectors/ activities except the following:

- Industries retained under compulsory licensing;
- Manufacture of items reserved for small scale sector by non-SSI units; and
- When the proposed location attracts locational restriction.

Anticompetitive Practices

India suffers from a slow bureaucracy and regulatory bodies that reportedly apply monopoly and fair trade regulations selectively. With little or no fear of government action and with a clogged court system where cases languish for years, Indian firms face few if any disincentives to engaging in anticompetitive business practices.

Export taxes

Various exports have been subject to export taxes but these have been or are being removed. The export of raw hides and skins is subject to an export duty of 60%.

Intellectual property rights

India is on the USA's IPR "Priority Watch List" of 14 countries for due to continuous serious concerns about copyright and trademark infringements, inadequate enforcement of intellectual property rights, and the need to greatly improve the processing of patent applications in a manner that is consistent with their international obligations. This is according the 2005 Special 301 Report. The Government is improving its capacity and systems to deal with this problem.

Anti-dumping duties

India and South Africa are some of the most frequent users of anti-dumping measures. The table below shows the number of anti-dumping measures imposed from January 1995 to 30 June 2005 (the latest data on the WTO website) by the top ten users of this measure and their percentages of the total.

Figure 11-Anti-dumping measures per country 1995 – 30/06/2005

Country/Bloc	Number of measures	% of total measures
India	309	17.9
United States	229	13.2
European Community (EU 15)	200	11.6
Argentina	139	8.0
South Africa	113	6.5



Country/Bloc	Number of measures	% of total measures
Turkey	81	4.7
Mexico	71	4.1
Australia	65	3.8
Brazil	63	3.6
China	62	3.6
Other	536	23.0
Total	1 729	100.0%

Anti-dumping measures have become a major trade policy instrument of India since 1995 when the country had to start phasing out import restrictions as required by its obligations under the Uruguay Round of the WTO. India is now the single biggest user of anti-dumping measures with 17.9% of the total number of measures imposed by all countries over the period concerned. Base metals and articles (Chapters 72 to 83) **and chemicals (Chapters 28 to 38)** are the sectors most subject to anti-dumping measures with 33.1% and 20.0%, respectively, of all measures.

Countervailing duties

Countervailing duties are applied against subsidies by exporting countries. Such duties can be applied against prohibited subsidies, which are subsidies contingent on export performance or upon the use of domestic over imported goods, or actionable subsidies. The latter category, briefly, refers to financial contributions by a government or a public body (such as a direct transfer of funds, government revenue foregone, the provision of goods or services by a government, other than general infrastructure, and if a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out any of these functions; or if there is any form of price or income support; and a benefit is thereby conferred. A countervailing duty may be applied against an actionable subsidy only if it is specific to an enterprise or industry or a group thereof. During the period January 1995 to 31 December 2004, 108 countervailing duties have been imposed by all countries. **India has not imposed any countervailing duties. But India is on top of the list of countries against which countervailing duties have been imposed.** Of the total of 108 countervailing duties, 25 or 23.1% have been imposed against India. Of these, 14 were in respect of metals, 3 in chemicals, 4 in plastics and 2 in textiles.

Safeguard measures

A safeguard is an action taken to protect a specific industry from such increase in imports as to cause, or threaten to cause, serious injury. It is intended to prevent or remedy serious injury and to facilitate adjustment. Safeguard action is taken if the measure a country wishes to impose would breach its WTO obligations, i.e. if the tariff would exceed the bound rate of duty or if the country wishes to impose quantitative restrictions on imports. Unlike anti-dumping and countervailing duties, which are applied to specific countries and exporters, safeguard measures have to be applied to a product imported irrespective of its source. Currently a total of 68 safeguard measures or provisional safeguard measures are applied by all countries. Of these, 8 are applied by India (11.8%), namely 7 in respect of chemicals and 1 in plastics.



Other trade discriminatory measures

India applies a vast array of export support schemes based on the duty rebate and drawback principles. Elements in some of these schemes seem to be trade discriminatory. The Government of India introduced *the Duty Entitlement Pass Book (DEPB) Scheme* in April 1997 by means of Customs Notification 34/97, after the abolishment of the Passbook Scheme. The objective of the measure is to provide duty free imports for export production, in other words to neutralise the incidence of customs duty on the import content of the export product. The neutralisation is provided by way of grant of duty credit against the export product. Thus, for exporters not desirous of going through the licensing route, an optional facility is given under DEPB Scheme. **In contrast to the usual temporary duty-free importation of goods for processing, the Pass Book Scheme may lead to an indirect subsidy of local Indian production. The Duty Entitlement Pass Book (DEPB) Scheme entitles an exporter (both a manufacturer-exporter and a merchant-exporter) for credit as a specified percentage of FOB value of exports, made in freely convertible currency.** The credit is available against such export products and at such rates as specified by the Directorate General of Foreign Trade (DGFT) by way of Public Notice, for import of raw materials, intermediates, components, parts, packaging material etc.

The DEPB is valid for a period of 12 months from the date of issue. **The DEPB and/or the items imported against it are freely transferable and, as a consequence, frequently sold.** The DEPB has emerged as a favourite instrument of export promotion. The DEPB rates are available on wide-variety of items compared to the coverage under the drawback scheme, which is limited to a few items. The DEPB entitlement is also liberal compared to the drawback rate. Imports through the DEPB Scheme are exempt from special additional duties (SAD) and therefore, SAD can be avoided by duty payment through DEPB.

The scheme lacks a built-in obligation to import only goods that are consumed in production of the exported goods. There is no verification system in place to check whether the imports are actually consumed in the production process. It is not a substitution drawback scheme because the imported goods do not need to be of the same quantity and characteristics as the domestically sourced inputs that were used for export production. Exporting producers are eligible for the DEPB benefits regardless of whether they import any inputs at all. An exporter obtains the benefit by simply exporting goods without the need to show that any input material was indeed imported; thus, exporting producers, which procure all of their inputs locally and do not import goods which can be used as inputs are still entitled to the DEPB benefits.

Opportunities for South Africa in Indian Stainless Trade

South Africa has a comparative advantage in the export of flat-rolled products of stainless steel with a width 600mm or more. Imports and exports of stainless steel products by South Africa and India are becoming more intensive although at a very low level. Comparative disadvantage calculations for India indicate that there may be opportunities in exporting the following products to India because of India's comparative disadvantage in their trade:

- 7304 Tubes, pipes and hollow profiles
- 7222 Other bars and rods of stainless steel, angles, shapes and sections of stainless steel
- 7221 Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel.



While South Africa should be cautious in granting concessions in the trade in stainless steel in a PTA with China, the Indian stainless steel market is sufficiently attractive to pursue concessions from India in a PTA with them. Considerations of the granting and of the winning of concessions should be done in thorough consultation with the stainless steel industry. Catalytic converters and exhaust systems are both competitive as the result of the MIDP. Automotive exports by India to South Africa may open up avenues for Indian imports of automotive components from South Africa.

It is important to note that little stainless steel downstream products are exported if not linked to a special dispensation like the MIDP or favourable personal tax benefits as in the case of ocean going tank containers. No longer available and few new investment tanks exported now. The message is that some supply side or demand pull scheme or a combination of both is needed for opportunities to arise in downstream stainless steel manufacture and export.

China

Background

China's GDP is expected to grow at 7% p.a. in the medium term, though this figure has been bettered for the last few years and China's infrastructure and construction boom will continue to grow demand for materials at above GDP rates for the next decade.

China has followed a similar path to that of the large powers such as the EU and US in the trading system that have looked beyond the multilateral trading system to conclude bilateral deals furthering their national commercial interests. China is pursuing an extensive number of FTA's and brought a number of impressive ones to conclusion since its accession to the WTO in 2001. The Chinese are pragmatic in their approach to bilateral economic agreements, recognising differences across economic partners and allowing for linkages along conventional trade interests. The CEPA with Hong Kong focuses on trade in goods, cross border investment and financial activities, while the agreements with Australia and New Zealand will cover a number of wider areas.

Currently China's FTA target partners are selected on a regional basis. From a long-term point of view, China must secure a place in the rising trading block within Asia. This has been achieved in the Asia Pacific-and the Asean agreement. China's next move will be to begin official negotiations with Japan and Korea with the aim of creating an East Asian FTA bringing together China, Japan, South Korea and the ASEAN member states (ASEAN + 3). In this regard, China will be aiming to become the focal point of an East Asian free trade zone that will effectively rival others blocs such the EU and NAFTA (North American Free Trade Area).

China is seeking to penetrate other regions by signing FTAs with strategic countries in each region. For example China's FTA with Chile is seen by many as a gateway to other Latin American countries and indeed the region. As such China's impending FTA/PTA / with SACU can be seen in the same light. Although China has economic and trade relationships with many Africa countries, FTA/PTA negotiations with SACU are the first for China on the African continent. China's strong bilateral focus in its trade agenda has also been strategically oriented in order to secure commodity



supplies. The rate of growth of the Chinese economy requires a constant supply of raw materials (SACU, Australia, GCC).

Figure 12-Overview of China's bilateral FTA activities

Signed FTA agreements	
Bangkok Agreement	April 2001
Hong Kong	29 th June 2003
Macau	17 th October 2003
ASEAN	4 th November 2002
Thailand	1 st October 2003
Chile	18 th November 2005
Currently negotiating	
New Zealand	5 th round of negotiations
Australia	3 rd round of negotiations
India	Joint feasibility study
Pakistan	Joint feasibility study
Gulf Cooperation Council	Joint feasibility study
Iceland	Joint feasibility study
SACU	Feasibility studies
Discussions underway	
Singapore	Talks
Korea	Talks
Japan	Talks

Source: Emerging Market Focus (December 2005)

In June 2004 South Africa granted China market economy status². China and SACU agreed to encourage and support mutual trade and investment, to expand cooperation in areas of mutual economic interest and to launch FTA/PTA negotiations. No timeframe was set out for the negotiations.

By becoming a member of the WTO China agreed to the core principles governing the body. Undertakings by China require adherence to key agreements of the WTO transparency and independent reviews of administrative decisions, technical barriers to trade; sanitary and phyto-sanitary measures; trade-related investment measures (TRIMS) Intellectual Property Rights (TRIPS); subsidies; import licensing; rules of origin; customs valuation; distribution services; non-tariff measures; state-trading enterprises; price controls; and safeguard measures. Compliance to these commitments requires substantial reforms.

² "South Africa has granted market economy status to China as a political gesture but no agreement has been reached on implementation on a micro level".



Market access to China was greatly improved when China agreed to reduce tariff rates. The tariff rates were reduced and are set out in China's Goods Schedule. Down phasing of tariffs should be substantially completed by December 2007. China has selected to position itself with other developing countries and more specifically with the G-20, in the Doha negotiations. China started with market orientated reforms in the 1980's to reduce the constraints on growth of its rigid communist economy. The ruling Chinese Communist Party (CCP) remains in firm control of reforms and its vision is for China to become a "socialist market economy". A FTA/PTA between SACU and China will thus be a trade deal between two different economic systems. Implications arise for cost competitiveness as determined under market conditions in South Africa and non-market conditions in China

The reforms that drive economic growth and transformation in China are the (1) rationalisation of the State Owned Enterprises (SOE's); (2) the regulatory framework of markets; and (3) the internationalisation of the economy.

The population of China is about 23 times and its GDP 9 times that of South Africa. However its GDP per capita is more than 3 times less than South Africa's. China is catching up as one of the largest economies of the world. In 2004 it was the 7th largest economy and five years time it can be 4th. China is able to sustain a high growth rate with the help of a high investment ratio equal to 40.2% of GDP. Foreign direct investment is at the core of the internationalisation of the Chinese economy. Incentives and subsidies that China offers to foreign investors are important promoters of foreign investment. The expansion in its foreign trade opened the Chinese economy at an unprecedented rate. Whereas the sum of exports and imports of goods and services amounted to 38.1% of GDP in 1998 it rocketed to 70.8% in 2004.

The growth in merchandise trade and foreign direct investment are directly related. Foreign investors target China's comparative advantage in low cost labour to supply world markets. Foreign invested Enterprises (FIE's) increased their share of Chinese exports from 20% in 1992 to 54.8% in 2003. The share of SOE's in exports fell from 46.7% in 2000 to 31.5% in 2003. The FIE's is also responsible for the change in the export structure from primary to manufactured goods. In 1985 primary exports was 50% of merchandise exports while in 2003 manufactured goods accounted for 92% thereof.

Accession to the WTO is set to change the present dispensation with regard to incentives. China is now committed to implementing a comprehensive programme according to a set time table to prevent appeals to the WTO by trade partners. However, tax reforms to eliminate incentives as the result of accession to the WTO are expected not to come into force before 2007. Membership of the WTO is to benefit China because its exports will now have easier and more secure entry into foreign markets with the clothing industry to benefit immediately with the termination of the Multi-fibre Agreement.

In the mean time it is suspected that the investment that is taking place may remain less disciplined than would be the case in an environment of free capital markets. The inefficient SOE-sector poses a threat to the banking sector. Banking is still overwhelmingly state owned and the overwhelming majority of bank funds are being lent to state linked firms. Rationalisation of the banking sector



included steps to allow banks to operate on a more commercially oriented basis. Solvency ratios were improved by state capital injections and by shoving bad loans into government established asset management companies. These actions in effect constitute a subsidy on the cost of capital. Short term interest rates in China is about half of that in South Africa. The real interest rate is very low and possibly a contributing factor to the high investment ratio. Chinese companies thus benefit from an uneven playing field. In the mean time rapid expansion of capacity may lead to excesses that may upset the markets of trading partners in the absence of market dictated investment discipline in China. However, a strong plus point of the Chinese economy is its investment in human resources as a long term platform for sustained growth. A high proportion of students is enrolled in engineering and management sciences.

Reforms that introduced private enterprise into manufacturing reduced the importance of SOE's in production from more than 80% of the output before 1980 to 37% in 2003. They are mainly found in heavy industry. The government follows aggressive strategies to improve the efficiency of SOE's through closures, mergers, sale of ownership and by allowing SOE's to shed redundant labour. The drive towards efficiency among SOE's, by necessity, has a serious socio-economic fall out. It is said that about 30 million work places became redundant between 1998 and end 2004. These workers and their families lost extensive social security benefits. As a consequence the government is trying to introduce a new social security system to complement SOE reforms.

The South African production structure conforms to that of a developed country. The Chinese economy apparently has a production structure of its own with inordinately high dependence on manufacturing and a low contribution by the services sector. The latter would be indicative of underdeveloped financial, business and commercial (retail) services and is commensurate with a society with a low per capita income.

China is the world's third largest country, with a geographical area of 9.6 million kilometres square and a population of approx. 1.3 billion people. The country consists of 23 provinces, 5 autonomous regions, 4 municipalities, and 2 special administration regions directly under the Central Government. The State Council is responsible for exercising unified leadership over the local state administrative bodies and regulates the division of power and the functions of the state administrative organs at the central level and the provincial, regional and municipal levels. The bureaucratic hurdle is acute when it comes to starting a business, licensing applications and applying for credit. Foreign investors are also wary of a lack of transparency and high levels of corruption.

Uniform personal income taxes on locals and foreigners apply ranging from zero to 30% differentiated over nine levels. Concessions serve to reduce the flat tax rate on profits. For profits in SEZ's, ETDZ's, EPZ'S and the western region the income tax rate is reduced to 15%. The 15% tax rate may also apply to investment in transport-infrastructure and some other activities while refunds, tax holidays and allowances apply to targeted activities. A capital gains tax is in force. South Africa and China have signed an agreement for the avoidance of double taxation.

Financial sector reform is ongoing, having being identified as a key area for promoting economic growth and attracting FDI. The banking sector suffers from non-performing loans and government



strives to improve the situation in order to avoid a banking crisis. The Chinese financial system is highly regulated and relatively underdeveloped. A number of international banks have been permitted to open branches in China with only a few being permitted to carry out branch functions in Shanghai and Shenzhen. Participation in the financial sector has been minimal. As part of China's WTO commitments all remaining restrictions on local currency transactions will have to be removed and foreign banks will be able to conduct transactions in Yuan (Renminbi) with both Chinese companies and individuals. The rate of reform is slow. The Chinese stock markets have been described as relatively underdeveloped and in need of internal reform.

The transport infrastructure in China is undergoing improvement, particularly with regards to port development and capacity and the improvement of road and rail networks. China has embarked on several power generation and hydro electric projects and has also urged foreign companies to become involved in the infrastructure development process in the country.

There are many cases where foreign products and brand names have been copied by unscrupulous Chinese operators. Registering a brand name, logo, patent, trademark, and copyright is a priority. Since joining the World Trade Organization, China has strengthened its legal framework and amended its IPR laws and regulations to comply with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Despite stronger statutory protection and committed officials measures taken have not been sufficient to deter massive IPR infringements effectively.

In its latest five year plan the Chinese government has undertaken to increase investment in rural construction; development of the middle and western areas of the country; social causes; science and technology; environmental protection; and infrastructure construction. The Chinese leadership is aware of the growing disparities between the wealth of the urban and rural areas, and endeavours to address these concerns.

A primary objective of its trade policy is to strengthen China's position vis-à-vis trade with the developing world. Presently China is challenged to develop high-technology products locally and is heavily reliant on imported technologies. In order to address this perceived shortfall, it is promoting the development of its high-technology sectors. China is moving to a position where it will potentially be able not only to compete with the developed world in terms of high-technology goods and services, but also simultaneously supply them with all the low-technology goods it currently provides. Resources companies have strategically positioned themselves vis-à-vis China's booming commodity demand. However, it appears that the Chinese leadership is wary of over reliance on foreign companies and governments for its supplies of raw materials. The past two years have seen an incredible growth in China's direct interaction with natural resource rich regions and countries. Prominent among these are South America and most recently, Africa.

China is extracting significant amounts of raw materials from Africa and has also increasingly been promoting Africa as an investment destination for Chinese multinational corporations. There has been substantial investment in for example oil, construction, telecommunications, and transport and energy assets. A side effect of China's industrial or trade policy has been the further competitive marginalisation of Africa's manufacturing sector. Unable to compete against lesser



priced Chinese imports, African economies continue to move further down the manufacturing value-chain. This further entrenches the lack of industrialisation amongst the continent's economies. China is pursuing its various trade and industrial objectives through a number of means, incentives and initiatives. China relies heavily on foreign investment to build up its industrial sector, especially export manufacturing, high technology enterprises and investment in the central and western regions.

China is attempting to achieve its economic objectives by providing direct support for number of specific industries. Prominent among these are the automotive, agriculture, energy and transport industries. Many of these often appear in reference to certain "pillar industries" which receive direct support from the state. These industries are offered a large degree of protection by the PRC government and some concerns have been raised about the lack of transparency and access in these industries.

Membership of The World Trade Organization (WTO) has been a significant target of its strategy. Within the WTO, and through various bilateral agreements pursued since 2001, China has been trying to acquire Market Economy Status (MES) from as many countries as possible. China is not recognised as a market economy by the US, a status that makes it easier for trade actions to be brought against Chinese firms. Dissatisfied by what it sees as discriminatory treatment and fearful that this status could make it vulnerable to Western protectionism, the People's Republic has embarked on a comprehensive campaign in the international community to gain MES. China is supporting its manufacturers and industries through the retaliatory mechanisms of the WTO. An example is extensive use of the anti-dumping mechanism to protect its chemicals industry against imports from South Korea, Japan, the United States, and even South Africa.

China is inclined to use political influence to support its trade and industrial policies. The most prominent has been the recent close political interaction with Africa and the release of its "Africa Policy" in January 2006. China has also used this appeal in South America, where Venezuela has stated openly a preference for a relationship with China over the US. These overtures are sometimes shored up by providing access to loans, technical assistance, expertise, and physical infrastructure development to countries that are dissatisfied with the assistance received from Western institutions.

China has relied on six types of industrial policy tools and incentives: central government financing and planning; empowering key industries with direct financing; preferential interest and tax rates and favourable financing for target industries; infant industry (trade) protection; pricing policies; and administrative means. In addition to these six tools, there are at least two additional important measures. One is the systematic guideline to channel FDI into desired industries. Based on these guidelines the government grants licenses and approval of investment projects. The other is the various restrictions imposed on foreign ownership, business ranges, and geographic scope of foreign-funded enterprises.

Chinese Stainless Steel Industry

China's policy-makers hold the key to the global stainless steel industry over the next decade. The global stainless steel industry has seen impressive growth over the past 10 years, driven largely by



rising Asian demand. But more importantly, the last 10 years have witnessed a strong eastward shift in production capacity. Europe's Big Four steel producers have lost global market share to Korean, Taiwanese and now Chinese producers.

China's rise has a major stainless steel producer started in 2000, five years of after the start of rising demand. This gap has supported global producers who have exported 2-3Mt of stainless steel annually. However, massive State and private investment caused production growth to outstrip demand growth for the last few years. China is expected to change from being a significant stainless steel importer to a net exporter by 2008. This rapid turn-around has major implications for international stainless steel producers, already struggling with overcapacity and high raw material prices. More worrying however, is the potential volume of China's exports. Some estimates point at an installed capacity of 16.3Mt/a by 2008 which, could potentially flood the world with 8Mt of unwanted Chinese stainless steel products.

In 2006, China still presents stainless steel exporters, including South Africa, with good market opportunities. Tariffs on stainless steel products are low, and there are few significant non-tariff barriers to stainless steel imports, beyond the lack of transparency and uncertainty that is inherent to exporting to China. In addition, China is threatening to extend trade actions against certain Korean and Japanese stainless imports makes up for the higher transport costs facing European and South African exporters. Chinese demand from HR flats will remain strong for the next few years. Looking forward, South African producers should focus on special stainless steels, and long products, as well as key downstream niche markets such as catalytic converters and machinery.

The South African industry should also be very concerned about increased competition from Chinese products in third markets, especially in Africa where Chinese products will benefit from the Chinese-led construction industry supply chains running back to China instead to South Africa.

China does not have a specific stainless steel policy as such. Stainless steel makes up 1.3% of China's total steel production by volume in 2004. Stainless steel falls very much inside China's industrial policy on steel and other heavy metal industries. The State Council makes policy-decisions, The National Development and Reform Council (NDRC) announces the policy guide. The Ministry of Commerce (MOFCOM) and China Iron and Steel Association (CISA) are responsible to implementing the policies and dealing with the administrative measures therein. China's Steel industrial policy and development plan has showed three distinct phases, during each of the Ninth, Tenth and Eleventh Five Year Plans:

During the 1990s, China's economy was growing very quickly, and mirrored the start of a phenomenon of low-quality and labour-intensive exports from the Southern Coastal Regions. The infrastructure development boom was in its infancy and China's economy was still plagued by state-trading and high tariff protection. China's steel industry was dominated by inefficient SOEs producing large volumes of low-quality grades. Stainless steel production was very low, hovering between 300'000 - 400'000t/a. China's stainless flat capacity was only 40'000t/a. It was only in the mid- 90's, when trade barriers started coming down, and 5 years of growth started raising national purchasing power, that consumption of stainless steel started picking up. From 1995, stainless steel consumption started increasing at 25% a year while production capacity lagged. During this



time, policy-makers were focusing on boosting low-end ferrous steel production, ignoring the rapidly increasing import gap of stainless steel.

The growing import gap for stainless steel in China, gained the attention of the NDRC during the late 1990's. By 1999, China was importing 80% of all stainless steel consumed. As a result, the reform and restructuring of the stainless steel industry became a major focal point during the Tenth Five Year Plan (2000-2005). The policy relied on 3 modes of investment to expand the industry and improve self-sufficiency ratios.

- Government funded SOE expansion
- JVs with global steel companies
- Private enterprise in China

This strategy provided for the creation of two large SOEs to carry out a massive production expansion program: Shanxi Taiyuan Stainless Steel Company Ltd (TISCO) in the North and Baosteel (Shanghai Baosteel Group Corporation) in the South. TISCO was a minor SOE at the time, while Baosteel was already a sprawling steel giant, but with a tiny stainless capacity.

As part of China's economy wide plan to draw foreign investment and technologies, China created a wide-ranging system of policies. This centred on the Joint Venture and the reduced corporate tax offered to foreign investors. Importantly, China was looking for foreign companies with more than just capital to offer. They wanted expertise and technology transfers. Corporate tax for Foreign Invested Enterprises (FIEs) was 15% while Chinese firms had to pay 33% corporate tax. (This policy remains today, but may be phased out by 2008). Government wanted to attract international stainless steel producers to import machinery and technologies without competing with domestic producers. Thyssen Krupps was an early investor, forming Shanghai Krupps Steel (SKS) with Baosteel. (See below: Multinationals)

Favourable policies and export conditions in the general manufacturing sector contributed to a boom of medium and small (SME) private investment (largely from Taiwan and Hong Kong) into the production of downstream stainless products, such as consumer durables, machinery and pipes.

This reform was largely driven by the need to close the import gap and promote self-sufficiency. This was a time in which China was preparing to enter the WTO and there were widespread fears of SOEs unable to stand up to increase foreign competition. Under the 10th Five Year Plan (2000-2005), authorities set the following ambitious 5 targets of the domestic stainless steel industry. Some of these have been achieved, while a about-turn in 2004 has meant that some of the more ambitious targets were not achieved.

- Stainless steel production capacity will reach 9Mt/a (4.9Mt/a by SOEs, 2.5Mt/a by JVs for foreign investors and 2.5Mt/a of 'private enterprise' production.) This would lay the base for China to become the largest steel producing country in the world, with capacity equal to Europe. The structure of the industry will be more rational. Stainless steel as a % of total steel produced will increase from 0.4% in 1995 to 2.5% in 2005, inline with international standards.



- SS flat products will grow from 10% of total stainless production in 1995, to 85% in 2005, with CR flat making up 55% of total stainless products.
- Enterprise scale will be expanded to form Asia's 'Big 4' with China at its core. TISCO (2.5-3Mt/a), Baosteel (1.5-2Mt/a), POSCO, (2.6Mt/a) (including POSCO's capacity in South Korea) and Yelian (1.8-Mt/a) (Yelian Steel Company, and including Yelian's capacity in China's Taiwan.) Asia's Big 4 will account for 55% of total production capacity in Asia, echoing Europe's Big Four.
- Technological modernization: China's Tisco and Baosteel will have realised modernisation of their technologies and facilities. They should also have developed their own technologies and use their cost-advantages to produce high quality products, to enhance competitiveness, and to produce a wide range of steel grades and sizes (including extra-wide, extra thick, and extra thin plates) as well as pipes and long products to meet special requirements.
- Melting and Hot strip rolling will be encouraged in a batch of privately-owned enterprises allowing more rationalisation of the special steel products. For example, Wuhang in Fujian. Qingshan Special Steel, Huashan in Inner Mongolia, Zhouping in Shandong, and South-West Stainless Steel. This 'private enterprises' will adopt home-made electric furnace- AOD technology, matched by continuous casting and hot strip (650mm-850mm) rolling mills to form a batch of private 'small-capacity' enterprises. These 'privately-owned' enterprises will need a small amount of investment but will have fast construction phases and make use of new technology to play an increasingly role in China's future SS production capacity.

This resulted in a de facto substitution policy for stainless steel. WTO accession concessions forced China to rapidly open up its markets, but it kept high barriers on imported steel products using a quota system. The government also started a policy of creating 'national champions' through which it could carry out Government policy in an increasingly marketised economy. These national champions would be given concentrated funding to prepare them for increasing foreign competition. This included aggressive forced consolidation in the SOE steel industry. The emergence of Baosteel into a global giant in the steel industry is a sign of this policy. Authorities also forced the merger of 2 regional giants, Anshan and Benxi into and new steel giant called AnBen.

In the stainless steel melting area, authorities intend to create the Big 2. A few companies in the Baosteel family will be responsible for expanding stainless production and CR capacity. Government's targeting of TISCO as China's premiere stainless producer is even more interesting. (See below: Producers) However, during the past few years, there has been large investment by what CISA refers to as 'private investment'. This private investment refers to 'non-state owned' enterprises. But these enterprises still benefit from unofficial subsidies, soft loans, and close ties to local Government elites. By 2005, CISA reports that this 'private' production capacity had reached 1Mt/a. South Korea's Posco, SKS, Taiwan's Yelian and YUSCO, and Japan's JFE Steel Group and Nippon Steel.

Private investment in downstream industries resulted in rapid technological advancements, movement up the value-chain, and an increasing global market share for stainless products. The development of the Foshan and Wuxi steel markets are evidence of the growing SMEs are playing in leading the industry in much of the downstream technological upgrading. Many of these



companies enjoy strong relations with the large SOEs ensuring a stable supply of steel input materials.

The domestic steel pipe industry received particular attention during China's Tenth Five-year Plan (2001-2005). A massive Government and private investment in the Tianjin Pipe Corporation (TPCO), to produce a wide range of pipe and tubes is the focus of this attention. This special status is an important sign of and industries development due to the government's heavy hand in directing investment areas. The steel pipe industry will ride on the strategic 'national interest' repercussions of recent international energy competition. Secure and sustainable access to sufficient oil and gas has received extraordinary attention as China aims to expand networks capable of transferring these two products.

From the above 10th Five Year Plan's ambitious targets, we are able to understand why China's stainless production rose rapidly from a mere 480'000t in 2000, to 2.364Mt in 2004. It is also clear how the focus on production growth resulted in the kind of over-capacity and structural imbalances that plagued China's industry since 2004. In fact, in 2005, China had still not reached high self-sufficiency in many stainless areas. But is it they massive scale of projects currently being developed which makes analysts and policy-makers worry.

During the period 2001-2004, global steel prices had been rising as China stainless consumption increased rapidly. However, by early 2004, many of the 10th Five Year Plan's intended facilities were coming online at the same time. In 2004, higher international raw material prices, rising capacity and investor fears that China's construction boom couldn't continue, resulted in a sudden drop in steel prices, including stainless steel.

Analysts looked at the global supply and demand figures and the saw potentially massive overcapacity as China continued to announced capacity expansions. It was in mid 2004 that the State Council showed signs of changing the direction of economic development. Overcapacity was threatening many industries, and heavy metal industries were being strongly criticised for high levels of pollution and inefficient energy use. The US was urging China to address its ballooning trade surplus and reel in exports. This policy about-turn resulted in a rapid reduction of incentives for the export of steel products. Government reduced export rebates, imposed export tariffs on some raw materials and set high caps for new private investment projects. By early 2005, as general steel prices started dropping rapidly, raw material prices continued to rise and profits fell, the NDRC and CISA launched a stronger strategy to cope with the problems of irrational investment and over capacity in the steel industry. The following extract from a CISA report sums up the mood of policy-makers:

"Participants of the executive meeting of the State Council, China's central government, on April 20 2005, acknowledged investment in fixed assets in the industry had already been "rather great" at the moment. The meeting, chaired by Premier Wen Jiabao, deliberated on and adopted in principle China's iron and steel industry development policy. The meeting said the industrial mix of China's iron and steel industry has to be further adjusted to ensure the healthy growth of the industry. Manufacture of products that consume a very large amount of energy and materials and cause heavy pollution had to be contained, while export of such products would also be put under



strict control. The meeting called for an accelerated shift of the growth mode in this sector, improved efficiency in the utilization of energy and resources, and an "appropriate and economical" use of steel products. The meeting also underscored the importance of facilitating and consolidating China's iron and steel sector, optimizing its geographical distribution, and building a solid resource supply system by tapping both domestic and overseas resources."

Afterwards, authorities announced 'five major measures' improve the market mechanisms in the general steel industry and ensure its sustainability in the medium term. These five measures are:

Pushing forward enterprise merger and acquisition to phase out backward capacities and prevent excessive capacity expansion;

- Setting up an output-demand coordination group in the medium- and thick-plate and hot rolled wide belt, plate and roll fields on a voluntary basis of the enterprises to strengthen industrial self-disciplines. Such coordination group may be extended to other steel products if necessary.
- Requiring all members of the association, particularly plate and hot rolled wide belt makers, to control output and reduce their production in the fourth quarter by more than 5 percent so as to ease market pressures.
- Increasing direct supply and direct sales to reduce intermediate links and prevent stock-piling for speculative purposes.
- Requiring steel makers to refuse steel products futures trade so as to prevent the negative impact of forward contracts and other electronic transactions.

Government officials urged producers to make production cuts to prop up prices. China's steel industry agreed to cut production by 5 %. JVs and producers in other international regions made significant cuts. However, Tisco continued ahead, showing a 38% production growth in 2005. Nonetheless, a CISA official argued that the drop in steel prices, as well as the very high raw material costs, has been driven by speculation in global futures markets, due to the massive capacity expenditure in China. He argued that while there was increasing production capacity coming online over the next few years, the actual production figures were below full-capacity and the price drop was therefore unfair and damaging. (In 2005, China produced only 3.16Mt of stainless steel on 4.7Mt of capacity. According to one TISCO official, if all of China stainless expansion plans are implemented, China's stainless Meltshop capacity will reach over 16Mt/a by 2010. CISA claims many of these plans have been put on the back-burner. Nonetheless, even if only currently being built projects are accounted for, China will still have 8.15Mt capacity by 2010, arguably above domestic consumption levels.

China's steel sector previously showed high levels of trade protectionism and support for domestic producers. This was part of China's steel product import substitution policy during the 10th Five Year Plan. Steel was subject to 'quasi' state-trading system that made use of import quotas on the import of many steel products. The large SOE dominated steel production and state-trading companies such as Minmetals Corp were responsible for most of the imports of raw materials on behalf of the large SOEs. During this time, China was very dependent on large amounts of flat and long steel imports. Smaller, private enterprises in this sector were forced to work through trading companies such as Minmetals to handle the foreign exchange part of the transactions and this monopoly allowed authorities to exert much control over imports.



However, this direct protectionism was slowly replaced by more indirect control over imports using licensing restrictions and changes to export rebates allowances. Importantly, whereas before 2004, China was trying to protect its steel industry from foreign competition, it is now trying to slow down excessive investment. This has necessitated a move away from 'trade discriminatory incentives' to domestic investment restrictions and raw material export restrictions.

A major part of Chinese steel industry slow-down policy in 2004/05 was to try and combat the rapidly rising prices of steel import materials. These measures were largely in response to huge rises in steel industry raw material import prices. In April 2005, Rio Tinto, BHP Billiton and CVRD pushed up contract iron ore prices by 71.5%. The Chinese Government, through Baosteel officials, took this 'contract negotiation' particularity seriously and tried to force the suppliers into concessions by strong rhetorical threatening. Nickel, Cr and coking coal prices have also increased rapidly in the past few years. After unsuccessfully using heavy-handed rhetoric to force the global resource firms into concessions on the iron ore price, policy-makers started to make use of various NTBs to gain some leverage over the import prices and to prevent exports of raw materials which were in short supply domestically.

China uses a tax rebate policy system to encourage exports. (See below: NTBs) Companies may claim back VAT, and various business and consumption taxes paid in making the products, if the final good is exported. On 1 April 2005, China abolished the export tax rebates on the export of stainless steel billets and ingots. In 2004, China's stainless billets exports had grown to 645t from 332t in 2003. The export of stainless billets had exploded from 57t in 2003, to 449t in 2004. While these volumes are small compared to domestic consumption, their export was unnecessary supported by the rebate system. Authorities also lowered the rebate rate on stainless steel flat and long products from 13 percent to 11 percent as of May 1, 2005, in a bid to discourage steel export to help reduce steel prices in the country. The rebate on stainless scrap was removed as China's stainless producers were hit hard by high global scrap prices and shipping costs. China also implemented a mandatory 'automatic licensing management' for a number of steel and raw material products. Government is now using this licensing system to consolidate China's raw material purchasing power in global markets. It does this by refusing to issue license to contracts in which it believes the price is too high.

In April 2005, authorities introduced harsh measures to curb excessive investment in the iron and steel industry, including forcing banks to grant fewer loans to steel projects, and raising the capital requirement on new steel projects from more than 25 percent to more than 40 percent. According to China's commitment to the World Trade Organization (WTO), MOFCOM abolished this 'authorized management' of steel products imports as of December 11, 2004. Then as of 1 January 2005, authorities put into operation a new system of 'oversight regulation' called the "National Steel Market Price Monitoring Report System". According to the Directory of Industries for Foreign Investment, which took effect on January 1, 2005, foreign investment is 'encouraged' in steel (and stainless steel) production in China.



South African- Chinese Trade

Though China's interest in South America and Africa is predominantly linked to access to oil and other resources, some new patterns of engagement have emerged, especially with regards to Africa. Not only is China extracting significant amounts of raw materials from Africa, it has also increasingly been promoting Africa as an investment destination for Chinese multinational corporations. There has been substantial investment in for example oil, construction, telecommunications, and transport and energy assets.

A side effect of China's industrial or trade policy has been the further competitive marginalisation of Africa's manufacturing sector. Unable to compete against lesser priced Chinese imports, African economies continue to move further down the manufacturing value-chain. If it continues, Africa may find itself in a situation where it solely supplies non-beneficiated raw materials to China's manufacturing machine without value-add. This further entrenches the lack of industrialisation amongst the continent's economies.

China is prone to resort to trade inhibiting measures. The main obstacles to trading with China have less to do with formal border barriers and more with (formal and informal) non-border (tariff) barriers. This pertains to deeper domestic economic policies and institutions. Anti-competitive practices abound. The central government continues to sanction price-fixing arrangements and industry-wide monopolies and oligopolies. Policy measures are fleshed out in official 'guidance' and 'opinions' given to favoured domestic firms, but not to foreign firms. Often draft regulations are not widely circulated, least of all to foreign business interests. Even more prevalent are cartel-like practices uniting politicians, officials and leading businessmen in provinces and localities far from Beijing's control. Preferential treatment in access to capital abounds. The (policy) banks provide preferential treatment in loans and direct fund-raising for industries whose development is encouraged by the government.

According to China's Academy of Social Sciences, if the Chinese economy grows at 7% a year until 2010, China's stainless steel consumption should grow at 10.5% a year until then. This would lead to a demand of 8.15Mt consumption in 2010. Mr. Xu, President of Baosteel, forecasts that China's stainless imports will continue to hover between 1-2Mt/a until 2010, largely making up for structural shortages which are inevitable considering the volatility of specific steel prices and resulting demand, and the long time lags on building new capacity. He said that although China was making significant technological advancements, high-quality and special steels would continue to see strong import demand. China exported 94,222 tons of stainless flat products during the first four months of 2005, a jump of 212.2% compared to the same period last year. Flat imports during the period amounted to 1,166,937 tons, up 30.8% year-on-year. An industry source said that China will keep exporting more stainless steel, though the growth may be affected by the April 2005 VAT rebate cut on steel exports.

In 2005, China produced 3.16Mt of stainless steel from a total capacity of 4.7Mt/a. China's production capacity was around 400'000t for much of the 1990s. Starting in 2000, huge investment increased capacity at 35% a year. Meltshop capacity increased by 33% in 2005 and is forecast to



expand a further 50% this year. Global production has been driven by Asia, notably in S. Korea, Taiwan and China. In 2005, China accounted for 14% of a global capacity of 23Mt.

China's investment in upgrading old and building new facilities is set to continue, though there is widespread debate about how large the expansion will be. In terms of projects already passed by the State Council, China will install 3.3Mt more Meltshop capacity by 2010 for a total of 8.15Mt. However, if all China's currently planned projects are completed, China will have an installed capacity of 16.3Mt by 2010. In the difference between the two scenarios lies the key to the global stainless steel industry for the next decade.

A range of incentives apply. While it is impossible to get accurate information on the extent of these incentives, it is widely accepted that these include various municipal rates and taxes, as well as some more significant corporate tax – related benefits. On the labour side, SOEs have been known to abuse the minimum wage limit rules as well as receiving support from local governments on labour related issues. At the end of the day, hassle-free labour relations contributes to stability and labour costs in many politically connected companies in China.

Electricity prices in China are widely regarded as 'subsidised'. Keeping energy prices low is not achieved through traditional state-trading systems, but rather that electricity prices are set on a national level and the power industry must face the losses that results from selling at this price. Many SOE's enjoy discount electricity from local-government officials who control the local electricity production and grid facilities. Since 2005 heavy industry, including the steel industry, is expected to pay higher prices for electricity, and local governments are not allowed to offer discounted energy prices. It is widely regarded that national-level comments such as those made above, often carry little weight at local government level where officials continue to use control over taxes and input prices to create greater incentives for local investment.

China's has two well developed and highly marketised steel markets. One at Wuxi in the Yangtze River Delta and the major steel market at Foshan in the Pearl River Delta. Of China's 1637 stainless steel-related enterprises, 700 are based in Guangdong around Foshan market. Zhejiang, Jiangsu and Shanghai are other major stainless steel provinces, based around Wuxi market in Jiangsu. Tisco is based in North-Central Shanxi while Baosteel's facilities are around Shanghai. Shandong is an up-and-coming low-wage manufacturing centre. Most of China's recent production expansion has been devoted to CR flats, currently accounting for 90% of total steel product production. China is 80% self-sufficient in this category. China relies heavily on imports to cover long and pipe product demand. This may change when a huge new pipe production facility in Tianjin is completed this year. Over the past few years, a low-quality, high CrMn 200 series grade, masquerading as a 300series, has been expanding market share, growing to 23% in 2004. Analysts are very worried about the damage this product has done to stainless steel's reputation as an exterior material in the construction sector. Authorities have strongly clamped down on the abuse.

Austenitics accounted for 85% of total production in 2004. This was higher than the global norm and reflects China exposure to high Nickel prices. This ratio dropped last year as the low-Nickel 200 series gained market share. In 2005, raw materials, largely imported, made up 66% of



stainless steel companies cost structure. This figure increased from 53% in 2003. Industrial operations in China face low labour costs, low cost of capital (often artificially low due to non-repayment of loans), and low rates and taxes. Corporate tax for Chinese companies is 33%, while FIEs face 15% corporate tax. High global Nickel and stainless scrap prices are forcing many producers to cut back on production. Authorities have encouraged this practise to support prices. China's stainless steel imports have hovered between 2-3Mt/a since 2001; although this gap has been rapidly closing since 2005. HR flats, wire/rods and pipes make up a disproportionately high ratio of imports. Opportunities for imports still exist for HR flats, pipes, special steels and high-end niche products. Due to the general irrationality in China's production expansion, China will still demand around 1Mt/a of imports making up for structural shortages beyond 2010.

Exporters benefit from China's export rebate system, which allows exporters to re-claim much of previously paid VAT (and import VAT). China has recently scrapped these benefits for scrap, stainless billets and ingots products. However, Flats and Longs still enjoy 11% rebate allowance while Pipes, and consumer durables exporters are able to claim back 13%. VAT- which in China is 17%.

Figure 13: Stainless Steel exports and imports of China and South Africa 2000 and 2004 US\$ million

Year	Exports		Imports	
	China	SA	China	SA
2000	1960	479	2465	143
2004	4401	1037	6489	245

Although there are imports of intermediate products most of South Africa's imports are downstream stainless steel products. Prominent among the latter are knives, spoons and forks and food industry machinery and hollowware. Aggregate imports of US\$ 245 million in 2004 were 72% higher than in 2000.

South Africa imports from a number of countries with Germany, China, Italy, the UK, US and Taiwan the more important in 2004. Between 2000 and 2004 the share imported from Germany fell from 24% to 15%; from the UK from 12% to 9%; and from Japan from 6% to 3%; while that imported from China rose from 7% to 11%. Imports from Brazil increased from 1% to 5% and from Spain from 2% to 4%. Although a relatively large proportion of South Africa's imports of stainless steel is supplied by China, South African imports represent only 0.6% of Chinese stainless steel exports. The reason for the low percentage is South Africa's small aggregate imports of stainless steel. South African imports of stainless steel products are concentrated in three product groups with 59% of imports being cutlery. In 2000 imports were almost 300% higher than in 2004 from a low base.

China- Tariff Barriers to Trade

Figure 14-Tariff Barriers to Trade

Country	Barrier	Effect
China	Tariff 5.5% and 6.5%. Come lines higher	Neutral
	Tariffs applied CIF	Additional 20% protection for Chinese producers
	Plastics on a par	No "free" rates unlike South Africa
	Rubber on a par	No "free" rates unlike South Africa
	Tyres	Higher rates on herring bone tyres and other specialised
South Africa	All Tariffs applied FOB	20% less protection for South African importers on imported lines
	Large percentage of "free" rates such as Chapter 28	Neutral
	Plastics	Large percentage of "free" rates
	Rubber	Large percentage of "free" rates
	Tyres	Highest rates on passenger vehicle and lorry tyres

The NAMA modalities under the Doha Round will need to be finalised and the implications thereof on the applied tariffs of the respective countries evaluated before negotiations take place.

All South African tariff lines are bound with the exception of Chapters 3 (fish), 27 (mineral oil and fuels) and 93 (arms and ammunition) and a few lines in chemicals. The binding coverage is 96.4%. The average bound rate for industrial products is 16.6%. The highest bound rate is 30% with the exception of two product groups, namely clothing (45%) and motor vehicles (50%). South African bound rates in respect of stainless steel are shown below.

Figure 15: South African Bound Rates in respect of Stainless Steel and Certain Articles Thereof

Chapter/Tariff Heading	RSA Bound Rate
Chapter 72	10%
HS73.04	15%
HS82.11 to 82.14	20%
HS82.15	30%
HS84.21	15%; certain automotive products 30%; catalytic converters 15%
HS84.34	Free
HS84.38	Free, except machinery for the preparation of meat and poultry at 15%

Generally, South Africa's bound rates show a distinct structure with an escalation from primary products to final products in most chapters.

Under the terms of its WTO accession, China submitted a schedule of tariffs and tariff reductions, prepared in 2001, which is China's binding schedule. It covers all tariff lines (100% binding coverage). China committed to substantial annual reductions in its tariff rates, with most of them taking place within five years of China's WTO accession. The largest reductions took place in 2002, immediately after China acceded to the WTO, when the overall average tariff rate fell from over 15 percent to 12 percent.

In the case of stainless steel and the products included in this study, some of China's final bound rates came into effect immediately upon accession but in most cases the final bound rates were phased in. In those cases, the phasing took place over a short time, between 2002 and 2004. All China's final bound rates on the relevant products have been implemented. China's applied rates and bound rates are the same.

South Africa's tariffs are applied on the FOB value of imports. The simple average tariff rate for industrial products is 11.4% according to the recent exercise of compiling the bound rates of the tariff lines as at 1 January 2005, and the applied rates, for the purpose of the Doha Round NAMA analysis. A comparison of the South African and China's applied rates in respect of the tariff lines for Stainless are shown below. **China's customs duties are applied on a CIF basis. This means that the value for calculation of the basic duty is up to 20% higher than South Africa's FOB value basis.** In addition to the basic duty, China applies import VAT of 17% compared to South Africa's 14%.

The applied rates of some product groups will be subject to reduction over a period of time in terms of NAMA (non-agricultural market access) if the Doha Round is successfully concluded. The implications cannot be evaluated before the NAMA modalities have been finalised. The agreed modalities will have different effects on the applied rates of the two countries depending on the current bound rates and the difference between the bound and applied rates.



Figure 16- Comparison of China and SA Applied Tariffs on Stainless Steel and Certain Products as at January 2006

HS4	Description	China: % (Frequency)	RSA: % (Frequency)
7219	Flat-rolled products of stainless steel, of a width of 600 mm or more	4 (6) 10 (12)	5 (14) <i>(to Zero)</i>
7220	Flat-rolled products of stainless steel, of a width of less than 600 mm	10 (5)	5 (4) <i>(to zero)</i>
7221	Bars and rods, hot-rolled, in irregularly wound coils, of stainless steel	10 (1)	0 (1)
7222	Other bars and rods of stainless steel; angles, shapes and sections of stainless steel	10 (5)	0 (5)
7223	Wire of stainless steel	10 (1)	0 (1)
7304	Tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel	4 (14) 5 (5) 8 (1) 10 (4)	0 (5) 10 (3) 15 (5)
7304.10	Line pipe of a kind used for oil or gas pipelines:	5(4)	
7304.10.20	Of stainless steel		0 (1)
7304.4	Other, of circular cross-section, of stainless steel:		
7304.41	Cold-drawn or cold-rolled (cold-reducing)	10(2)	0(1)
7304.49	Other	10(2)	0(1)
7306	Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel		



HS4	Description	China: % (Frequency)	RSA: % (Frequency)
7306.40	Other, welded, of circular cross-section, of stainless steel	6 (1)	10 (1)
7323 7323.93 7323.93.20 7323.93.90	Table, kitchen or other household articles and parts thereof.... : Of stainless steel: Hollowware for kitchen or table use (excluding those plated with precious metals) Other	12(1)	30 20
7324 7324.10	Sanitary ware and parts thereof, of iron and steel: Sinks and wash basins, of stainless steel	18(1)	20(1)
8213	Scissors, tailors' shears and similar shears, and blades therefore*	12 (1)	0 (1)
8214	Other articles of cutlery (for example, hair clippers, butchers' or kitchen cleavers, choppers and mincing knives, paper knives); manicure or pedicure sets and instruments (including nail files)*	12 (1) 18 (3)	0 (2) 15 (2) 20 (1)
8215	Spoons, forks, ladles, skimmers, cake-servers, fish-knives, butter-knives, sugar tongs and similar kitchen or tableware*	18 (4)	30 (4)



HS4	Description	China: % (Frequency)	RSA: % (Frequency)
8421	Centrifuges, including centrifugal dryers; filtering or purifying machinery and apparatus, for liquids or gases * ** ** China's rate in respect of 8421.39.90 - catalytic converters – is 5%	0 (3) 5 (11) 8 (1) 8.4 (1) 10 (8) 12 (1) 15 (1) 17.5 (1) 25 (1)	0 (13) 15 (4) 16 (1) 19 (1)
8434	Milking machines and dairy machinery*	5 (1) 6 (1) 10 (1)	0 (3)
8438	Machinery, not specified or included elsewhere in this Chapter, for the industrial preparation or manufacture of food or drink (excluding machinery for the extraction or preparation of animal or fixed vegetable fats or oils)*	5 (1) 7 (4) 8 (1) 8.5 (1) 10 (2)	0 (8)

* Products of stainless steel not separately specified

China's tariff rate in respect of the stainless steel products of Chapter 72 is in almost all cases 10% while South Africa applies a rate of 5% (now zero) on flat-rolled products and a rate of free on bars, rods and wire. China's rates in respect of products of Headings 82.11 to 82.15 are 12% to 18%, compared to South Africa's rates of 15% to 30%. In respect of centrifuges China's rates range mostly from 5% to 25% compared to South Africa's free to 19%. On food machinery China's rates are from 5% to 10% while the South African rates are free.

China- Non Tariff Barriers to Trade

Import Quotas - China previously ran a state-trading system for steel trade. The large SOE dominated steel production and state-trading companies such as Minmetals Corp were responsible for most of the imports of raw materials on behalf of the large SOE end-users. During this time, China was very dependent on large amounts of flat and long stainless steel imports. Smaller, private enterprises in this sector were forced to work through trading companies such as Minmetals



to handle the foreign exchange part of the transactions and this monopoly allowed authorities to exert much control over imports. **Under the WTO, the state-trading system and import quota system were dropped.** Today, many companies still work through Minmetals to handle their foreign exchange transactions and be issued with a Letter of Credit.

MOFTEC implemented as safeguard measures (import quotas and above-quota raised tariff levels) in November 2002 (MOFTEC Notice No. 48/02). The measures quotas covered five categories of steel products, including: non-alloy hot rolled sheets and coils, non-alloy cold rolled sheets and coils, organic coated sheets, silicon-electrical steel, and stainless cold rolled sheets and coils. South Africa was part of a list of developing countries that was excluded from all quotas and safeguard measures. From 26 December 2003 (MOFCOM Notice No. 76/2003), these remaining quotas were terminated as higher global steel prices put pressure on domestic users of steel and steel products. However, **currently, there is no quota system on stainless steel products.**

Prohibited imports for processing trade

Due to overinvestment in production capacity in certain metals processing sectors, MOFCOM has implemented import and export restrictions on a number of metals in the 'Processing Trade'. More specifically, they are trying to target overinvestment by restricting (controlling) the trade of the raw materials and 'for-export' processed products. This does not mean that trade in these products is always restricted. It only means that if you want to import a specific raw material solely for the purpose of exporting the processed metal, this is not allowed. The regulation includes both import restrictions on the raw material and export prohibition on the processed metal. As the 'export processing sector' contributes 55% of all China's exports, this is well established and regulated area and is controlled largely by the on-sight customs houses of the special development/trade zones. Hence, no foreign company representatives spoke of problem areas with regard to this regulation.

Nonetheless, the intention of MOFCOM is very clear on this issue: Because of the large number of applicable tariff lines, the general sections subject to this regulation and the applicable HS codes are listed below. MOFCOM, The General Administration of Customs and SEPA (State Environmental Protection Agency) jointly promulgated the notice concerning the 'Catalogue of Prohibited products for processing trade' on 11 December 2005. The notice 105/2005, took effect on 1 January 2006. The 'Catalogue of Prohibited products for Processing Trade', includes:

- Various Ferrous waste and scrap (7204490010, 7204490020)
- Various products under HS code 72: Iron and Steel
(7201100000,7201200000,7201500010,7201500090,7204100000,7204210000,7204290000,7204300000,7204410000,7204490090,7204500000,7205100000,7205210000,7205290000,7206100000,7206900000,7207110000,7207120000,7207190000,7207200000,7218100000,7224909000)
- Various Ferro-alloys -
7202110000,7202190000,7202210000,7202290000,7202300000,7202410000,7202490000,7202500000,7202600000,7202700000,7202801000,7202802000,7202910000,7202921000)



Steel products were previously able to draw benefits from processing trade incentives. However, on 19 May 2005 the NDRC removed benefits giving to steel processing trade, such as import VAT and tariff waiver benefits. The motivation is to reduce exports of products needed for domestic downstream industries, giving preference to domestic industries and thus push down their prices. This will also reduce the use of expensive raw materials, iron ore and coking coal imports. *Stainless steel is not viewed by policy-makers a separate industry on this issue, rather forming part of the general steel industry.*

Dual Purpose Use/ Double Functions restrictions

Trade in various steel products and articles thereof are restricted due to their potential use in non-civilian industries and well as civilian industries. 'Administrative Measures on Import and Export License of Substances and Technologies of Double Functions' took effect as from 1 January 1 2006, promulgated by Decree No.29/2005 of MOFCOM and The General Administration of Customs. Both importers and exporters should apply to MOFCOM for a special import/export permit relating to any products, which fall under the following tariff codes. Imports and exports for non-civilian use are prohibited; hence the trade in these products, for civilian use, needs specific permission from MOFCOM. The regulations contain a long list of products, from toxic chemical and nuclear material, to everyday, widely used products that could potentially be used in non-civilian ways. It is important to know that this regulation exists and could possibly lead to disputes at customs over the nature of the import. There are no reported cases of this happening to stainless steel products. The following products applicable to this research are in the above Catalogue:

- Other tubes and hollow profiles of Iron or Steel (7306900010)
- Catalytic converters (8421399011, 8421399012, 8421399013, 8421399014, 8421399015)

Export duty rate (export tax)

Waste of Stainless steel (72042100) and Other Ferrous waste (72044900) carry a export duty rate of 40%. These regulations were enforceable from 1 January 2006.

Export Subsidies

China does not have an export subsidy system for stainless steel exports. However, formal and informal subsidies play a large role in China's industrial policy and export-orientated growth model. China has used the tax rebate system and FTZ/IPZ system to promote exports. These 2 systems are complemented by Governments use of state assets as policy tools in carrying out industrial policy. However, in the steel industry, in contrast to the Automotive industry, policy-makers have used SOE to promote import substitution, reducing dependence on expensive imports, and to prepare China's domestic companies for increased competition in the domestic market as WTO-induced barriers to trade come down.

As mentioned above, China had very low self-sufficiency ratios for stainless steel products. In order to repair this, the Chinese Government has used tax and investment incentives to attract foreign companies into establishing JV operations in China. But Government has also investment public funds into massive new stainless steel production capacity. This direct expenditure has been directed largely at TISCO and Baosteel. However, as part of China's stainless steel import



substitution policies, Government has also bank-rolled new 'small-capacity' facilities, even though these are deemed 'private enterprises'.

Most companies in the stainless steel industry, downstream from the Meltshops and rolling mills, are private enterprises. They have not received direct Government funding. They have however benefited from the general tax incentives favourable policies of local and municipal government Industrial Parks, which have been driving the export-orientated manufacturing sector.

Then there is the issue of '*soft loans*', or the '*irrational loans*' that most of China's state-owned banks have been accused of. Both SOEs and private companies have been accused of benefiting from these soft loans. This is not an official Government policy, but rather a legacy of China's Communist economy past, which now exists in the massive 'grey zone' between planned economy and market economy. At the end of the day, this amounts to significant support for entrepreneurs and private enterprise and significantly lowers the cost of capital.

However, from a trade or WTO perspective, there is nothing illegal or unfair about this phenomenon. Many countries in the world have a de facto system of soft loans to politically favoured companies, which ultimately gets paid off when Government uses public funds to bail out the banks. Direct export subsidies are illegal under the WTO, and each member should give an account of its official subsidy program. While China has been harshly criticized from not delivering a report on its subsidy program to the WTO, this is more of an issue in the agriculture and petrochemical industries.

China's steel industry, including its stainless steel industry, has benefited from huge direct Government investment and indirect conditions that reduce the cost of production and cost of capital. At the upstream end of the stainless steel industry, this has been a import substitution policy which will soon boil over into exports as a result of meeting its self-sufficiency targets. At the downstream stainless steel products end, producers benefit from China's favourable conditions for export of manufactured goods.

Importantly, China has been trying to reduce its exports in the upstream side of the steel industry. Firstly, it is genuinely worried about its growing trade surplus and the resulting imbalance on the global economy. Secondly, its has put in place many measures over the past 2 years to meet the problem of over-capacity and resulting downward pressure on steel prices. Thirdly, in a about-turn on previous 'GDP growth at all costs' national economic strategy, China is now very aware of the environmental and energy costs of its exporting of processed metal products. It does not want to export steel products that are, one, energy-consuming and polluting to produce, and two, needed as input materials to continue China's infrastructural development. As a result, China has made some changes to its 'Export Rebate system' of the past few years. This system allows producers to claim back previously paid taxes when a good is exported.

Export Rebate System

Since 1985, China has had in place a tax rebate system designed to support the export trade in key industries. After a product is exported, a producer may apply to the State Administration of Taxation for a rebate on taxes previously paid on the production of the exported product. Such



taxes should be incurred during the processes of domestic production and circulation. Generally speaking, the rebate is on VAT (on imported or domestically consumed goods and services), business tax and special consumption taxes. However, for foreign invested enterprises export tax, such rebate only refers to VAT rebates due to the Chinese government current stipulation of 0% rate of consumption tax for these enterprises. For implementation measures, refer to 'Measures for the Administration of tax refund (Exemption) of Exported Goods', which came into operation on a trial basis on 1 March 2005.

The standard VAT in China is 17 %, though many special/staple products enjoy 13% VAT, policy set by The State Council. Most Stainless Steel products carry a 17% VAT (also for import VAT). (See Appendix: Tariff Tables)

Figure 17:- Export Rebate rates for this section

Product	Export Rebate %
Stainless steel scrap	0
Stainless steel ingots and billets	0
Stainless steel flat, long products	13
Stainless steel pipes, tubes and sections	13
Kitchenware and other articles of stainless steel	13
Food machinery	13
Catalytic converters	13
Exhausts and silencers	17

Import License

General Distribution and Trading- The new 'FICE' (Foreign Invested Commercial Enterprise) regulations- it is necessary for FIEs, WFOEs and JVs to have a specific trading and distribution license to trade in any products in China. This covers both the handling of customs procedures and running a domestic product distribution network for imported goods. In mid-2005 the PRC government fully clarified application procedures for foreign investors to obtain such rights, thereby paving the way for an increase in the rate and number of approvals issued to foreign companies.

Before foreign companies are issued with this *FIE Approval Certificate*, they are not able to handle customs procedures on their own name and have been forced to work through Chinese (or Hong Kong) agents or in the 'grey areas' that have existed for sometime around foreign companies operating in China. Existing FIEs who want to expand their business scope into trading/distribution and new companies to China face similar application procedures though there are a few minor differences. Essentially, there is a two-tier application process both at Provincial and National level. The FIE shall make the required submissions to the competent local commerce authority where the FIE is registered. This authority shall then make a preliminary review of submissions before forwarding them to the provincial commerce authority. The provincial authority will then make a decision on based on the FIEs articles of association, seeking the consent of the authority where the FIE operates (if these are in different jurisdictions). Upon an affirmative preliminary review result, the provincial authority shall forward the submissions to the National MOFCOM for a one-off



approval. In the case where a Chinese distribution/trading enterprise intends to establish a FIE or a JV with a foreign investor, the application may be made directly to national MOFCOM.

However, certain products carry additional registration requirements and trading/distribution restrictions: Auto distribution; processed oil; pharmaceutical products; audiovisual products; books/newspapers/periodicals. In the case of a Chinese company with existing trading/distribution operations, which intends to merge, or be acquired by a foreign investor, certain additional requirements exist. The process should take around 6 months from initial submission until the successful registration of a Foreign Invested Commercial Enterprise with full trading and distribution rights.

Product-specific import licenses---

Apart from the mandatory licenses issued as part of the above 'NTB' restrictions/regulations, product-specific licenses are necessary for each shipment of goods to pass through Customs. (This legal requirement is often wavered and importers may be issued with 3-month or one-year import licences). The applicant must prove that the import is "necessary" and that there is sufficient foreign exchange available to pay for the transaction. In reality the application of import licenses for most steel products is straight-forward and can be handled by an agent. (Without a FICE license, a foreign company would not be able to trade under its own name anyway.)

Automatic Import License (AIL)

The import of many metal and articles of metal products require an AIL. Applicable products are found in the *Catalogue of Commodities under Administration of Automatic Import Permission of 2006*, promulgated by Announcement No.101/2005 of MOFCOM and The General Administration of Customs. This regulation covers a wide range of goods under most two-digit HS code sections and is therefore not only applicable to metal products. Applications for AIL may be submitted online or in writing. Licenses should generally be issued within 10 days of the receipt of application and complete applications. An AIL is valid for 6 months within a calendar year. Although MOFCOM generally requires a single import license for each shipment, for certain products, MOFCOM will permit entry of up to 6 shipments based on a single AIL. AIL are not required for products processed for export in the processing trade. Products include:

- Flat Rolled Steel products (incl. stainless steel) (7219110000, 7219120000, 7219131100, 7219131900, 7219132100, 7219132900, 7219141100, 7219141900, 7219142100, 7219142900, 7219210000, 7219220000, 7219230000, 7219241000, 7219242000, 7219243000, 7219310000, 7219320000, 7219330000, 7219340000, 7219350000, 7219900000, 7220110000, 7220201000, 7220120000, 7220209000, 7220900000)
- Bars, Rods of steel (incl. stainless steel) (7221000000, 7222110000, 7222200000, 7222190000, 7222300000, 7222400000,
- Steel wire (incl. stainless steel) (7223000000)
- Tubes and Pipes 7304101000, 7304102000, 7304103000, 7304109000, 7304211000, (7304219000, 7304290000, 7304311000, 7304312000, 7304319000, 7304391000, 7304392000, 7304399000, 7304411000, 7304419000, 7304491000, 7304499000, 7304511000, 7304512000, 7304519000, 7304591000, 7304592000, 7304599000,



7304900000, 7306100000, 7306200000, 7306300000, 7306400000, 7306500000,
7306600000, 7306900010, 7306900090)

- Dairy machinery (84342000)

Certification and Inspection of Used Electro-mechanical Products

The State General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) promulgated the "*Procedures on the Inspection and Supervision of Used Mechanical and Electrical Product Import*" on 18 August 2003, which took effect from 1 October 2003. The Procedures set out the administration of inspection and supervision of used mechanical and electrical product import, including filing a record before arrival of the products, pre-shipment inspection before packing, post-shipment inspection and supervisory control.

According to the *Administrative Rules on the Inspection and Supervision of Used Mechanical and Electrical Product Import* of 2003, 'consignees or agents who import used mechanical and electrical products should report to the AQSIQ or its regional authorities after the contracts or agreements have been effective, but no later than 90 days before the arrival of the import. The Notice also sets out the conditions under which pre-shipment inspection should be applied. The above regulation applies to the silencers and exhausts (8708 9200) under this section.

Certificates of Origin

Importers should show a certificate of origin to Customs at the port of entry. If the importers cannot present the certificates of origin, the Mainland Customs will inspect other supporting documents such as contract, invoice, bill of landing, etc. to substantiate the origin of the steel imports. If the Customs cannot verify the origin of the goods based on the above documents, they may refer the case to the tariff department for a professional assessment. Additional duty will be levied on imports where origin cannot be verified. An industry source said there were no abnormal issues relating to certificates of origin in the metals and metal products sector which can be viewed as a barrier to trade.

Standards

Mandatory cargo inspection by AQSIQ:

The import of most of the 'Stainless Steel' products in this section requires mandatory cargo certification by officials from AQSIQ (Administration of Quality Supervision, Inspection and Quarantine). This will occur at the port of entry. This applies to both imports and exports of certain products. This 'inspection certificate' is essential in order to clear customs, both ways. (See Appendix: Tariff Tables, to see which products in this section require an import inspection certificate.) An industry analyst said thorough inspections are not common, as AQSIQ does not have the capacity to inspect all cargoes. But, they are occasionally used on a discretionary basis to cause deliberate delays at Chinese ports. These cases are often politically motivated actions against the imports of certain products from certain countries to gain negotiating leverage or are vendettas against a particular company. These occurrences are not common but do occur, and are occasionally mentioned in official submissions under the Feasibility Study for the Australian FTA with China.



Certification: The CCC Mark -AOSIQ has launched a national certification programme to replace the old 'Great Wall' certification programme. This is called a CCC Mark. AOSIQ has authorised a number of bodies to conduct this testing and certification outside of China.

No Stainless Steel products are by law required to have a CCC Mark, but it is widely used and regarded as business practise. However, Automotive components are required to pass special certification and testing. Catalytic converters and exhaust systems will therefore require AOSIQ certification and the CCC Mark before importing into China. Automotive components and many types of machinery and appliances are also subject to mandatory AOSIQ inspection and the CCC Mark may be checked when products pass through Customs. Therefore, catalytic converters and exhausts and silencers will be subject to both the CCC Mark testing and certification, and the mandatory port inspection. International Technical Standards are widely used by importers and exporters of steel products in China. Product quality is an issue in selling the product in China, not in handling the customs procedures.

China's Trade Remedy Laws

China has an Anti-Dumping Law, an Anti-Subsidy law, and a Safeguard Measures Law. These regulations were constructed under China's acceptance to the WTO. In terms of content, they comply with WTO provisions and contain no extraordinary provisions, which may be deemed unfair or exceptional.

- Anti-Dumping Regulation of the People's Republic of China
- The Anti-Subsidy Regulation of the People's republic of China
- Regulation of the People's Republic of China on Safeguard Measures

Quota system on steel products

China previously used safeguard measure action to slow a wide range of steel imports using a quota system. This has since been dismantled.

CR strip imports from Japan and Korea

China has been levying anti-dumping duties on all sizes of cold rolled stainless sheet/strip originating from Japan and Korea since 13 April 2000. The duties were due to expire on 13 April 2005. In early February 2005, Chinese companies TISCO, Shanghai Krupp Stainless and Shanxi Jinzhong Wanbang Industrial Trading requested a further anti-dumping investigation, citing potential injury to China's domestic stainless CR industry. China imported 0.86m tonnes of stainless CRC in 2004, up 6.36% from the previous year. Cold rolled products made up 32% of total stainless imports of 2.9m tonnes in 2004. This total was down by around 2% year-on-year, in a sharp contrast with 2003's growth rate of 23.4%. South Korea remained China's largest stainless supplier last year, with 2004 volumes hitting 877,000 tonnes, giving the country a 32.6% share. Japan sold some 412,000 tonnes last year, constituting 15.3% of China's total imports.



Investigations are due to run for a year, starting from 8 April 2005. During this time, the existing anti-dumping duties will remain in place. Following results from the investigation, the existing anti-dumping duties will either be removed or remain in line with before.

Trade actions against China

In the US, tube-makers have been on a 3-year campaign seeking safeguard measure protection in the form of quotas against imports of Chinese welded non-alloy steel pipe. In January 2006, the Bush Administration again turned down this action. In December 2005, the Brazilian tube-makers association, ABITAM, threatened to apply AD action against the imports of Chinese steel tube and pipe. It claimed China was selling in Brazil at 30% below the domestic market price.

In 2005, Argentina opened an AD case against Chinese stainless welded tube imports. The tubes under investigation are circular 19.05-114.3mm diameter, square 15-90mm and rectangular 22-146mm. This AD action is still in the investigation stage. In 2005, The European Union Council of Ministers has approved the imposition of definitive anti-dumping duties on imports of certain stainless steel fasteners and associated parts (bolts, nuts etc.) from Taiwan (23.6 percent), China (27.4 percent), Indonesia (24.6 percent), Thailand (14.6 percent) and Vietnam (7.7 percent), with lower duties for some companies co-operating with a European Commission inquiry into the problem.

Price watching regime

Due to the strategic nature of steel industry and its importance in China's continued infrastructure development boom, the Government has been reluctant to see it exposed to global forces. On 1 January 2005, China then put into trial operation a new system known as, the "*National Steel Market Price Monitoring Report System*". This object of this system was to monitor general prices in the industry, both steel industry raw materials and final steel products prices. The new system has expanded the scope of prices that have been monitored. Besides the existing 11 conventional products, 46 more new products will have their prices being monitored. It has also reformed the way of monitoring, from monitoring at all levels to by monitor stations. Meanwhile, a weekly price monitoring report system has been established. Thirdly the new system stresses pre-warning function of monitoring and has listed pre-warning function as an important part of the work of monitoring.

Officials stated it was in China's national interest to have a healthy, profitable and rational steel industry that could compete in the fiercely concentrated global steel industry. He also said however that, as steel was so important in China's infrastructure boom, it was important the Government developed the industry to increase national steel self sufficient and ensure the steel end-users were supplied with sufficient quantities of high-quality steel products at reasonable prices.

In the past, there was strong control over issuing product-specific import licenses; most heavy industry import licenses were issued only to large SOE trading companies. Under China's WTO accession agreement, China promised, and did, allow create a more open and non-discriminate import licensing system. However, the reliance on discriminatory import licensing appears to be returning again as government looks to use informal cartel-buying to control the long term price of imported raw materials. This is particularly evident in the copper and aluminium markets and there



are signs its use is spreading to iron ore, coking coal and other ferrous and non-ferrous raw material imports.

In a recent policy release, Government explained its registration scheme for importers of raw materials. Importers need to apply for a product-specific import license for all metal product raw materials imports. In restricting which companies are successfully issued these import licenses, Government holds potential control over China's buying power on international markets. It hopes to use this leverage to put downward on high and rising global metals and raw materials prices. Companies will be encouraged to form alliances to negotiate collectively with large global suppliers, like BHP Billiton, Anglo-American, CVRD and Rio Tinto.

China has already introduced this registration scheme for copper cathode, aluminium and iron ore importers. It plans to introduce this scheme for copper concentrate and alumina importers. It will also continue consolidating importers in 2006. I.e., it will reduce the number of companies granted import license and so exercise more effective control over contract prices of imports.

A representative from a major global resource firm explains his company's experience: Up until now, foreign companies were not allowed to import goods themselves (without a FICE license, see above). They worked through large SOE trading companies (e.g. Minmetals Corp) or the large Chinese end-users themselves (e.g. Baosteel Corp). Each time a new supply/ sales contract is signed with the Chinese trader, this sales contract needs to be included in the application for a import license from MOFCOM. (The Chinese trading company would handle this procedure itself.) Often, MOFCOM has refused to issue licenses if the contract price was too high or the contract term was too short.

Even under the new FICE regulations, his company would continue to use Chinese trading companies. His company held the view that even after the have a FICE license, MOFCOM may not grant them product-specific import licences under its new registration scheme. The representative noted that this worrying trend was especially evident in the granting of import licenses for copper and aluminium. He said that, whereas MOFCOM previously issued copper import licenses to around 600 importers, only around 100 companies now had licenses to import copper.

China has recently been very vocal in its opinion that it should have a larger say in the determination of global iron ore prices. It was subject to humiliation by BHP Billiton, CVRD and Rio Tinto in 2004, and feels that the drop in finished steel prices last year should pass through to downward pressure on iron ore prices. It has publicly expressed its intention to use the registration scheme to advance realize these intentions. (A further point of interest is that Baosteel Corp representatives play a large role in the Chinese Government negotiating and decision-making process on steel and iron ore issues.)

Labels

All products, which require mandatory certification by AQSIQ prior to importing, and therefore require the CCC Mark, are required to physically label the product or container with the official CCC Mark labels.



Scrap metal import license and supplier registration

China's stainless steel industry consumed 900'000 million tonnes of scrap in 2004. Most of this was imported. Alongside the Automatic Import Licences (AIL) issued by MOFCOM, since 1 January 2004, the import of scrap metal requires an additional import license and supplier registration with AQSIO. This measure applies to the import of Iron and Steel scrap, copper scrap and aluminium scrap. This is in line with China's policy to prevent it being used as a dumping ground for harmful waste products, as been the case previously. The 'Registration Scheme Concerning Overseas Suppliers of Waste Material Imports' covers a number of other non-metal products. The AQSIO regulations apply to the import of the following products:

- Ferrous scrap: (72041000.00, 72042100.00, 72042900.00, 72043000.00, 72044100.00, 72044900.10, 72044900.90, 72045000.00)

AQSIO's scrap metal regulation contains two problematic issues, which have been viewed as barriers to trade. *Firstly, all importers (and exporters from foreign countries using Chinese agents to handle customs procedures) of metal scrap have to register with AQSIO.* The implementation of the Registration scheme has been highly criticized by the global scrap industry. Initially, there were some problems around the short registration window and the lack of remedy for major scrap dealers who were not granted import licenses due to minor technical problems relating to their application. After much pressure, AQSIO created further opportunities for registration but has still taken up to 6 months to issue licenses to successful applicants.

Also, *all documents for this application have to be the originals and in Chinese.* According to the Institute of Scrap Recycling Industries (ISRI) in the US, the short warning and registration periods, AQSIO's poor communication and confusion over which foreign agents were legally authorised by AQSIO to assist in the application process has lead to significant trade disturbances.

Secondly, as part of the application for an AQSIO import license, *AQSIO now requires pre-shipment inspection of the metal scrap by an AQSIO official or an entity authorised by AQSIO.* This new rule is believed to ensure that imported wastes will comply with the environmental protection standards as well as other mandatory requirements and technical regulations of China. Industry analysts say China has recently stepped up efforts to verify that the import license information actually matches the cargo shipped. Industry analysts have complained that the additional inspection measures, the lack of capacity to administer them efficiently, and the language difficulties, hinders the export of scrap to China.

AQSIO has responded on its 'scrap metals' website. <http://scrap.eciq.cn> It *"reminds all applicant enterprises that they can check their own application status on the website: In order to avoid the losses on the time and cost, the applicant enterprise should not go through the non-standard agents who can not or refute to provide online status tracking service, or promise to pass the registration evaluation in a very short time. The actions and promises from these agents can not be supported or guaranteed by AQSIO."*

Based on the 2005 scrap supplier registration application results, about 40% of applicants worked through unauthorised, private agents. AQSIO claims that most enterprises going through agents



had been rejected by AOSIQ. These rejected enterprises need to wait for 6 months to be qualified for re-application. AOSIQ has also warned that most of these 'AOSIQ agents' do not have the experience or capability to assist the enterprise to pass the AOSIQ registration evaluation.

It appears most of the confusion around the initial registration has now been sorted out. Some scrap analysts have commended AOSIQ for extending the registration windows and authorising foreign Qualified Inspection Companies to carry out the inspection. However, scrap dealers will still need to apply annually to re-new their import licenses.

An industry analyst suspects that the above administrative difficulties have less to do with China deliberately using Technical Barriers to Trade (TBT), as with the AOSIQ's lack of international experience. He believes that, while AOSIQ has become more efficient over the last year, there are greater political issues around the future role of AOSIQ in China. There are rumours that the SEPA will assume all of AOSIQ's current functions in the not too distant future.

No other environmental issues relating to the import of metals and metals products. Hence, importers do not have to deal with the State Environmental Protection Agency (SEPA) regarding imports of metals and metals products.

Summary

Figure 18-Non Tariff Barriers to Trade

Barrier	Specific Attributes	Comment
Complication of administration	Arbitrary use of powers Difference in interpretation of regulation between different regulatory entities	Often overcome currently through JV with Chinese partners
	All imports must be marked in Chinese	
Prohibition	Imports prohibited if used in production of low value added exports if also considered harmful.	
State Intervention	State investment in SOEs divorces cost of capital from investment decision The state participates in capital formation and directs bank financing at all three levels of government There are preferential interest and tax rates. Subsidies are non transparent Investment practise leads to	

Barrier	Specific Attributes	Comment
	the creation of sub economic capacity and surplus capacity	
Extensive anti-dumping actions brought by China in the Chemicals sector	Product formulation details (intellectual property) required in responding to anti-dumping actions and China has no IPR.	China possibly using this tactic to access formulations and copy.
Pricing	Pricing is non transparent and divorced from market discipline as a result of state intervention and support	
Trade related investment	Although China has agreed to remove these measures, progress is slow.	
Currency	The Chinese currency is pegged to the US Dollar – and is a controlled currency. Many believe the currency is significantly undervalued	Input costs are also often pegged/fixed.
Relative size of economy	The Chinese economy is significantly larger than the South African economy	Sheer size of chemicals commodities production gives China a significant advantage.
Miscellaneous	Various restrictions imposed on foreign ownership, business ranges, and geographic scope of foreign-funded enterprises.	
WTO	The Chinese authorities are inclined towards the application of WTO trade remedies	
Price Control	In general, prices remain controlled only for essential goods and services eg. food products but: Coal is purchased from loss making mines at prices higher than own selling prices to the power, metallurgical and chemical-fertiliser sectors.	

The level and nature of State intervention in the Chinese economy makes the development of any bi lateral agreement fraught with difficulty. A PTA/FTA between South Africa and China will be a trade deal between two different economic systems. Implications arise for cost competitiveness as determined under market conditions in South Africa and non-market conditions in China.

SECTION THREE- ANNEXURE TABLES

South African Total Exports and Imports (in order of importance by value)

Exports	Imports
HS 27.01.12 – Bituminous coal	HS 27.09.00 – Petroleum oils and oils obtained from bituminous minerals
HS 27.10.11 – Light oils and preparations	HS 30.04.90 – Medicaments
HS 28.23.00 – Titanium oxides	HS 27.10.11 – Light oils and preparations
HS 29.01.29 – Acyclic hydrocarbons	HS 28.18.20 – Artificial corundum, other aluminium oxide
HS 28.49.90 – Carbides	HS 27.01.19 – Coal, briquettes, ovoids
HS 28.09.20 – Phosphoric acid and polyphosphoric acids	HS 39.01.10 – Polyethylenes with a specific gravity of less than 0.94
HS 39.02.10 – Polypropylene	HS 40.16.99 – Other articles of vulcanised rubber
HS 40.11.20 – Tyres of a kind used on buses and lorries	HS 29.17.36 – Terephthalic acid and its salts
HS 29.14.11 – Acetone	HS 38.24.90 – Prepared binders
HS 29.05.13 – Butan-1-ol (n-butyl alcohol)	HS 31.02.10 – Urea, whether or not in aqueous solution
HS 40.11.10 - Tyres of a kind used on motor cars	HS 40.11.20 – Tyres, of a kind used on buses and lorries
HS 28.04.69 – Hydrogen; other rare gases	HS 38.22.00 – Composite diagnostic or laboratory reagents
HS 29.16.12 – Esters of acrylic acid	HS 39.26.90 – Other articles of plastic
HS 29.05.12 - Propan-1-ol (propyl alcohol) and propan-2-ol (isopropyl alcohol)	HS 27.13.12 – Calcined
HS 38.08.30 – Herbicides, anti-sprouting products and plant growth agents	HS 40.01.22 – Technically specified natural rubber (TSNR)
HS 27.12.20 – Paraffin wax containing by mass less than 0.15%	HS 39.07.20 – Polyacetals; other polyether-polyols
HS 38.23.70 – Industrial fatty alcohols	HS 40.11.10 – Tyres, of a kind used on motor cars
HS 38.14.00 – Organic composite solvents and thinners	HS 38.08.10 – Insecticides
HS 29.14.12 – Butanone (methyl ethyl ketone)	HS 27.04.00 – Coke and semi-coke of coal, of lignite or of peat
HS 39.07.60 – Polyethylene terephthalate	HS 38.11.11 – Based on lead compounds
HS 27.01.19 – Coal, briquettes, ovoids	HS 29.05.31 – Ethylene glycol (ethanediol)
HS 31.05.20 – Mineral or chemical fertilizer	HS 38.11.21 – Containing petroleum oils or oils



Exports	Imports
containing the three fertilizing elements	obtained from bitumen
HS 30.04.90 – Medicaments	HS 29.01.24 – Buta-1,3-diene and isoprene
HS 39.02.30 – Propylene copolymers	HS 39.06.90 – Acrylic polymers
HS 33.04.99 – Beauty or make-up preparations	HS 33.02.90 – Mixtures of odoriferous substances
HS 40.02.20 – Butadiene rubber	HS 39.08.10 – Polyamides
HS 38.08.10 – Insecticides	HS 33.04.99 – Beauty or make-up preparations
HS 29.14.13 – 4-methyl-2-one (methyl isobutyl ketone)	HS 30.04.20 – Medicaments containing other antibiotics
HS 27.14.90 – Bitumen and asphalt; other	HS 30.03.90 – Medicaments, excluding other
HS 28.20.10 – Manganese oxides	HS 38.08.30 – Herbicides, anti-sprouting products and growth regulators
HS 39.01.20 – Polyethylene having a specific gravity of 0.94 or more	HS 39.01.20 – Polyethylene having a specific gravity of 0.94 or more
HS 38.24.90 – Prepared binders	HS 39.03.19 – Polymers of styrene; Other
HS 39.26.90 – Other articles of plastic	HS 39.09.50 – Polyurethanes
HS 32.01.20 – Wattle extract	HS 28.43.90 – Colloidal precious metals compounds
HS 38.22.00 – Composite diagnostic or laboratory reagents	HS 32.15.19 – Printing ink
HS 33.05.90 – Preparations for use	HS 30.02.20 – Vaccines for human medicines
HS 28.41.30 – Sodium dichromate	HS 39.19.90 – Self-adhesive plates
HS 29.07.11 – Phenol (hydrobenzene) and its salts	HS 39.20.20 – Of polymers of propylene
HS 29.15.31 – Ethyl acetate	HS 31.04.20 – Potassium chloride
HS 27.07.40 – Naphthalene	HS 33.02.10 – Of a kind used in the food or drinks industries
HS 36.03.00 – Safety fuses, detonating fuses	HS 29.29.10 – Isocyanates
HS 31.02.30 – Ammonium nitrate whether or not in aqueous solution	HS 39.21.90 – Other plates, sheets, film
HS 31.05.40 – Ammonium dihydrogenorthophosphate (monoammonium phosphate)	HS 30.04.39 – Medicaments, excluding other
HS 29.34.99 – Other heterocyclic compounds	HS 38.15.19 – Reaction initiators
HS 27.01.11 – Anthracite	HS 33.03.00 – Perfumes and toilet waters
HS 28.25.30 – Vanadium oxides and hydroxides	HS 40.11.99 – Other
HS 32.02.90 – Synthetic organic tanning substances	HS 27.12.90 – Petroleum jelly
HS 39.04.10 – Polyvinyl chloride, not mixed with other substances	HS 28.15.12 – In aqueous solution (soda lye or liquid soda)
HS 39.22.10 – Baths, shower-baths, and wash-basins	HS 38.08.20 – Fungicides



Exports	Imports
HS 28.44.40 – Radioactive elements and isotopes and compounds	HS 32.04.17 – Pigments and preparations based thereon
HS 38.04.00 – Residual lyes from the manufacture of wood pulp	HS 29.16.14 – Esters of methacrylic acid
HS 33.02.10 – Of a kind used in the drink or food industries	HS 29.02.50 – Styrene
HS 28.35.56 – Phosphinates (Hypophosphites); Phosphonates	HS 39.20.49 – Other plates, sheets, film
HS 27.07.60 – Phenols	HS 38.15.90 – Reaction initiators
HS 28.25.80 – Antimony oxides	HS 29.33.69 – Heterocyclic compounds
HS 27.10.19 – Petroleum oils and other	HS 30.04.31 – Medicaments containing insulin
HS 33.07.20 – Personal deodorants and anti-perspirants	HS 29.34.99 – Other heterocyclic compounds
HS 38.08.20 – Fungicides	HS 35.07.90 – Enzymes; prepared enzymes
HS 30.05.10 – Adhesive dressings and other articles	HS 32.14.10 – Mastics; painters' fillings
HS 39.07.20 – Polyacetals and other polyether-polyols	HS 39.03.90 – Polymers of styrene; other
HS 36.02.20 – Prepared explosives (excluding propellant powders)	HS 38.23.19 – Prepared binders
HS 27.08.20 – Pitch coke	HS 39.10.00 – Silicones in primary forms
HS 33.06.90 – Preparations for oral hygiene	HS 30.04.32 – Medicaments containing adrenal cortical hormones
HS 29.16.11 – Acrylic acid and its salts	HS 39.19.10 – In rolls of width not exceeding 20 cm
HS 32.15.19 – Printing ink	HS 29.33.39 – Heterocyclic compounds, other
HS 39.06.90 – Acrylic polymers	HS 29.31.00 – Other organo-inorganic compounds
HS 28.33.24 – Of nickel	HS 39.23.50 – Stoppers, lids, caps and other closures
HS 38.12.30 – Anti-oxidising preparations	HS 39.20.10 – Of polymers of ethylene
HS 39.23.21 – Of polymers of ethylene	HS 32.08.90 – Paints and varnishes, other
HS 29.29.10 – Isocyanates	HS 28.14.10 – Anhydrous ammonia
HS 34.02.20 – Preparations put up for retail sale	HS 30.02.30 – Vaccines for veterinary medicine
HS 28.49.10 – Of calcium	HS 35.04.90 – Peptones and their derivatives
HS 40.16.99 – Other articles of vulcanised rubber	HS 39.07.30 – Epoxide resins
HS 28.25.60 – Germanium oxides and zirconium dioxide	HS 33.05.90 – Preparations for use on the hair
HS 31.05.30 – Diammonium hydrogenorthophosphate (diammonium phosphate)	HS 29.30.90 – Organo-sulphur compounds

Exports	Imports
HS 38.15.90 – Reaction initiators	HS 32.06.11 – Pigments and preparations based on titanium dioxide
HS 29.15.39 – Saturated acyclic monocarboxylic acids	HS 30.02.10 – Antisera and other blood fractions
HS 28.07.00 – Sulphuric acid; Oleum	HS 39.07.40 – Polycarbonates
HS 34.01.11 – For toilet use	HS 29.24.29 – Other
HS 27.12.10 – Petroleum jelly	HS 34.02.90 – Organic surface active agents
HS 32.08.90 – Paints and varnishes; Other	HS 39.02.10 – Polypropylene
HS 28.19.10 – Chromium trioxide	HS 39.07.99 – Polyacetals and other polyether-polyols
HS 35.07.90 – Enzymes; prepared enzymes; other	HS 39.07.60 – Polyethylene terephthalate
HS 38.01.90 – Artificial graphite	HS 28.34.21 – Of potassium
HS 31.03.10 – Superphosphates	HS 39.18.10 – Of polymers of vinyl chloride
HS 30.05.90 – Wadding gauze; bandages; other	HS 28.26.12 – Of aluminium
HS 39.21.90 – Other plates, film, sheets	HS 28.49.90 – Carbides
HS 28.43.90 – Colloidal precious metals compounds	HS 39.23.30 – Carboys, bottles, flasks and similar article
HS 33.05.20 – Prepared for permanent waving or straightening	HS 38.15.12 – With precious metal or precious metal compounds
HS 28.34.29 – Nitrites; nitrates; other	HS 38.16.00 – Refractory cements
HS 29.07.12 – Cresols and their salts	HS 39.20.91 – Of polyvinyl butyral
HS 39.20.10 – Of polymers of ethylene	HS 39.03.30 – Acrylonitrile-butadiene-styrene (ABS) copolymers
HS 39.23.10 – Boxes, cases, crates, and similar articles	HS 32.06.49 – Other colouring matter
HS 39.01.10 – Polyethylene having a specific gravity of less than 0.94	HS 39.20.62 – Of polyethylene terephthalate
HS 38.24.40 – Prepared additives for cement	HS 39.24.10 – Tableware and kitchenware
HS 40.09.21 – Without fittings	HS 29.33.99 – Heterocyclic compounds, other
HS 31.02.10 – Urea, whether or not in aqueous solution	HS 29.02.20 – Benzene
HS 34.06.00 – Candles, tapers and the like	HS 39.03.11 – Expansible polystyrene
HS 38.15.19 – Reaction initiators; other	HS 39.01.90 – Polymers of ethylene, other
HS 29.42.00 – Other organic compounds	HS 29.16.12 – Esters of acrylic acid
HS 32.09.90 – Paints and varnishes; Other	HS 40.11.94 – Of a kind used on construction or industrial handling machines
HS 39.09.40 – Phenolic resins	
HS 39.23.30 – Carboys, bottles, flasks, and similar articles	
HS 29.36.29 – Vitamins and their derivatives, unmixed; Nicotinamide	



Exports	Imports
HS 27.13.20 – Petroleum bitumen	
HS 28.02.00 – Sulphur, sublimed or precipitated; colloidal sulphur	
HS 31.05.90 – Mineral or chemical fertilizer; Other	
HS 27.11.13 – Butanes	
HS 33.06.10 – Dentifrices	
HS 39.23.29 – Of other plastics	
HS 39.23.50 – Stoppers, lids, caps and other closures	
HS 31.03.90 – Mineral or chemical fertilizer; Other	
HS 30.02.30 – Vaccines for veterinary medicine	
HS 34.01.20 – Soap in other forms	
HS 39.23.90 – Articles for the conveyance of goods	
HS 34.02.90 – Organic surface active agents; Other	
HS 28.20.90 – Manganese oxides; Other	