

REPORT NO. 711

INCREASE IN THE RATE OF CUSTOMS DUTY ON THERMAL PAPER ROLLS OF A WIDTH NOT EXCEEDING 150 MM, FROM FREE OF DUTY TO THE WORLD TRADE ORGANISATION (“WTO”) BOUND RATE OF 5% *AD VALOREM*, CLASSIFIABLE UNDER VARIOUS TARIFF SUBHEADINGS IN CHAPTER 48 OF THE CUSTOMS AND EXCISE ACT, NO. 91 OF 1964.

The International Trade Administration Commission of South Africa herewith presents its Report No. 711: Increase in the rate of customs duty on thermal paper rolls of a width not exceeding 150 mm, from free of duty to the WTO bound rate of 5% *ad valorem*, classifiable under various tariff subheadings in Chapter 48 of the Customs and Excise Act, No. 91 of 1964.



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CHIEF COMMISSIONER

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REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

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Increase in the rate of customs duty on thermal paper rolls of a width not exceeding 150 mm, from free of duty to the World Trade Organisation (“WTO”) bound rate of 5% *ad valorem*, classifiable under various tariff subheadings in Chapter 48 of the Customs and Excise Act, No. 91 of 1964.

Synopsis

The Commission considered an application submitted by the Printing Industries Federation of South Africa (PIFSA NPC) (“Printing SA”) on behalf of Rotunda (Pty) Ltd (“Rotunda” or the “Applicant”), for an increase in the rate of customs duty on thermal paper rolls of a width not exceeding 150 mm, from free of duty to the WTO bound rate of 5% *ad valorem*, classifiable under various tariff subheadings in Chapter 48 of the Customs and Excise Act, No. 91 of 1964, by way of creating additional 8-digit tariff subheadings.

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

The Commission found that:

In the Southern African Customs Union (“SACU”) market, jumbo printing rolls are currently not manufactured domestically, however, domestic converters add value to the imported jumbo rolls by cutting them to 80mmx80mm diameter, which is the most popular paper roll size.

Input material cost constitutes approximately 73% of the total production cost of the subject product, making it the highest cost driver in the conversion of jumbo rolls.

Although the Applicant experienced positive profits margins of 0.7% in 2019, 5.8% in 2020, and 8.1% in 2021, the Applicant experienced significant price disadvantages of 73.5%, 61%, and 77%, respectively against similar imported finished products over the same period.

Although import volumes and domestic production volumes increased in 2022, domestic production could have increased at higher levels if not for the negative impact of low priced imports, which resulted in the Applicant experiencing significant price disadvantages.

Although the domestic industry's supply increased in 2022, its supply still remained at lower levels of approximately 20% when compared to the 2019 base year.

The domestic industry's market share declined to 7.8% in 2019, 6.9% in 2020, and 6.3% in 2022. The domestic industry's market share recovered slightly to 6.6% in 2022 but still remained low when compared to the base year of 2019.

Although total import volumes have decreased during 2020, imports have subsequently increased by 11% in 2021 and further increased by 7% in 2022.

The domestic industry has to compete with imports, which do not comply with local standards, being the SANS 1811:2019 standard, which were developed by domestic converters together with the South African Bureau of Standards ("SABS") to regulate the quality of products for the domestic thermal converting industry.

Thermal rolls containing a chemical called Bis-Phenol A ("BPA") are banned in the Western World because of health concerns. However, it was submitted that the majority of imported thermal rolls, imported from the East, still contains BPA.

The application was supported by all known domestic thermal paper converters. Only Formax, an importer of the final converted products, submitted its objection to the application.

SAPPI and Mondi, domestic manufacturers of various paper products, submitted that they currently do not manufacture thermal paper domestically.

In line with the National Development Plan, the New Growth Path (“NGP”), the Industrial Policy Action Plan (“IPAP”), South Africa’s Trade Policy and Strategy Framework (“TPSF”), the Medium Term Strategic Framework 2019-2024, the Economic Reconstruction and Recovery Plan (“ERRP”), Masterplans and more recently, the Trade Policy for Industrial Development and Employment Growth, appropriate customs tariff policy under the new landscape must reflect a strategic approach, which advances an industrialisation agenda based on, inter alia, creating and retaining employment, increasing production and investment, building dynamic firms and economic inclusion, building local capacity (“localisation”) for both local and global markets, greening the economy and enhancing international competitiveness.

On balance and in light of the above considerations, the Commission recommended an increase in the rate of customs duty on thermal paper rolls of a width not exceeding 150 mm, from free of duty to the WTO bound rate of 5% *ad valorem* classifiable under various tariff subheadings in Chapter 48 of the Customs and Excise Act, 1964, by way of creating new 8-digit tariff subheadings.

The Commission further recommended that the duty be reviewed after a period of three years or such other period as decided by the Commission to determine the performance of the domestic industry.

1. APPLICATION AND TARIFF POSITION

- 1.1. Printing Industries Federation of South Africa (PIFSA NPC) (“Printing SA”) on behalf of Rotunda (Pty) Ltd (“Rotunda” or the “Applicant”) applied for an increase in the rate of customs duty on thermal paper rolls of a width not exceeding 150 mm, from free of duty to the WTO bound rate of 5% *ad valorem*, classifiable under various tariff subheadings in Chapter 48 of the Customs and Excise Act, No. 91 of 1964, by way of creating additional 8-digit tariff subheadings.

1.2. Rotunda is considered one of the largest paper converting and printing companies specialising in thermal paper solutions in the Southern African Customs Union (“SACU”).

1.3 Information at the Commission’s disposal indicates that thermal paper (also referred to as an audit roll) is a special fine paper that is coated with a material formulated to change colour when exposed to heat. It is used in thermal printers, particularly in inexpensive or lightweight devices such as adding machines, cash registers, and credit card terminals. Generally, thermal paper is a special paper that is used in conjunction with thermal printers to primarily produce receipts, for example for:

- Point of Sale (“POS”) such as cash registers;
- Ticketing;
- Lotto;
- Bank Automated Teller Machines (“ATMs”); and
- Credit card devices.

1.4 As motivation for its application, Rotunda stated, *inter alia*, the following:

South African converters are aware that many tons of finished thermal point of sales (POS) rolls are imported into South Africa every year duty free. These rolls are often cheap, do not comply with any standards and local converters are compromised because they are not able to compete on price against these imported products. This has resulted in the distribution channel to market becoming completely price dependent to the exclusion of all else.

Paper quality, including manufacturing processes such as sources of pulp and chemistry contained, are ignored. So too are the very basic metrics of the finished rolls such as grammage, length, width and outer and core diameters.

Simple calculations reveal that, although in many instances an imported roll is cheaper per unit than locally manufactured rolls, the consumer pays more per square meter of paper supplied.

The industry supplies thermal rolls in either length-based or diameter-based nomenclature. Diameter-based rolls are a legacy measurement based on the carriage size of the first point of sales tills introduced into retail many decades ago.

This measurement has remained but has sadly been exploited by some international converters.

As an example, one of the most popular rolls consumed in South Africa is a roll termed an 80x80mm POS Roll. This roll measures 80mm wide and 80mm in diameter (to fit into a till) and was conventionally 80 meters in length. Due to the lack of standards, many converters have taken advantage of the diameter-based measure to produce rolls with far less paper than 80 meters. This is achieved by using thicker paper, loose winding of the rolls and the use of larger cores. The result is producing rolls containing as little as 50 meters of paper. A “saving”, therefore to the converter of 38% and a cost to the unsuspecting consumer.

To deal with this issue, local converters, together with SABS, have developed a SANS 1811:2019 standard set for the South African thermal converting industry.

- 1.5 In terms of the context of this application, it is worth noting that a similar application was first lodged by the Applicant in 2021. The Applicant applied for an increase in the rate of customs duty on thermal paper, including thermocopy paper, in rolls, of a width not exceeding 150mm, classifiable under tariff subheading 4810.13.20, from free of duty to 20% *ad valorem*, by way of creating additional 8-digit tariff subheadings.
- 1.6 At the time of initial preliminary investigation, ITAC engaged the South African Revenue Service (“SARS”) to establish, from an administrative point of view, whether SARS would be in a position to administer or differentiate imports of “thermal paper, including thermocopy paper in rolls of a width not exceeding 150 mm classifiable under 4810.13.20” from a range of thermal paper including thermocopy imported under the above mentioned tariff subheading. SARS submitted that it would be in position to administer the proposed tariff subheading.
- 1.7 However, during the publication stage, it was brought to ITAC’s attention that, although the subject product applied for was classifiable under a specific tariff subheading, i.e. 4810.13.20, there are a number of other tariff subheadings under which the subject product and other thermal paper products can be imported, both as raw material jumbo rolls and finished (converted) rolls. SARS submitted that clearances under these tariff subheadings could result in possible duty circumvention as all the relevant tariff

subheadings are currently duty free. This process culminated in the withdrawal of Printing SA's initial application and subsequent re-submission of the current application, which includes a broadened tariff subheading scope.

- 1.8 Table 1 below shows a list, provided by the Applicant, of other tariff subheadings under which other types of paper products are currently being imported at free of duty:

Table 1: Duty free tariff subheadings used to import raw and finished thermal paper

Tariff subheading	Description
4810.13.20	Of a width not exceeding 150 mm
4810.13.30	Other thermal facsimile paper
4810.13.90	Other
4810.19.05	Thermal facsimile paper
4811.90.90	Other
4810.14.05	Thermal facsimile paper
4810.29.05	Thermal facsimile paper
4811.60.10	In strips or rolls of a width not exceeding 150 mm; in rectangular (including square) sheets with one side not exceeding 360 mm and the other side not exceeding 150 mm in the unfolded state
4811.60.90	Other
4811.90.10	Other, in strips or rolls of a width not exceeding 150 mm; in rectangular (including square) sheets with one side not exceeding 360mm and the other side not exceeding 150 mm in the unfolded state
4811.90.90	Other

Source: Applicant

- 1.9 SARS was further engaged in order to obtain clarification regarding the classification of the subject product. SARS subsequently provided revised descriptions, which would include all the relevant tariff subheadings that could lead to possible duty circumvention.
- 1.10 The current tariff structure for thermal paper is provided in Table 2 below and shows that thermal paper is currently imported under various tariff subheadings in Chapter 48, imported at free of duty across all regions. The WTO bound rate is currently 5% *ad valorem*.

Table 2: Tariff position for the subject product – paper products including thermal paper

Head	Sub-heading	Article Description	Stat Unit	Rate of Duty					
				Genera	EU	EFTA	SAD	MERCOSUR	AfCFTA
48.10	4810.13	Paper and paperboard of a kind used for writing, printing or other graphic purposes, not containing fibres obtained by a mechanical or chemi-mechanical process or of which not more than 10 per cent by mass of the total fibre content consist of such fibres:							
	4810.13.20	In rolls: Of a width not exceeding 150 mm	Kg	Free	Free	Free	Free	Free	Free
	4810.13.30	Other thermocopy paper	Kg	Free	Free	Free	Free	Free	Free
	4810.13.90	Other	Kg	Free	Free	Free	Free	Free	Free
	4810.14	In sheets with one side not exceeding 435 mm and the other side not exceeding 297 mm in the unfolded state:							
	4810.14.05	Thermocopy paper	Kg	Free	Free	Free	Free	Free	Free
	4810.14.10	Other, with one side not exceeding 360 mm and the other side not exceeding 150 mm in the unfolded state	Kg	Free	Free	Free	Free	Free	Free
	4810.19.05	Thermocopy paper	Kg	Free	Free	Free	Free	Free	Free
	4810.19.10	Other, in strips or rolls of a width not exceeding 150 mm; in rectangular (including square) sheets with one side not exceeding 360 mm and the other side not exceeding 150 mm in the unfolded state	Kg	Free	Free	Free	Free	Free	Free
	4810.29	Paper and paperboard of a kind used for writing, printing or other graphic purposes, of which more than 10 per cent by mass of the total fibre content consists of fibres obtained by a mechanical or chemi-mechanical process: Other:							
	4810.29.05	Thermocopy paper	Kg	Free	Free	Free	Free	Free	Free
	4810.29.10	Other, in strips or rolls of a width not exceeding 150 mm; in rectangular (including square) sheets with one side not exceeding 360 mm and the other side not exceeding 150 mm in the unfolded state	Kg	Free	Free	Free	Free	Free	Free

48.11	4811.60	Paper, paperboard, cellulose wadding and webs of cellulose fibres, coated, impregnated, covered, surface-coloured, surface-decorated or printed, in rolls or rectangular (including square) sheets, of any size (excluding goods of the kind described in heading 48.03, 48.09 or 48.10): Paper and paperboard, coated, impregnated or covered with wax, paraffin wax, stearin, oil or glycerol:							
	4811.60.10	In strips or rolls of a width not exceeding 150mm in rectangular (including square) sheets with one side not exceeding 360mm and the other side not exceeding 150mm in the unfolded state	Kg	Free	Free	Free	Free	Free	Free
	4811.60.90	Other	Kg	Free	Free	Free	Free	Free	Free
	4811.90	Other paper, paperboard, cellulose wadding and webs of cellulose fibres							
	4811.90.10	Other, in strips or rolls of a width not exceeding 150 mm; in rectangular (including square) sheets with one side not exceeding 360mm and the other side not exceeding 150 mm in the unfolded state	Kg	Free	Free	Free	Free	Free	Free
	4811.90.90	Other	Kg	Free	Free	Free	Free	Free	Free

Source: SARS

1.11 Table 3 below shows the Applicant's requested tariff structure as provided by SARS:

Table 3: Requested tariff structure for thermal paper

Headin	Sub-heading	Article Description	Stat Unit	Rate of Duty					
				General	EU	EFTA	SAD	MERCOSUR	AfCFTA
48.10	4810.13.xx	Paper and paperboard of a kind used for writing, printing or other graphic purposes, not containing fibres obtained by a mechanical or chemi-mechanical process or of which not more than 10 per cent by mass of the total fibre content consist of such fibres: In rolls: Thermocopy paper: Of a width not exceeding 150 mm	Kg	5%	Free	Free	Free	Free	Free
	4810.14.xx	In sheets with one side not exceeding 435mm and the other side not exceeding 297mm in the unfolded state: Thermocopy paper: Thermocopy Paper: Of a width not exceeding 150 mm	Kg	5%	Free	Free	Free	Free	Free

	4810.19.xx	Thermocopy paper: Of a width not exceeding 150 mm	Kg	5%	Free	Free	Free	Free	Free
	4810.29.xx	Other :Thermocopy Paper: Of a width not exceeding 150 mm	Kg	5%	Free	Free	Free	Free	Free
48.11	4811.60.xx	Paper, paperboard, cellulose wadding and webs of cellulose fibres, coated, impregnated, covered, surface-coloured, surface-decorated or printed, in rolls or rectangular (including square) sheets, of any size (excluding goods of the kind described in heading 48.03, 48.09 or 48.10): Paper and paperboard, coated, impregnated or covered with wax, paraffin wax, stearin, oil or glycerol: Coated with a thermosensitive layer: In rolls of a width not exceeding 150mm	Kg	5%	Free	Free	Free	Free	Free
	4811.90.xx	Other: Other paper, paperboard, cellulose wadding and webs of cellulose fibres: Coated with a thermosensitive layer: In rolls of a width not exceeding 150mm	Kg	5%	Free	Free	Free	Free	Free

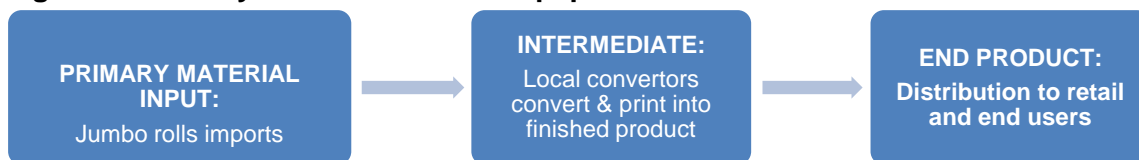
Source: SARS

2. DISCUSSION

- 2.1. Information at the Commission's disposal indicates that thermal papers carry a reactive functional coating. On the printing side, the paper contains colour generators and colour developers as the most important functional constituents. Under the influence of heat, a physical fusion process takes place in this functional coating, as a result of which print develops. Thermal paper is manufactured by using a base layer of uncoated wood free paper coated with a layer of chemistry, which allows an image to develop once exposed to heat from the printing device.
- 2.2. The Applicant submitted that importers of finished 80x80mm rolls, imported at lower prices, are using different techniques to deliver far less paper per roll than local manufacturers to the detriment of the domestic industry. This may include larger cores, thicker paper and smaller outside diameters, which could result in a roll containing up to 25% less paper length to the unsuspecting consumer.

- 2.3. North America has also introduced anti-dumping legislation on finished rolls imported from Asia. According to information at the Commission’s disposal, Asia continues to dominate the world market, manufacturing relatively low priced Bis-Phenol A (“BPA”) containing paper. However, with the recent ban in the EU and North America, the Applicant submitted that, it is likely that the products will be re-directed into African markets – distorting the domestic market even further.
- 2.4. Another important issue to raise is the contentious international concern around thermal papers containing a chemical called BPA. The Applicant has submitted that most environmentally responsible thermal paper manufacturers have ceased using this chemical and now only produce BPA free papers. BPA thermal rolls are banned in the Western World because of health concerns. Many of the imported thermal rolls from the East still contain BPA.
- 2.5. The Applicant explained that thermal paper is used as a primary input; the position of the subject product in the value chain is depicted in Figure 1 below:

Figure 1: Industry value chain of POS paper



Source: Adapted from Applicant

- 2.6. According to information at the Commission’s disposal, there is currently no local manufacturer of thermal paper in the SACU. Both SAPPI and Mondi, domestic manufacturers of various paper products, submitted that they currently do not manufacture thermal paper domestically.
- 2.7. In terms of ITAC’s legislative framework and the Promotion of Administrative Justice Act’s (“PAJA”) requirements, ITAC provided notice to interested stakeholders of the Commission’s intention to consider the increase in the rate of customs duty on thermal paper. The Notice was published in Government Gazette No. 47526, Notice 1424 of 2022 on 18 November 2022 for a period of four (4) weeks, for interested stakeholders to submit comments.

- 2.8. During the publication period, comments in support of the application were received from, *inter alia*, Castle Paper Rolls CC, Rollco (Pty) Ltd, VPrint CC, Lithotech a division of Bidvest Paperplus (Pty) Ltd, Slam Paper Distributors and Couriers (Pty) Ltd as well as Uniprint a division of InsideData (Pty) Ltd. Only Formax, an importer of the final converted products, submitted its objection to the application stating that the duty increase would force price increases to its customers, which will subsequently lead to loss of business, and in turn, triggering cost cutting measures including possible retrenchments.
- 2.9. Overall, interested stakeholders supported the proposed increase, highlighting issues relating to, *inter alia*, sufficient commercial quantities being available to meet total SACU demand and the fact that domestic convertors add value by printing, rewinding, warehousing and supplying the subject product thereby providing employment within these operations.

3. FINDINGS

3.1 The Commission found that:

- In the SACU market, jumbo printing rolls are currently not manufactured domestically, however, domestic convertors add value to the imported jumbo rolls by cutting them to 80mmx80mm diameter, which is the most popular paper roll size.
- Input material cost constitutes approximately 73% of the total production cost of the subject product, making it the highest cost driver in the conversion of jumbo rolls.
- Although import volumes and domestic production volumes increased in 2022, domestic production could have increased at higher levels if not for the negative impact of low priced imports, which resulted in the Applicant experiencing significant price disadvantages.
- Although the domestic industry's supply increased in 2022, its supply still remained at lower levels of approximately 20% when compared to the 2019 base year.

- The domestic industry's market share declined to 7.8% in 2019, 6.9% in 2020, and 6.3% in 2022. The domestic industry's market share recovered slightly to 6.6% in 2022 but still remained low when compared to the base year of 2019.
- Although total import volumes have decreased during 2020, imports have subsequently increased by 11% in 2021 and further increased by 7% in 2022.
- The domestic industry has to compete with imports, which do not comply with local standards, being the SANS 1811:2019 standard, which were developed by domestic converters together with SABS to regulate the quality of products for the domestic thermal converting industry.
- Thermal rolls containing a chemical called BPA are banned in the Western World because of health concerns. However, it was submitted that the majority of imported thermal rolls, imported from the East, still contains BPA.
- The application was supported by all known domestic thermal paper convertors. Only Formax, an importer of the final converted products, submitted its objection to the application.
- SAPPI and Mondi, domestic manufacturers of various paper products, submitted that they currently do not manufacture thermal paper domestically.
- In line with the NDP, the NGP, IPAP, TPSF, the Medium Term Strategic Framework 2019-2024, the ERRP, Masterplans and more recently, the Trade Policy for Industrial Development and Employment Growth, appropriate customs tariff policy under the new landscape must reflect a strategic approach, which advances an industrialisation agenda based on, *inter alia*, creating and retaining employment, increasing production and investment, building dynamic firms and economic inclusion, building local capacity ("localisation") for both local and global markets, greening the economy and enhancing international competitiveness.

4. RECOMMENDATION

- 4.1. In the light of the foregoing, the Commission recommended an increase in the rate of customs duty on thermal paper rolls of a width not exceeding 150 mm, from free of duty to the WTO bound rate of 5% *ad valorem*, classifiable under various tariff subheadings in Chapter 48 of the Customs and Excise Act, 1964, by way of creating new 8-digit tariff subheadings.

- 4.2. The Commission further recommended that the duty be reviewed after a period of three years or such other period as decided by the Commission to determine the performance of the domestic industry.