

REPORT NO. 507

**INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN LARGE BORE
STEEL PIPES**

The International Trade Administration Commission of South Africa herewith presents its Report No. 507. **INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN LARGE BORE STEEL PIPES**, with recommendations.



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SIYABULELA TSENGIWE
CHIEF COMMISSIONER

PRETORIA

05/10/2015

REPUBLIC OF SOUTH AFRICA

INTERNATIONAL TRADE ADMINISTRATION COMMISSION OF SOUTH AFRICA

REPORT NO. 507

**INCREASE IN THE RATE OF CUSTOMS DUTY ON CERTAIN LARGE BORE
STEEL PIPES**

Synopsis

Hall Longmore (Pty) Ltd applied for an increase in the rate of customs duty on large bore welded steel pipes classifiable under tariff headings 73.03, 73.04, 73.05 and 73.06 from free of duty and 10% *ad valorem* to 15 % *ad valorem*.

Although the applicant manufactures large bore welded steel pipes classifiable under tariff headings 73.05 and 73.06, it requested that certain steel pipes classifiable under tariff subheadings 73.03 and 73.04 be considered for an increase in customs duty as these ductile and seamless pipes, according to the applicant, compete directly with the subject products currently manufactured by the applicant.

The Commission considered the application in light of the information at its disposal. In particular, the Commission took the following factors into account:

- The rising level of imports, and concomitant erosion of the market share of the SACU manufacturer of large bore steel pipes;
- The considerable decline in the level of domestic production, sales and capacity utilisation;
- The significant price disadvantages experienced by the domestic industry manufacturing the subject products;

- The declining profitability of the domestic industry also as a result of a relatively high production cost structure; and
- Diminishing domestic employment and investment opportunities.

Although parties objecting to the application argued that ductile iron pipes and welded steel pipes are not substitutes, the Commission found that ductile iron pipes classifiable under tariff heading 73.03 compete directly with the subject products manufactured locally as explained in paragraph 14.

The products classifiable under tariff heading 73.04 (seamless pipes and tubes) are manufactured locally. However, the Commission found no justification for an increase in customs duty on these products in the light of price advantage experienced. For critical applications there is no substitutability between welded and seamless tubes as explained in paragraph 15.

The Commission concluded that tariff support should enable the industry manufacturing large bore welded steel pipes classifiable under tariff headings 73.05 and 73.06 to utilise its existing under-utilised production capacity, and achieve economies of scale with a reduction in the marginal cost of production.

In light of the foregoing, the Commission recommends that:

- The tariff structure for large bore steel pipes classifiable under tariff headings 73.03, 73.05 and 73.06 be amended as follows:

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
7303	7303.00	Tubes, pipes and hollow profiles, of cast iron	Kg	15%	Free	Free	Free
7305		Other tubes and pipes (for example, welded, riveted or similarly closed), having circular cross-sections, the external diameter of which exceeds 406,4 mm, of iron or steel:					
	7305.1	- Line pipe of a kind used for oil or gas pipelines:					
	7305.11	-- Longitudinally submerged arc welded	Kg	15%	Free	Free	Free
	7305.12	-- Other, longitudinally welded	Kg	15%	Free	Free	Free

	7305.19	-- Other	Kg	15%	Free	Free	Free
	7305.20	- Casing of kind used in drilling for oil or gas	Kg	15%	Free	Free	Free
	7305.30	- Other welded					
	7305.31	-- longitudinally welded					
	7305.31.10	-- -High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	15%	Free	Free	Free
	7305.31.90	---Other	Kg	15%	Free	Free	Free
	7305.39	-- Other					
	7305.39.10	--- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	15%	Free	Free	Free
	7305.39.90	--- Other	Kg	15%	Free	Free	Free
	7305.90	- Other					
	7305.90.10	-- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	15%	Free	Free	Free
	7305.90.90	-- Other	Kg	15%	Free	Free	Free
7306		Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:					
	7306.1	- Line pipe of a kind used for oil or gas pipelines:					
	7306.19	-- Other	Kg	15%	Free	Free	Free
	7306.2	- Casing and tubing of a kind used in drilling for oil or gas:					
	7306.29	-- Other	Kg	15%	Free	Free	Free
	7306.30	- Other, welded, of circular cross-section, of iron or non-alloy steel:					
	7306.30.30	-- With a wall thickness exceeding 2 mm, galvanised	Kg	15%	Free	Free	Free
	7306.30.40	-- With a wall thickness exceeding 2 mm, not galvanised	Kg	15%	Free	Free	Free

- The duty on seamless tubes classifiable under tariff heading 73.04 be maintained at the current rate of customs duty of 10% ad valorem; and
- A review of duty structure to determine its impact on the industry be conducted three years from the date of implementation of the duties.

APPLICATION AND TARIFF POSITION

1. ITAC received an application from Hall Longmore (Pty) Ltd for an increase in the rate of customs duty on large bore steel pipes classifiable under tariff headings 73.03, 73.04, 73.05, and 73.06, from free of duty and 10% *ad valorem* to 15% *ad valorem*.
2. Although the applicant manufactures large bore welded steel pipes classifiable under tariff headings 73.05 and 73.06, it requested that certain steel pipes classifiable under tariff subheadings 73.03 and 73.04 be considered for an increase in customs duty as these ductile and seamless pipes, according to the applicant, compete directly with the subject products currently manufactured by the applicant.
3. As motivation for the application, the applicant stated the following:
 - It has recently invested a substantial amount for upgrading its electric resistance welded (ERW) mill to ensure that the SACU market can be serviced with the right quality. This investment contributed to retaining jobs locally. However, the local industry cannot be sustainable in the face of low priced imports;
 - There are also close substitutes that compete directly with the bore welded steel pipes classifiable under tariff headings 73.05 and 73.06. These include ductile iron pipe and seamless pipes, which are classifiable under tariff subheadings 7303.00, 7304.19, 7304.23 and 7304.29. Therefore, the Commission is requested to also consider these substitutes for an increase in the rate of customs duties; and
 - The domestic market share has declined even though Hall Longmore is the only manufacturer of ERW welded steel pipes in SACU.

4. The application was published in the Government Gazette on 24 April 2015 for comments by interested parties, as follows:

“INCREASE IN THE GENERAL RATE OF CUSTOMS DUTY ON:

Large bore steel pipes classifiable under tariff headings 73.03, 73.04, 73.05, and 73.06, from free of duty and 10% *ad valorem* to 15% *ad valorem*.”

5. The current tariff structure of the subject products is as follows:

Table 1: Current tariff position: Large bore steel pipes manufactured by the applicant

7305	Tariff Subheadings	Other tubes and pipes (for example, welded, riveted or similarly closed), having circular cross-sections, the external diameter of which exceeds 406,4 mm, of iron or steel:					
	7305.1	- Line pipe of a kind used for oil or gas pipelines:					
	7305.11	-- Longitudinally submerged arc welded	Kg	10%	Free	Free	Free
	7305.12	-- Other, longitudinally welded	Kg	10%	Free	Free	Free
	7305.19	-- Other	Kg	10%	Free	Free	Free
	7305.20	- Casing of kind used in drilling for oil or gas	Kg	10%	Free	Free	Free
	7305.30	- Other welded					
	7305.31	-- longitudinally welded					
	7305.31.10	--- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	Free	Free	Free	Free
	7305.31.90	---Other	Kg	10%	Free	Free	Free
	7305.39	-- Other					
	7305.39.10	--- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	Free	Free	Free	Free
	7305.39.90	--- Other	Kg	10%	Free	Free	Free
	7305.90	- Other					

	7305.90.10	-- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	Free	Free	Free	Free
	7305.90.90	-- Other	Kg	10%	Free	Free	Free
7306		Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:					
	7306.1	- Line pipe of a kind used for oil or gas pipelines:					
	7306.19	-- Other	Kg	10%	Free	Free	Free
	7306.2	- Casing and tubing of a kind used in drilling for oil or gas:					
	7306.29	-- Other	Kg	10%	Free	Free	Free
	7306.30	- Other, welded, of circular cross-section, of iron or non-alloy steel:					
	7306.30.30	-- With a wall thickness exceeding 2 mm, galvanised	Kg	10%	Free	Free	Free
	7306.30.40	-- With a wall thickness exceeding 2 mm, not galvanised	Kg	10%	Free	Free	Free

Table 2: Current tariff position: Substitutes

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
7303	7303.00	Tubes, pipes and hollow profiles, of cast iron	Kg	Free	Free	Free	Free
7304		Tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel:					
	7304.1	- Line pipe of a kind used for oil or gas pipelines:					
	7304.19	-- Other	Kg	10%	Free	Free	Free
	7304.2	- Casing, tubing and drill pipe, of a kind used in drilling for oil or gas:					
	7304.23	-- Other drill pipe	Kg	10%	Free	Free	Free
	7304.29	-- Other	Kg	10%	Free	Free	Free

6. The requested tariff position is as follows:

Table 3: Requested tariff position: Products manufactured by the applicant

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
7305		Other tubes and pipes (for example, welded, riveted or similarly closed), having circular cross-sections, the external diameter of which exceeds 406,4 mm, of iron or steel:					
	7305.1	- Line pipe of a kind used for oil or gas pipelines:					
	7305.11	-- Longitudinally submerged arc welded	Kg	15%	Free	Free	Free

	7305.12	-- Other, longitudinally welded	Kg	15%	Free	Free	Free
	7305.19	-- Other	Kg	15%	Free	Free	Free
	7305.20	- Casing of kind used in drilling for oil or gas	Kg	15%	Free	Free	Free
	7305.30	- Other welded					
	7305.31	-- longitudinally welded					
	7305.31.10	--- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	15%	Free	Free	Free
	7305.31.90	--- Other	Kg	15%	Free	Free	Free
	7305.39	-- Other					
	7305.39.10	--- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	15%	Free	Free	Free
	7305.39.90	--- Other	Kg	15%	Free	Free	Free
	7305.90	- Other					
	7305.90.10	-- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	15%	Free	Free	Free
	7305.90.90	-- Other	Kg	15%	Free	Free	Free
7306		Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:					
	7306.1	- Line pipe of a kind used for oil or gas pipelines:					
	7306.19	-- Other	Kg	15%	Free	Free	Free
	7306.2	- Casing and tubing of a kind used in drilling for oil or gas:					
	7306.29	-- Other	Kg	15%	Free	Free	Free
	7306.30	- Other, welded, of circular cross-section, of iron or non-alloy steel:					
	7306.30.30	-- With a wall thickness exceeding 2 mm, galvanised	Kg	15%	Free	Free	Free
	7306.30.40	-- With a wall thickness exceeding 2 mm, not galvanised	Kg	15%	Free	Free	Free

Table 4: Requested tariff position: Substitutes

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
7303	7303.00	Tubes, pipes and hollow profiles, of cast iron	Kg	15%	Free	Free	Free
7304		Tubes, pipes and hollow profiles, seamless, of iron (excluding cast iron) or steel:					
	7304.1	- Line pipe of a kind used for oil or gas pipelines:					
	7304.19	-- Other	Kg	15%	Free	Free	Free
	7304.2	- Casing, tubing and drill pipe, of a kind used in drilling for oil or gas:					
	7304.23	-- Other drill pipe	Kg	15%	Free	Free	Free
	7304.29	-- Other	Kg	15%	Free	Free	Free

7. As shown in table 5 below, the Commission administers rebate provision 460.15 which provides for full duty relief on steel pipes classifiable under tariff headings 7303.00, 73.04, 73.05 and 73.06 for the manufacture of steam boiler, super heater and economizer tubing.
8. The main objective of the relevant rebate provisions is to enable the applicable downstream manufacturing industry to source steel pipes at globally competitive prices without adversely affecting the local steel pipe manufacturing industry.

Table 5: Current rebate provision structure: 460.15

Rebate Item	Tariff Heading	Rebate Code	CD	Description	Extent of Rebate
460.15	73.03	01.04	40	Tubes and pipes of iron or steel, for use as steam boiler, superheater and economizer tubing, in such quantities and at such times as the International Trade Administration Commission, may allow by specific permit	Full duty
460.15	73.04	01.04	46	Tubes and pipes of iron or steel, for use as steam boiler, superheater and economizer tubing, in such quantities and at such times as the International Trade Administration Commission, may allow by specific permit	Full duty
460.15	73.05	01.04	42	Tubes and pipes of iron or steel, for use as steam boiler, superheater and economizer tubing, in such quantities and at such times as the International Trade Administration Commission, may allow by specific permit	Full duty
460.15	73.06	01.04	49	Tubes and pipes of iron or steel, for use as steam boiler, superheater and economizer tubing, in such quantities and at such times as the International Trade Administration Commission, may allow by specific permit	Full duty

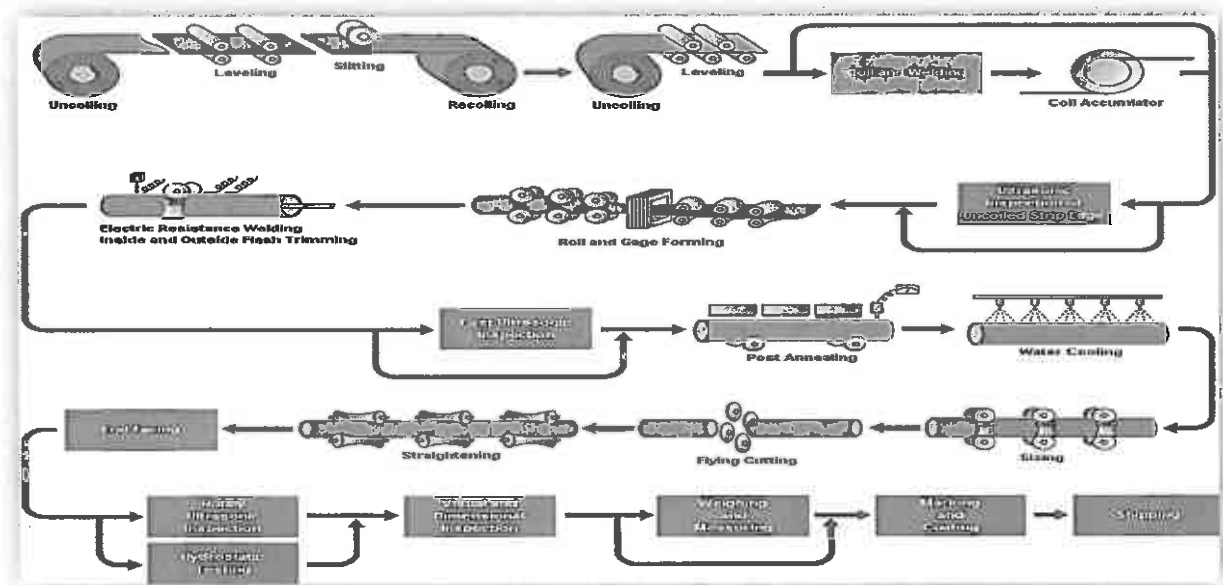
INDUSTRY AND MARKET

9. Hall Longmore (Pty) Ltd started operating in South Africa in 1924 and has two manufacturing facilities located in Wadeville (Germiston) and Duncanville (Vereeniging).
10. The applicant is involved in the manufacturing and distribution of electric resistance welding (ERW) and submerged arc welding (SAW) steel pipes in the SACU.

11. The applicant manufactures coated and lined or bare ERW manufactured steel pipes with outside diameter of between 219mm and 610mm and wall thickness of between 4.5mm and 12.7mm.
12. ERW and SAW technologies are used to produce pipes from different grades of carbon or special alloy steels and can be supplied square ended, bevelled, belled or with specialised jointing methods, cement lined and/or polyethylene coated, depending on customer requirements.
13. All pipes are manufactured in accordance with worldwide standards, including those of the South African Bureau of Standards and the American Petroleum Institute.
14. The subject products are manufactured using locally sourced steel coil and cement as well as imported medium density polyethylene. Ductile iron pipes classifiable under tariff heading 73.03, commonly used for water transmission and distribution, are close substitutes for the subject products. . Ductile iron pipes are not manufactured domestically. These pipes are produced by pouring molten iron into a rapidly spinning water-cooled mould and centrifugal force results in an even spread of iron around the circumference which, when cooled, becomes a tube. Although generally regarded as substitutes for welded steel tubes, ductile iron pipes are attractive to local authorities for water conveyance because of its lower price, cost-effectiveness, corrosion resistance, and because these pipes are easier to lay than welded steel pipes.
15. Seamless tubes are manufactured domestically by ArcelorMittal and are used for critical high pressure applications, generally in the petrochemical industry. Seamless tubes are extruded and drawn from a billet while welded tubes as explained below, are produced from strip and roll-formed and welded to produce a tube. Seamless tubes can handle high pressures and the thickness of the pipe can tolerate abrasive materials. For critical applications there are no substitutes for seamless tubes.

16. Diagram 1 below depicts the manufacturing process of the subject product.

Diagram 1: Manufacturing process



17. The applicant uses a high frequency induction heating process to manufacture pipes. Edge milled steel coil is mechanically formed into pipe after which a high-frequency electrical current is applied to fuse pipe skelp to form a weld. Unlike the arc-welding process, no filler material is added. The weld joint becomes a homogeneous part of the completed pipe.

18. In order to ensure completely smooth pipes, welds are scarfed both internally and externally. Immediate confirmations of welds are assured as pipes pass through a multi-probe ultrasonic inspection system located after the welding and scarfing stations.

19. Following the ultrasonic test, weld joints are induction-heated to normalise the metallic structure of the weld. Pipes are then sized to required tolerances before being cut to length and the ends bevelled. Thereafter a hydrostatic test is conducted and weld seams are again ultrasonically tested.

20. Lastly, pipes are inspected, weighed and can be varnished and marked prior to final inspection and dispatch, or transferred to the coating and lining plants for corrosion protection treatment.

21. There are two local manufacturers of the subject products in SACU. Hall Longmore (Pty) Ltd and ArcelorMittal SA. The former is the only manufacturer of the steel pipes classifiable under tariff headings 73.05 and 73.06 and the latter manufactures certain ranges of seamless steel pipes classifiable under tariff heading 73.04.

22. There are other manufacturers of steel pipes in the SACU region such as Macsteel (Pty) Ltd and Robor (Pty) Ltd. However they manufacture pipes in ranges outside the scope of this application.

23. The applicant has the capacity to produce 110 000 000 kg per annum, which is in excess of the domestic demand.

24. The applicant's market share has continued to decline over the years and imports continued to increase. The imports of the subject products constitute approximately 80% of the domestic market.

25. The following companies have been identified as some of the major importers of the subject products in the SACU region:

- Amalgamated Piping Industry (Pty) Ltd;
- Robor (Pty) Ltd;
- Fully Supply (Pty) Ltd;
- Bass Piping (Pty) Ltd;
- Macsteel Service Centres SA (Pty) Ltd; and
- Sasol Limited

26. The subject products are used for transportation of water, gas and petrochemicals in infrastructure programs such as water and sanitation, mining, construction, oil and gas. The majority of the local demand emanates from State enterprises

COMPETITIVE POSITION

27. According to the information at the Commission's disposal, the domestic industry manufacturing large bore welded steel pipes classifiable under tariff headings 73.05 and 73.06 experiences significant price disadvantages vis-à-vis foreign manufacturers of welded steel pipes and the ductile iron pipes classifiable under tariff subheading 73.03, in the face of rising domestic input costs and declining profitability. However, the locally manufactured seamless steel pipes classifiable under tariff heading 73.04 are price-competitive vis-à-vis imports.
28. Steel coil is the main input used in the manufacture of welded steel tubes. Currently, the domestic price vis-à-vis the import price of steel coil is relatively high, adversely affecting the competitive position of the domestic industry manufacturing welded steel pipes.

COMMENTS ON THE APPLICATION

29. Comments in support of the application were received from the Association of Steel Tube and Pipe Manufacturers (ASTPM) and the South African Iron and Steel Institute (SAISI).
30. The comments supporting the application centred on the importance of the large bore steel pipe industry to infrastructure development; very low production capacity utilization; the importance to preserve and sustain local production capacity; the significant investment made by the applicant; the potential to create additional jobs and the stimulation of demand for products manufactured by the primary steel industry.
31. Comments objecting to the application were received from Specialist Steel Profiles (SSP) a division of Tricks Wrought Iron Services (Pty) Ltd, Robor (Pty) Ltd, A.I.G Sales (Pty) Ltd, Mining Pressure Systems (Pty) Ltd, the South African Petroleum Industry Association ("SAPIA"), Xikhova Advisory (Pty) Ltd on behalf of Sasol Limited and Webber Wentzel on behalf of MacSteel South Africa (Pty) Ltd and Saint Gobain Construction Products SA (Pty) Ltd.

32. The issues raised in the objections centred on the perceived lack of substitutability of the subject products with ductile and seamless pipes, possible abuse of dominant power, and the cost-raising impact of higher duties.

FINDINGS

33. The Commission considered the application in light of the information at its disposal. In particular, the Commission took the following factors into account:

- The rising level of imports, and concomitant erosion of the market share of the SACU manufacturer of large bore steel pipes;
- The considerable decline in the level of domestic production, sales and capacity utilisation;
- The significant price disadvantages experienced by the domestic industry manufacturing the subject products;
- The declining profitability of the domestic industry also as a result of a relatively high production cost structure; and
- Diminishing domestic employment and investment opportunities.

34. Although parties objecting to the application argued that ductile iron pipes and welded steel pipes are not substitutes, the Commission found that ductile iron pipes classifiable under tariff heading 73.03 compete directly with the subject products manufactured locally as explained in paragraph 14.

35. The products classifiable under tariff heading 73.04 (seamless pipes and tubes) are manufactured locally. However, the Commission found no justification for an increase in customs duty on these products in the light of price advantage

experienced. For critical applications there is no substitutability between welded and seamless tubes as explained in paragraph 15.

36. The Commission concluded that tariff support should enable the industry manufacturing large bore welded steel pipes classifiable under tariff headings 73.05 and 73.06 to utilise its existing under-utilised production capacity, and achieve economies of scale with a reduction in the marginal cost of production.

RECOMMENDATION

37. In light of the foregoing, the Commission recommends that:

- The tariff structure for large bore steel pipes classifiable under tariff headings 73.03, 73.05 and 73.06 be amended as follows:

Tariff heading	Tariff subheading	Description	Statistical unit	Rate of duty			
				General	EU	EFTA	SADC
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	7305.1	- Line pipe of a kind used for oil or gas pipelines:					
	7305.11	-- Longitudinally submerged arc welded	Kg	15%	Free	Free	Free
	7305.12	-- Other, longitudinally welded	Kg	15%	Free	Free	Free
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	7305.30	- Other welded					
	7305.31	-- longitudinally welded					
	7305.31.10	--- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	15%	Free	Free	Free
	7305.31.90	--- Other	Kg	15%	Free	Free	Free
	7305.39	-- Other					
	7305.39.10	--- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	15%	Free	Free	Free
	7305.39.90	--- Other	Kg	15%	Free	Free	Free

	7305.90	- Other					
	7305.90.10	-- High-pressure hydro-electric conduits, of steel, with an internal cross-sectional dimension exceeding 400 mm and a wall thickness exceeding 10,5 mm	Kg	15%	Free	Free	Free
	7305.90.90	-- Other	Kg	15%	Free	Free	Free
7306		Other tubes, pipes and hollow profiles (for example, open seam or welded, riveted or similarly closed), of iron or steel:					
	7306.1	- Line pipe of a kind used for oil or gas pipelines:					
	7306.19	-- Other	Kg	15%	Free	Free	Free
	7306.2	- Casing and tubing of a kind used in drilling for oil or gas:					
	7306.29	-- Other	Kg	15%	Free	Free	Free
	7306.30	- Other, welded, of circular cross-section, of iron or non-alloy steel:					
	7306.30.30	-- With a wall thickness exceeding 2 mm, galvanised	Kg	15%	Free	Free	Free
	7306.30.40	-- With a wall thickness exceeding 2 mm, not galvanised	Kg	15%	Free	Free	Free

- The duty on seamless tubes classifiable under tariff heading 73.04 be maintained at the current rate of customs duty of 10% ad valorem; and
- A review of duty structure to determine its impact on the industry be conducted three years from the date of implementation of the duties.