

- 1) **South Africa Country Practice Review**
- 2) **Subject Matter Follows**
- 3) **Written Comment**

[Hulamin Submission in Response to Docket USTR-2019-0020](#)

On the 19th of November 2019 a notice was published in the US Federal Register (volume 84, no. 233) informing the public of an investigation into the Generalized System of Preferences (GSP) eligibility of several countries, including South Africa (docket number USTR-2019-0020).

South Africa's current GSP status benefits many industries in the USA, which is currently a net importer of aluminium flat rolled products (FRP). Hulamin is an aluminium semi fabricator and serves several industries in the US market by exporting flat rolled products, for which domestic supply is insufficient or inadequate. The US supply chain benefits from this South African supply as it not only provides inputs for their products, but also contributes to competitive import pricing.

[Import Pricing](#)

Potential rescindment of GSP and AGOA benefits for SA will increase delivered prices by rates greater than the face value of applicable duties. This may well drive inflation to the USA service centres and fabricators as the competitive market price may increase by the additional tariff. For aluminium semi-fabricated products, the cost of the metal is considered a pass through in the industry. However, any applicable duty is calculated as a portion of the entire selling price, thus ultimately increasing the conversion price. The example calculation below explains this further.

$$\text{Total Selling Price} = (\text{Metal Price} + \text{Conversion Price}) \times (1 + \text{Applicable Duty})$$

Metal Price

The metal price used is either the London Metal Exchange (LME) or Shanghai Futures Exchange (SHFE) figure for the given time period. These figures are publicly known and published by various sources. For the sake of this calculation, a metal price of USD 1850 / ton will be assumed.

Conversion Price

This is the price that a mill charges to convert primary aluminium into a semi-fabricated product. For ease of calculation, a conversion price of USD 1100 /ton will be assumed.

Applicable Duty

Duties on aluminium FRP vary depending on the product. The duty rate for common alloy (3%) will be used for this calculation. The example below is based on a scenario where Hulamin supply into the USA received exclusion from Section 232 tariffs.

For automotive heat exchange aluminium products and for foil products the applicable rates are 6% and 5,8% respectively, which is higher than what was used in the worked example.

Scenario with GSP/AGOA Benefit:

$$\begin{aligned} \text{Total Selling Price} &= (\text{USD } 1\,850/\text{ton} + \text{USD } 1\,100/\text{ton}) \times (1 + 0\%) \\ &= \text{USD } 2\,950/\text{ton} \end{aligned}$$

Scenario without GSP/AGOA Benefit:

$$\begin{aligned} \text{Total Selling Price} &= (\text{USD } 1\,850/\text{ton} + \text{USD } 1\,100/\text{ton}) \times (1 + 3\%) \\ &= \text{USD } 3\,038/\text{ton} \end{aligned}$$

As the metal price is a pass through, the removal of duties ultimately leads to an effective conversion of USD 1 188.5 /ton, which is 8% higher than the original conversion price. An increase of this nature can increase the overall pricing levels in the USA. This could ultimately have profitability implications for companies that are importing aluminium for further processing.

The graph that follows depicts the increase in conversion prices for a certain common alloy in the USA. As can be seen, imposed duties can have a drastic effect on conversion price levels, ultimately affecting producers and consumers in the USA.

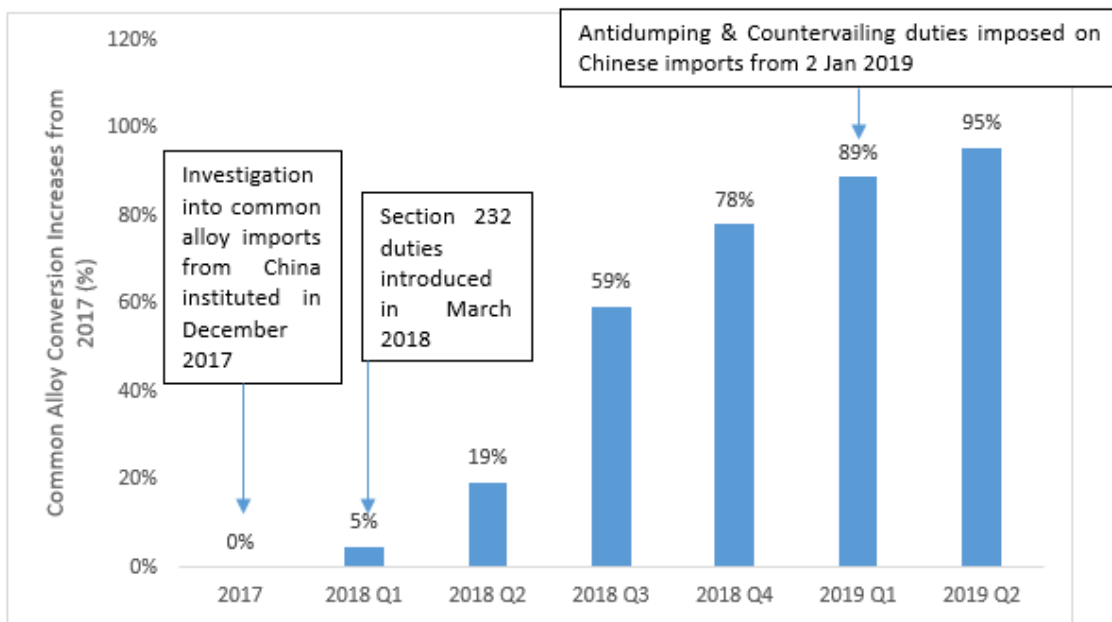


Figure 1: Common Alloy Conversion increases from 2017

Markets Served – Net Importers

Consumption of aluminium FRP in the USA is approximately 5.2 million tons whilst domestic production is approximately 4.5 million tons. Hulamin currently serves this market with exports of canstock, common alloy, plate, tread bright and foil products, used in beverage cans, other

packaging, automotive manufacturing, truck and service vehicle manufacturing, and construction applications amongst others.

Can stock

In 2019, the USA became a net importer of can body stock for the beverage can industry. This is expected to be exacerbated in the future as demand continues to strengthen whilst domestic mills in turn convert their capacity to other products. An example of this is Arconic Knoxville, which ceased production of can body stock at the end of 2018, creating a deficit of over 200 000 tons that had to then be acquired from other sources, including imports.

Hulamin has supplied approximately 160 tons of beverage can body stock to this market in 2019 and expects to continue to alleviate the domestic supply deficit as demand for this product grows. Removing South Africa's preferential access to this market increases import pricing levels in a market where canmakers are already facing pricing pressures.

Foil

The graph that follows depicts North America's net import position for foil. The majority of the demand is believed to be for the USA. Approximately half of the total demand for foil has to be met by imports. Furthermore, approximately 120 000 tons of the USA demand is for thin foil used in the packaging industry, referred to as Converter Foil. This is a specialized product and capability to produce it in the USA is limited. Hulamin is an established producer of converter foil and has supplied it to the US market previously.

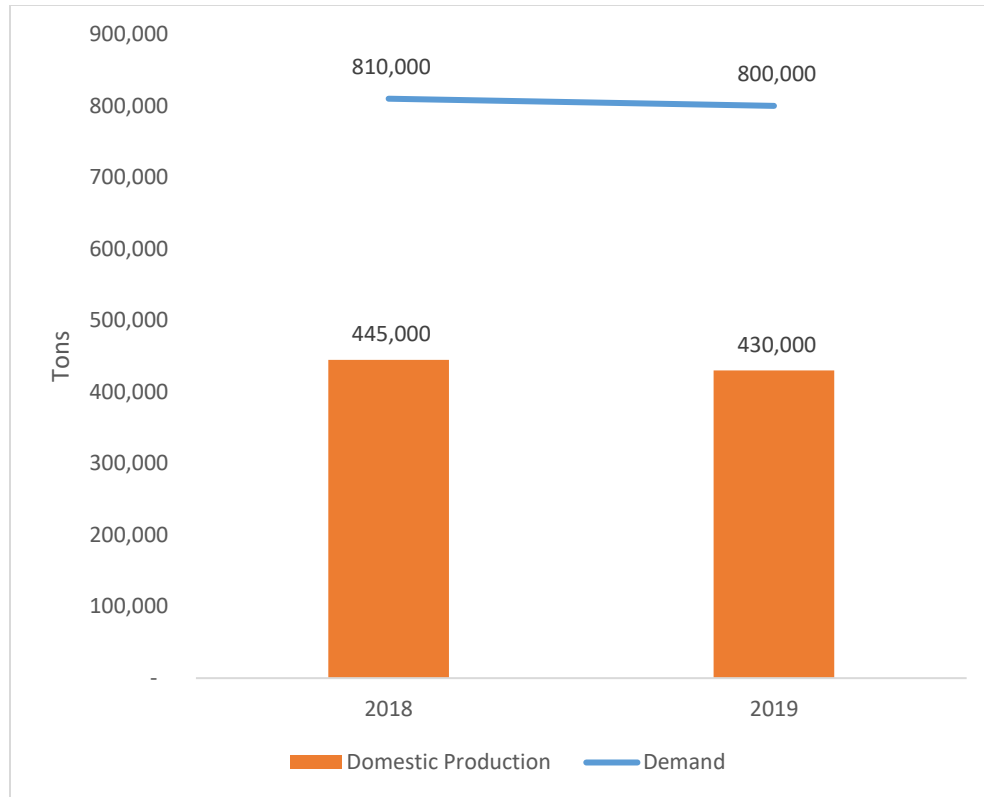


Figure 2: North America Foil Supply & Demand View

Common Alloy

In 2018, the US had approximately 1.16 million tons of Common Alloy capacity. In 2019, this was expected to increase to approximately 1.33 million tons through expansions and changes in product mix at domestic mills. Further expansions are expected in 2020, to take total domestic production up to 1.52 million tons. Despite the investments being made into capacity expansion and product mix optimization, this domestic production of 1.52 million tons will still be insufficient to meet the US demand of approximately 2.2 million tons. The US will therefore have to import approximately 700 000 tons of Common Alloy in order to meet its domestic demand. The graph that follows depicts the 2019 supply and demand dynamics at a high level.

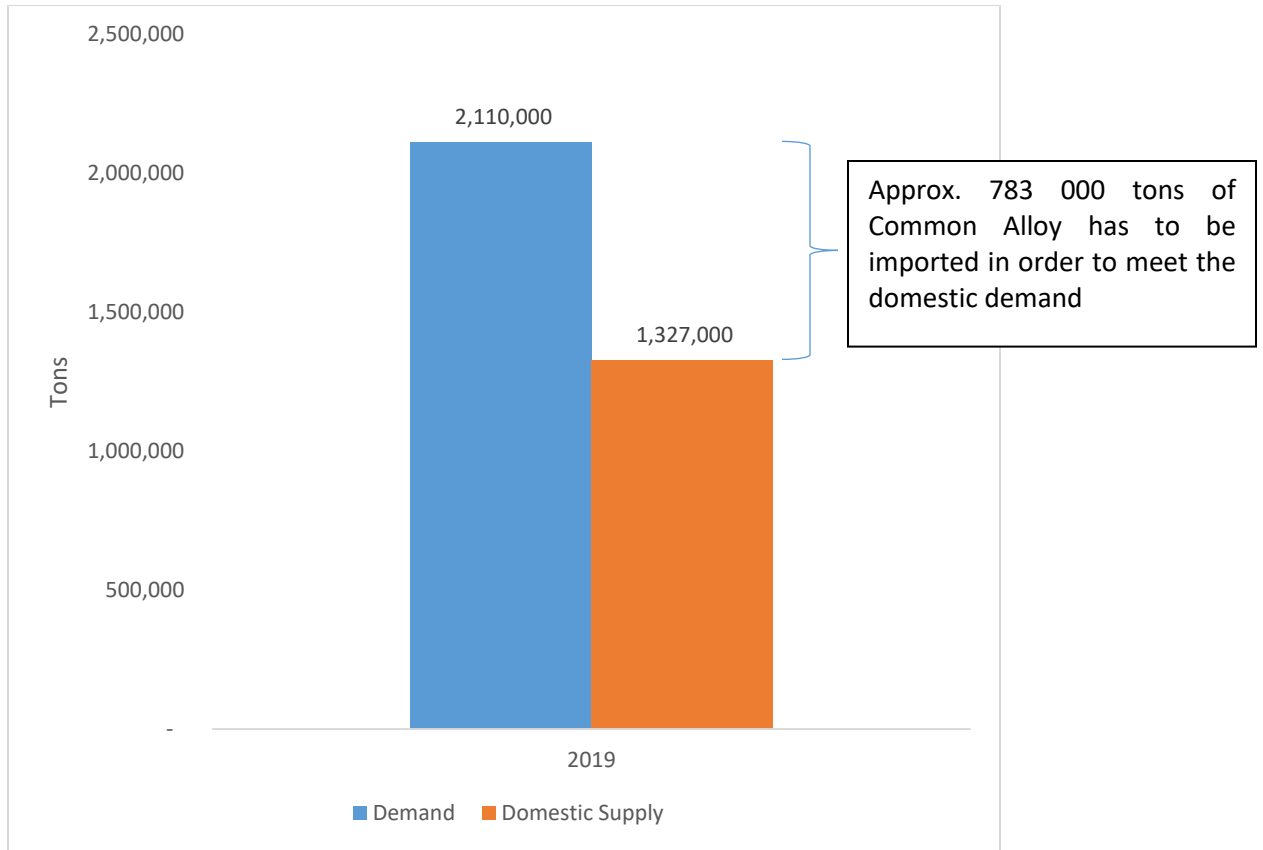


Figure 3: Estimated 2019 Supply/Demand dynamics for the US Common Alloy Market

Heat Treated Plate

Heat-treated plate is used in aerospace and automotive applications as well as for general engineering.

The USA is expected to be a net importer of heat-treated plate. This is depicted in the graph below.

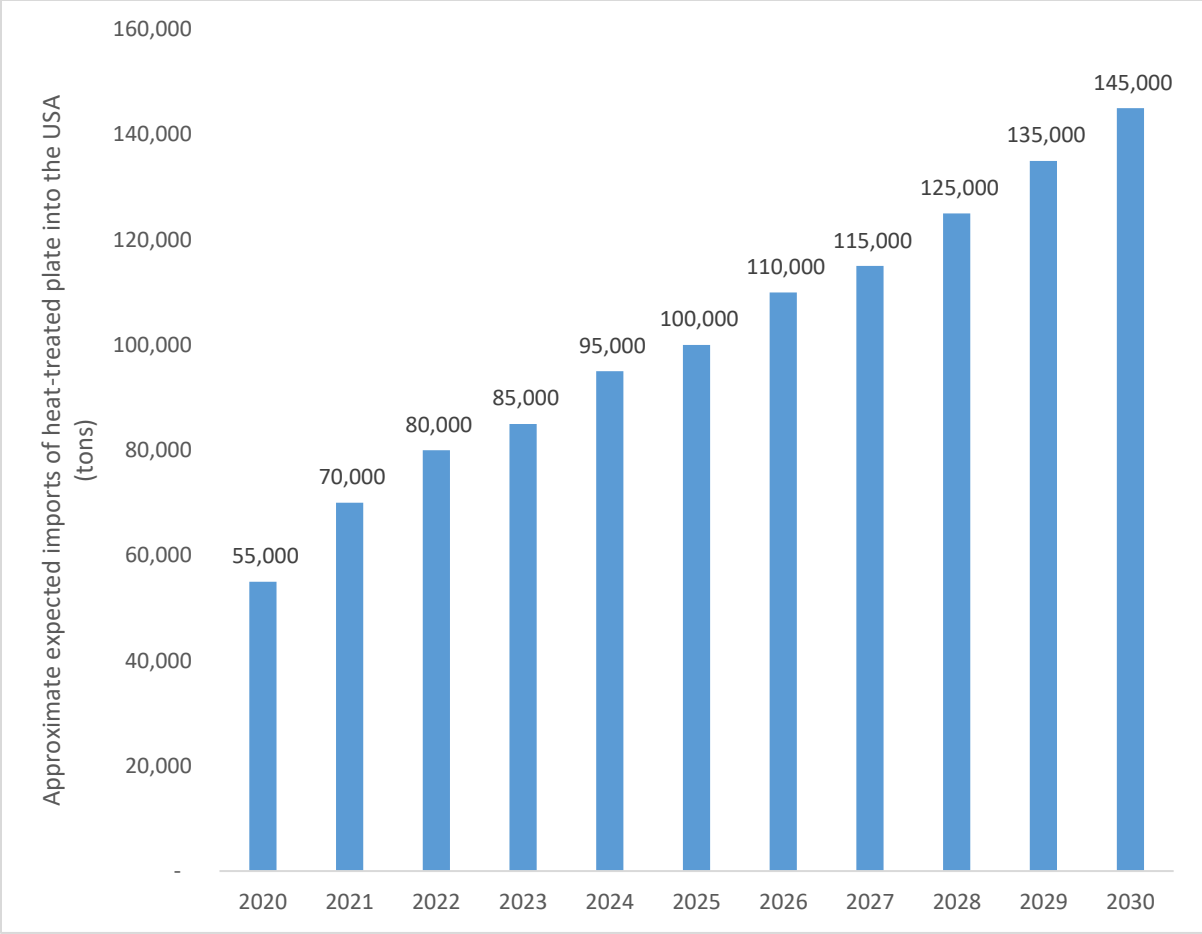


Figure 4: Approximate expected imports of heat-treated plate into the USA (tons)

Conclusion

Removing South Africa’s GSP eligibility will have negative consequences for many producers and consumers in the USA. For many products, the USA is a net importer and would face increased conversion margins or would need to find alternate import supply. In the case of alternative import supply, it is possible that conversion prices would still be high, as an increase of the SA imports price has an overall effect on market pricing levels. Furthermore, in some instances customers would have to qualify alternative suppliers. This process can take several months and can cause disruptions in the supply chain.

The trade synergy that exists between the USA and South Africa is mutually beneficial. The supply of quality products at competitive prices allows companies in the US to continue to provide employment to American citizens by staying in business due to their own competitive pricing, enabled by competitive pricing of input materials. Further employment is created and maintained for logistics service providers in the USA at ports, warehouses, trucking companies and other such points in the logistics chain.

It would therefore be premature to exclude South Africa from GSP eligibility over Amendment Bills that have not yet been enacted, given the consequences that it could have on other US industries.