WORLD TRADE ORGANIZATION

G/SG/N/7/ZAF/6
G/SG/N/11/ZAF/8

25 June 2024

(24-4687)

Committee on Safeguards

Original: English

NOTIFICATION UNDER ARTICLE 12.4 OF THE AGREEMENT ON SAFEGUARDS BEFORE TAKING A PROVISIONAL SAFEGUARD MEASURE REFERRED TO IN ARTICLE 6

NOTIFICATION PURSUANT TO ARTICLE 9, FOOTNOTE 2 OF THE AGREEMENT ON SAFEGUARDS

SOUTH AFRICA

Hot-Rolled Steel Products

The following communication, dated and received on 25 June 2024 is being circulated at the request of the delegation of South Africa.

Pursuant to Article 12.4 of the *Agreement on Safeguards*, the Government of South Africa hereby gives notification before taking provisional safeguards measures for imports of hot-rolled steel products; and a notification pursuant to Article 9, footnote 2 of the *Agreement on Safeguards,* on taking a decision not to apply those measures to imports from developing countries.

1. The product subject to the investigation

The subject product is described as certain flat-rolled products of iron, non-alloy steel or other alloy steel (not including stainless steel), whether or not in coils (including products cut-to-length and 'narrow strip'), not further worked than hot-rolled (hot-rolled flat), not clad, plated or coated, excluding grain-oriented silicon electrical steel imported under the following tariff headings: 7208.10, 7208.25, 7208.26, 7208.27, 7208.36, 7208.37, 7208.38, 7208.39, 7208.40, 7208.51, 7208.52, 7208.53, 7208.54, 7208.90, 7211.14, 7225.30, 7225.40, 7225.99, 7226.99.

The preliminary determination of the subject product are that there could be circumvention when the safeguard measures are imposed on the subject products. To prevent any potential loopholes, provisional measures should also be imposed on hot-rolled steel products classifiable under tariff subheadings 7211.13, 7211.19, and 7226.91.

2. The provisional safeguard measure

The provisional safeguard measure consists of *an ad valorem* Safeguard duty of 9%.

3. The proposed date of imposition of the safeguard measure

The provisional safeguard measure is proposed to be imposed on 28 June 2024.

4. The expected duration of the provisional safeguard measure, if any decision on the duration of the measure has been made

Two hundred (200) days.

5. Provide the basis for:

i. making a preliminary determination, as provided for in Article 6, that increased imports have caused serious injury; and,

ii. determining that there are critical circumstances where delay would cause damage which it would be difficult to repair.

The International Trade Administration Commission of South Africa initiated an investigation pursuant to an application by the South African Iron & Steel Institute ("SAISI"), an industry association, on behalf of ArcelorMittal South Africa ("AMSA"), the major producer of the subject product, representing the SACU industry in order to determine whether increased imports have caused serious injury to the domestic industry, within the meaning of the Agreement on Safeguards, in connection with hot-rolled steel products.

The preliminary determinations of the investigation are that there is sufficient evidence of serious injury to the domestic industry caused by increased imports.

a. **Increased Imports:** There is sufficient information to indicate that there is a recent, sudden, sharp, and significant increase in imports.

The surge in absolute terms began in July 2022 – June 2023, although looking at the half-year period, there was a decline in July 2021 - June 2022. The rate and amount of increase from July 2021 – June 2022 and July 2022 - June 2023, can be seen as abrupt, and this abrupt disturbance of the SACU market by imports was maintained throughout the period of investigation both in relative terms and absolute terms.

In conclusion, the recent, sudden, sharp, and significant increase in the imports of the subject product occurred in the period July 2021 – June 2023, and the subject product continued to be imported in increased quantities both in absolute terms and relative to production.

b. **Unforeseen Developments:** The unforeseen developments are as follows:

- Studies show that China did not become a fully-fledged market economy as it assured World Trade Organisation Members it would during negotiations;
- The unprecedented steep rate of increase in crude steel and hot rolled steel production capacity after the Uruguay Round of negotiations. This mainly took place to support growing construction, automotive, and manufacturing activity, as well as to help build infrastructure, particularly in emerging economies. This growth in global capacity was mainly fueled by the growth of the Chinese and Asian steel markets;
- Chinese economic activity has consistently declined since 1994, and large steel producers follow aggressive export strategies, fuelled by an oversupply of steel products; China's extraordinary economic growth is slowing down dramatically, and the Chinese domestic market for steel is retracting;
- The significant downturn of the steel market as a result of the slowdown of economic growth in China contributed to the imbalance between capacity and demand, that is the global oversupply of steel. This led to a significant increase in export volumes by countries with excess capacity;
- As a result of all of these factors, Chinese producers have to increase their exports further, at reduced prices, to rid themselves of excess stocks;
- Worldwide, countries are taking urgent action to raise tariffs and impose trade remedies to protect their domestic steel industries; and it is expected that the surge in imports that the SACU has been experiencing will be augmented by the recent economic slowdown in China and by the fact that China's export markets are contracting rapidly; and

- An increase in trade remedy actions is being taken on steel products, including hot rolled steel, by several countries, notably the European Union, the United Kingdom, the United States of America, and Viet Nam, which are significant export markets for these products. Given the fact that hot-rolled steel is a commodity product, excess capacity in one region can, with relative ease, displace production in other regions, thus harming producers in those regions.

c. Serious injury: There is sufficient evidence that the SACU industry is suffering serious injury in the form of:

i. During the period of surge from July 2021 to June 2023.

- Net profit;
- Output;
- Market share;
- Utilisation of capacity and
- Employment.

ii. During the period of investigation from July 2020 to June 2023

- Sales;
- Net profit;
- Output;
- Market share;
- Utilisation of capacity; and
- Employment.

d. Causal link between increased import and serious injury: There is sufficient information to indicate that the serious injury experienced by the SACU industry is caused by the recent, sudden, sharp, and significant surge in the volume of imports. Although there are factors other than the surge in imports, such as reduced demand in the steel market demand and lack of infrastructure investment, inputs costs, and energy supply and logistics constraints; these factors did not sufficiently detract from the causal link between the surge in imports and the serious injury experienced by the Applicant, as these factors were temporary and did not take place throughout the period of investigation.

e. Adjustment plan: The domestic industry has submitted an adjustment plan outlining the measures it put into place for the facilitation of adjustment of the domestic industry to the competitive conditions with the imports.

f. Critical circumstances: The surge of imports took place between the years (July 2021 - June 2022) and (July 2022 - June 2023). During that time, imports of the subject product significantly increased by 105%. The analysis also shows that over the period of investigation, imports increased by 33%.

Impact on the Applicant

1. Sales volume slightly increased from 78 index points to 80 index points, or by 2 index points, during the surge. The Applicant experienced a decrease of 22 index points from 100 to 78 index points between July 2020 and June 2022 and a decrease of 20 index points over the period of investigation.

2. There was a significant decline in total production since the surge in imports between July 2021 – June 2022 and July 2022 – June 2023. As imports increased their share of the market, local production volumes have decreased further. The Applicant's production declined by 5 index points during the surge period and by 8 index points over the period of investigation.

3. The Applicant's market share decreased by index points from 105 index points for the period July 2021 – June 2022 to 84 index points for the period July 2022 – June 2023 as a direct result of the surge in imports. The total SACU market share

followed the same trend and decreased by 22 index points from 106 index points for the period July 2021 – June 2022 to 84 index points for the period July 2022 – June 2023.

4. The Applicant experienced a significant decrease in profit during the period of the surge, July 2021 – June 2022 to July 2022 – June 2023, when gross profits decreased from 169 to 33 index points, which represents a decrease in gross profit margins from 149 to 29 index points and net profits decreased from 177 to 23 index points which represents a decrease in net profit margins of 134 index points from 155 to 21 index points during the same period.

5. Employment decreased from 103 index points in (July 2021- June 2022) to 97 index points in (July 2022- June 2023).

In view of the above, the Commission found that critical circumstances exist justifying the imposition of provisional safeguard duties.

g. **Offer of consultations under Article 12.4:** The Government of South Africa offers consultations on the provisional measures.

Below is the list of developing countries excluded from measures as they exported less than 3% of total imports to South Africa (Article 9.1 of the Agreement on Safeguards):

LIST OF DEVELOPING COUNTRIES EXCLUDED FROM THE MEASURES

Name	**Name**	**Name**	**Name**
Afghanistan	Madagascar	Dominica	Saint Vincent and the Grenadines
Albania	Malawi	Dominican Republic	Sao Tome & Principe
Algeria	Latvia	Ecuador	Samoa
American Samoa	Lebanon	Egypt, Arab Rep.	Senegal
Angola	Maldives	El Salvador	Seychelles
Antigua and Barbuda	Mali	Eritrea	Sierra Leone
Argentina	Marshall Islands	Eswatini	Singapore
Armenia	Mauritania	Equatorial Guinea	Solomon Islands
Azerbaijan	Mauritius	Ethiopia	Serbia
Bangladesh	Mexico	Fiji	Somalia
Bahrain	Micronesia	Gabon	South Sudan
Belarus	Moldova, Republic of	The Gambia	Sri Lanka
Belize	Mongolia	Georgia	Sudan
Benin	Montenegro	Ghana	Suriname
Bhutan	Morocco	Grenada	Syrian Arab Republic
Brunei Darussalam	Mozambique	Guatemala	Tajikistan
Bolivia	Myanmar	Guinea	Tanzania
Bosnia & Herzegovina	Namibia	Guinea-Bissau	Timor-Leste
Botswana	Nepal	Guyana	Togo
Brazil	Nicaragua	Haiti	Thailand
Bulgaria	Niger	Honduras	Tonga
Burkina Faso	Nigeria	St. Lucia	Trinidad and Tobago
Burundi	North Macedonia	Iran, Islamic Rep. of	Tunisia
Cabo Verde	Oman	Iraq	Indonesia
Cambodia	Pakistan	Jamaica	Turkmenistan
Cameroon	Palestine	Jordan	Tuvalu
Central African Republic	Palau	Kazakhstan	Uganda
Chad	Panama	Kenya	Ukraine
Chile	Papua New Guinea	Kiribati	United Arab Emirates
Colombia	Paraguay	Korea	Uruguay
Comoros	Peru	Kyrgyz Republic	Uzbekistan
Costa Rica	Philippines	Kosovo	Viet Nam
Côte d'Ivoire	Qatar	Kuwait, the State of	Vanuatu
Cuba	Romania	Lao People's Dem. Republic	Venezuela
Democratic Republic of the Congo	Russian Federation	Lebanon	West Bank and Gaza
Congo	Rwanda	Lesotho	Yemen
Djibouti	Saudi Arabia	Liberia	Zambia
Lithuania	St. Kitts and Nevis	Libya	Zimbabwe