

REPORT NO. 731

Creation of a rebate facility on solid sodium hydroxide (caustic soda), classifiable under tariff subheading 2815.11, for conversion into sodium hydroxide in aqueous solution (soda lye or liquid soda), classifiable under tariff subheading 2815.12

The International Trade Administration Commission of South Africa (“ITAC”) herewith presents its Report No. 731: Creation of a rebate facility on solid sodium hydroxide (caustic soda), classifiable under tariff subheading 2815.11, for conversion into sodium hydroxide in aqueous solution (soda lye or liquid soda), classifiable under tariff subheading 2815.12.



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CHIEF COMMISSIONER

PRETORIA
.....15 /08/ 2024

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 731

CREATION OF A REBATE FACILITY ON SOLID SODIUM HYDROXIDE (CAUSTIC SODA), CLASSIFIABLE UNDER TARIFF SUBHEADING 2815.11, FOR CONVERSION INTO SODIUM HYDROXIDE IN AQUEOUS SOLUTION (SODA LYE OR LIQUID SODA), CLASSIFIABLE UNDER TARIFF SUBHEADING 2815.12

Synopsis

The Commission considered an application by African Chemicals (Pty) Ltd ("Africhem" or the "Applicant"), for the creation of a rebate facility on solid sodium hydroxide ("caustic soda"), classifiable under tariff subheading 2815.11, for conversion into sodium hydroxide in aqueous solution (soda lye or liquid soda), classifiable under tariff subheading 2815.12.

During its deliberations and in arriving at its recommendation, the Commission considered all the information at its disposal, including comments received during the investigation period.

The Commission found that:

- South Africa's caustic soda industry comprises three domestic manufacturers supplying both internal consumption and the broader market. Total caustic soda production experienced a downward trend from 2020 to 2023.
- Total domestic supply peaked in 2021 but has since declined through to 2023. Conversely, domestic demand for caustic soda has increased steadily.
- However, despite the rising demand for caustic soda, domestic production capacity has remained constant for the period from 2020 to 2023.
- With regards to imports, it was found that, to bridge the gap between domestic supply and demand, South Africa has become increasingly reliant on caustic soda imports, which increased between 2020 and 2023. As a result, the domestic industry's market share steadily declined between 2020 and 2023.

In light of the foregoing, the Commission decided to approve the application for the creation of a rebate facility on solid sodium hydroxide (caustic soda), classifiable under tariff subheading 2815.11, for conversion into sodium hydroxide in aqueous solution (soda lye or liquid soda), classifiable under tariff subheading 2815.12, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided the goods are not available in the SACU region, owing to the widening gap between domestic supply and demand. This imbalance has necessitated a growing reliance on imports over the years.

It was further decided that the rebate facility be reviewed after a period of three years after the date of implementation or such other period as the Commission may deem appropriate.

1. APPLICATION AND TARIFF POSITION

- 1.1. Africhem applied for the creation of a rebate facility on solid sodium hydroxide (caustic soda), classifiable under tariff subheading 2815.11, for conversion into sodium hydroxide in aqueous solution (soda lye or liquid soda), classifiable under tariff subheading 2815.12.
- 1.2. Founded in 2015, following extensive market research of global and domestic chemicals markets, the Applicant is a South African bulk chemicals production, marketing, and distribution company primarily serving the African industrial market.
- 1.3. Africhem supplies various industrial chemical products, including caustic soda, hydrochloric acid, chlorine gas, nitric acid, soda ash dense, ferrous chloride, acrylamide polymer, liquid polymer (coagulant), and sodium hypochlorite.
- 1.4. Africhem has initiated the installation of a caustic soda dissolution and blending plant to manufacture liquid caustic soda from imported solid flakes.
- 1.5. As motivation for the application, the Applicant submitted, among other things, that:

"It is widely accepted that there is a shortage of caustic soda in the market. The local volumes have been dwindling for the last decade and this has accelerated the import volumes. African Chemicals has over the past four to five years entered the chemical

market and have been supplying imported product to various end users. African Chemicals has already been sourcing imported liquid caustic soda from other traders and supplying this into the South African market. This application is intended to obtain duty relief on soda flakes, which will then be converted into liquid at their plant.

The current market demand is 492 000 Dry Metric Ton (“DMT”) per annum whilst the local production is only 228 000 DMT with the balance being supplemented by imports from companies such as SAPPI and Protea Chemicals. This has provided an opportunity to explore the import of solid flakes under 2815.11 for conversion into liquid under 2815.12. Liquid caustic comprises 49% sodium hydroxide and 51% water, which infers from a logistic perspective that the water carries the higher cost during transportation. Furthermore, imported product is subject to exchange rate fluctuations.

The reason for the ITAC application is that there is a lack of caustic soda resources available within South Africa. African Chemicals wishes to import caustic soda (solid and convert into liquid) so that it may be readily available to supply industries in South Africa. The dissolution plant will also enable end users to plan more effectively thereby optimising production and lead times.

One of the key drivers for this application is to reduce the costs of importing caustic flakes into South Africa and the creation of employment, as there are still processes and costs in getting the flakes to liquid form. Without the reduction in tax, the selling price for the final product will be steep, and we are attempting to be in the same price range as the country's current manufacturers. The final product in liquid form would also be expensive, and our goal is to be in the same price range as the current local manufacturers such as Sasol and NCP, rather than in the importing price range of the caustic soda in liquid form.”

- 1.6. The application was published in Government Gazette No. 50311, Notice 2380 on 22 March 2024, for interested parties to comment.
- 1.7. The current tariff structure of the subject product is as shown in Table 2 below and shows that solid sodium hydroxide is currently classifiable under tariff subheading 2815.11. The subject product currently attracts a 20 per cent *ad valorem* duty from countries under the General, EU/UK, European Free Trade Association (“EFTA”), MERCOSUR and the African Continental Free Trade Agreement (“AfCFTA”), and it is free of duty from countries

under the Southern African Development Community (“SADC”).

Table 1: Tariff structure of subject product – raw material

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty					
				General	EU/UK	EFTA	SAD C	MERCOSUR	AfCFTA
28.15		Sodium hydroxide (caustic soda); potassium hydroxide (caustic potash); peroxides of Sodium or potassium:							
	2815.1	Sodium hydroxide (caustic soda):							
	2815.11	Solid	kg	20%	20%	20%	free	20%	20%

Source: SARS

1.8. Table 2 below shows the tariff structure of the final product manufactured by the Applicant. The final product is classifiable under tariff subheading 2815.12. The subject product currently attracts a 20 per cent *ad valorem* duty from countries under the General, EU/UK, European Free Trade Association (“EFTA”), MERCOSUR and the African Continental Free Trade Agreement (“AfCFTA”), and it is free of duty from countries under the Southern African Development Community (“SADC”).

Table 2: Tariff structure of final manufactured products

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of Duty					
				General	EU/UK	EFTA	SAD C	MERCOSUR	AfCFTA
28.15		Sodium hydroxide (caustic soda); potassium hydroxide (caustic potash); peroxides of Sodium or potassium:							
	2815.1	Sodium hydroxide (caustic soda):							
	2815.12	aqueous solution (soda lye or liquid soda)	kg	20%	20%	20%	free	20%	20%

Source: SARS

1.9. The Applicant requested that a 3rd Schedule industrial rebate be created, which provides for rebate of the full customs duty on solid sodium hydroxide for conversion into sodium hydroxide in aqueous solution, with the following rebate description, which was provided

by the South African Revenue Service (“SARS”), as shown in Table 3 below:

Table 3: Rebate description

Rebate Item	Tariff subheading	Description	Extent of Rebate
XXX.XX	2815.11	Sodium hydroxide (caustic soda), solid, classifiable in tariff subheading 2815.11, for conversion into sodium hydroxide in aqueous solution (soda lye or liquid soda) by the addition of water, classifiable in tariff subheading 2815.12, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit provided the goods are not available in the SACU region.	Full duty

Source: SARS

2. DISCUSSION

- 2.1. Globally, the People’s Republic of China (“China”), the United States of America (USA), and India are the leading producers of caustic soda, with China accounting for nearly 45% of the global production in 2023 due to its vast industrial base and favourable government policies supporting chemical manufacturing. The USA and India followed, contributing around 15% and 10%, respectively, to the global output in the same period¹.
- 2.2. According to a report published by Grand View Research, the global caustic soda market is projected to reach US\$51.52 billion by the year 2028, demonstrating a Compound Annual Growth Rate (“CAGR”) of 4.5 per cent within the period spanning from 2021 to 2028. The report attributes this prospective expansion to the escalating demand observed in end-use sectors, including textiles, chemicals, and food processing.
- 2.3. Furthermore, the report predicts that the Asia Pacific region is poised to command a substantial share, exceeding 55 per cent of the market by the year 2024. This significant market dominance is primarily attributed to the escalating production and demand for caustic soda within the Chinese market².
- 2.4. According to information available to the Commission, there are three known domestic manufacturers of the subject product within the Southern African Customs Union (“SACU”): NCP Chlorchem, Sasol, and Mondi.

¹ Statista. (2023). Global production capacity of caustic soda from 2018 to 2023

² Market Research Future. (2016). *Caustic Soda Market Size, Share & Trends Analysis Report By Application (Inorganic & Organic Chemicals, Alumina, Food, Pulp & Paper, Textiles, Water Treatment), By Region, And Segment Forecasts, 2016 - 2024.*

- 2.5. Another factor contributing to the insufficient production of caustic soda may stem from the dynamics of local production, consumption, and demand for Polyvinyl chloride (PVC). The limited consumption of PVC is likely to impact the demand for chlorine, a key raw material in PVC manufacturing, and consequently affect its production. Since caustic soda is a by-product of the chlorine manufacturing process, lower production rates for chlorine are anticipated to negatively impact the production of caustic soda in the foreseeable future.
- 2.6. Total caustic soda production has shown a declining trend over the four-year period from 2020 to 2023. Production peaked in 2021, but subsequently decreased. In contrast, domestic demand demonstrated growth from 2020 to 2023. This is indicative of expanding industrial applications and the growing needs of the local market.
- 2.7. The peak in domestic caustic soda production and supply in 2021, coincided with the COVID-19 pandemic. This period was marked by a heightened focus on hygiene protocols to curb viral transmission. Given that caustic soda is an important input in the manufacturing of essential cleaning and sanitation products such as soaps, detergents, and disinfectants, there was a corresponding rise in demand and supply of caustic soda as a direct consequence of the pandemic.
- 2.8. The production capacity of caustic soda in the SACU remained constant throughout the period from 2020 to 2023, despite the increasing demand. This static capacity, coupled with rising demand, has placed significant strain on the industry. Furthermore, it indicates that existing producers are not expanding their capacity, likely due to lack of investment in production machinery. The lack of expansion in production capacity amidst rising demand has necessitated a greater reliance on imports to bridge the gap between supply and demand.
- 2.9. The import share increased from 2020 to 2023, as the domestic industry's share has consistently declined and been replaced by imports.
- 2.10. The Applicant does not currently manufacture caustic soda or any other products they supply to the domestic industry. Instead, they procure caustic soda from local importers and supply it to their customers. The Applicant also sources some of its caustic soda from

domestic manufacturers. However, the majority of their supply is derived from imported caustic soda.

- 2.11. The Applicant is presently in the process of constructing its caustic soda conversion plant as well as a storage facility. It is anticipated that it will commission the plant and commence production during the 2025/2026 financial period.
- 2.12. The Applicant's sales of caustic soda experienced a significant increase during the period of investigation.
- 2.13. Total imports of liquid caustic into the SACU region increased by 21.1 per cent from 2020/21 to 2022/23. Concurrently, the Free-on-Board (FOB) value of imported products increased by 71.4 percent.
- 2.14. Reciprocal commitments made by the Applicant for the proposed tariff amendment were provided, particularly with respect to investment and employment creation.
- 2.15. To ensure that the Commission had all relevant information at its disposal, comments from interested parties were solicited through the publication of the application in the Government Gazette. Subsequently, the Commission received a total of two (2) comments during the publication period. All comments received were in support of the creation of the rebate facility. ¹

3 FINDINGS

- 3.1 During its deliberations and in arriving at its recommendation, the Commission considered all the information at its disposal, including comments received during the investigation. The Commission found that:
- South Africa's caustic soda industry comprises three domestic manufacturers supplying both internal consumption and the broader market. Total caustic soda production experienced a downward trend from 2020 to 2023.
 - Total domestic supply peaked in 2021 but has since declined through to 2023. Conversely, domestic demand for caustic soda has increased steadily.

- However, despite the rising demand for caustic soda, domestic production capacity has remained constant for the period 2020 to 2023.
- With regards to imports, it was found that, to bridge the gap between domestic supply and demand, South Africa has become increasingly reliant on caustic soda imports, which increased between 2020 and 2023. As a result, the domestic industry's market share steadily declined between 2020 and 2023.

4 RECOMMENDATION

- 4.1. In light of the above, the Commission recommended the approval of the application for the creation of a rebate facility on solid sodium hydroxide (caustic soda), classifiable under tariff subheading 2815.11, for conversion into sodium hydroxide in aqueous solution (soda lye or liquid soda), classifiable under tariff subheading 2815.12, in such quantities, at such times and subject to such conditions as the International Trade Administration Commission may allow by specific permit, provided that such goods are not available in the SACU region, owing to the widening gap between domestic supply and demand. This imbalance has necessitated a growing reliance on imports over the years.
- 4.2. Furthermore, the Commission recommended that the rebate facility be reviewed to monitor the performance of the industry after three years from the date of implementation, or such other period as decided by the Commission.