



Australian Government  
Department of Industry,  
Innovation and Science

Anti-Dumping  
Commission



# ANALYSIS OF AUSTRALIA'S STEEL MANUFACTURING AND FABRICATING MARKETS REPORT TO THE COMMISSIONER OF THE ANTI-DUMPING COMMISSION

November 2017

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## Abbreviations

|                  |                                                                                                                                                                                                                                                                                             |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ABS              | Australian Bureau of Statistics                                                                                                                                                                                                                                                             |
| ADIS             | Anti-Dumping Information Service (a function within the Commission)                                                                                                                                                                                                                         |
| ANZSIC           | Australian and New Zealand Standard Industrial Classification                                                                                                                                                                                                                               |
| AHECC            | Australian Harmonized Export Commodity Classification                                                                                                                                                                                                                                       |
| the Commission   | Anti-Dumping Commission                                                                                                                                                                                                                                                                     |
| the Commissioner | Commissioner of the Anti-Dumping Commission                                                                                                                                                                                                                                                 |
| DIBP             | Department of Immigration and Border Protection                                                                                                                                                                                                                                             |
| DIIS             | Department of Industry, Innovation and Science                                                                                                                                                                                                                                              |
| EU               | European Union                                                                                                                                                                                                                                                                              |
| galvanised steel | zinc coated (galvanised) steel                                                                                                                                                                                                                                                              |
| G20 nations      | the Group of Twenty, which comprises the European Union plus 19 nations: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom and the United States of America |
| GFC              | global financial crisis                                                                                                                                                                                                                                                                     |
| HSS              | hollow structural sections                                                                                                                                                                                                                                                                  |
| ITC              | United States International Trade Commission                                                                                                                                                                                                                                                |
| ITRA             | International Trade Remedies Advisory Service                                                                                                                                                                                                                                               |
| ITRF             | International Trade Remedies Forum                                                                                                                                                                                                                                                          |
| mmt              | million metric tonnes                                                                                                                                                                                                                                                                       |
| OECD             | Organisation for Economic Development and Co-operation                                                                                                                                                                                                                                      |
| rebar            | steel reinforcing bar                                                                                                                                                                                                                                                                       |
| SMEs             | small and medium enterprises                                                                                                                                                                                                                                                                |
| tpy              | tonnes per year                                                                                                                                                                                                                                                                             |
| WTO              | World Trade Organization                                                                                                                                                                                                                                                                    |

## Technical terms glossary

|                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Chain volume measures       | These measures of volume only vary with changes in the quantities of commodities produced or sold. Chain volume measures value quantities by using prices in a base period which is updated annually. These annually reweighted (rebased) volume change measures are then linked, or "chained" together to produce a time series of chain volume measures.                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| Demand/production imbalance | An imbalance between demand and supply of a product at prices that reflect efficient costs of production; in economic terminology, disequilibrium between demand and supply.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Downstream industry         | An industry that is further down the supply chain compared to another industry. The downstream industry purchases goods and/or services from the other industry and uses those goods/services in its own production.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| Industry Value Added        | Industry Value Added (IVA) is the economic measure of the value of goods and services produced in an area, industry or sector of an economy. In the national accounts, IVA is output minus intermediate consumption (that is, the value of the goods and services used in producing the output).                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Intermediate production     | The production of intermediate goods, producer goods or semi-finished products that are used as inputs in the production of other goods.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Steel fabrication           | <p>Steel fabrication is a value added process that transforms finished steel products for a variety of end-uses. The processes used in steel fabrication include cutting, bending, machining and welding.</p> <p>Some of these processes are described in common industry usage as manufacturing rather than fabrication. For ease of reference, this report generally uses the term fabrication but the Commission notes that processes that may be described as manufacturing are included.</p> <p>Further, while this definition may be broader or narrower than is commonly used in some parts of the Australian industry, it aligns with classifications used by the Australian Bureau of Statistics for product data that forms the basis of this report. See section 2.3 for further information.</p> |
| Upstream industry           | An industry that is higher in the supply chain compared to another industry. The upstream industry sells goods and/or services to the other industry which uses those goods/services as an input to its own production.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

## Executive summary

In August 2016, the Anti-Dumping Commission reported on its analysis of global and Australian markets for primary (crude) steel and aluminium products. The Commission found evidence that sustained global excess capacity, an ongoing demand/production imbalance, and depressed world prices for these products were caused, to a large extent, by government interventions and trade restrictions that distort market behaviours and decision-making by producers.

Noting the adverse impacts of sustained global excess capacity on the financial performance of steel producers, and broader economic and social impacts of steel market distortions, the Organisation for Economic Development and Co-operation (OECD) and the G20 nations have advocated for government actions to address market distortions that underpin sustained global excess capacity.

Despite signs of a modest recovery in the global steel market over the past year, excess capacity and the demand/production imbalance for primary steel products continues (particularly in Asia). With governments seemingly continuing to prioritise economic growth and stability over policy actions to address excess steel production capacity, and investments in new steelmaking capacity continuing to occur, concerns remain about how quickly the demand/supply imbalance can be resolved.

The OECD has highlighted that ‘excess capacity in one region can displace production in other regions, thus harming producers in those markets’, including through ‘unfair trade practices such as dumping’.

Government action to address dumping and foreign subsidisation, consistent with WTO rules, is intended to create a level playing field for Australian industries with imports. Where there is evidence of dumping and foreign subsidisation, verified through a thorough investigation by the Anti-Dumping Commission, the imposition of anti-dumping and countervailing duties allows Australian industries to compete on their merits with imported products.

It is important to recognise that anti-dumping measures do not seek to stop imports or give an unfair competitive advantage to Australian producers. The objective of the system is only to create a level playing field by remedying the injury to Australian industry caused by dumping and foreign subsidisation, consistent with international agreements. Most developed country governments, and many developing country governments, have established anti-dumping systems to achieve similar objectives.

The Commission notes that in consultations with downstream industries affected by anti-dumping measures, there has been general support for a level playing field for both upstream and downstream businesses and for government action to address unfair trading practices.

Australia’s anti-dumping system provides a potential remedy to all industries that are suffering material injury caused by dumping or subsidisation. Nevertheless, consistent with global experience, most applicants for anti-dumping measures on steel products have been from Australian industries producing primary steel products, with relatively few applications in respect of steel manufactured and fabricated products. In Australia, there are currently two measures in place on steel fabricated products.

In this report, the Commission sets out its analysis of how continuing excess capacity and the ongoing demand/production imbalance in global primary steel markets can influence the economic performance of steel manufacturing and fabricating industries (henceforth referred to as steel fabrication). The Commission recognises that other factors—such as changes in economic activity in industries that demand steel fabricated products, technological changes, and changes in markets supplying substitute products—are also important drivers of the performance of these industries.

Australia’s steel fabrication industry is highly diverse, with a large number of businesses producing a wide variety of steel fabricated products that are used in a range of economically significant downstream industries. Three industries—the construction, manufacturing and mining industries—are the main consumers of steel fabricated products. Most steel fabrication businesses are small and

medium enterprises (SMEs). Around 94 per cent of market participants have fewer than 20 employees.

Performance within the industry has varied, reflecting the diversity of products and end uses across sectors. On the demand side, trends in the three main industries consuming steel fabricated products have been a key driver of performance in the various sectors of the steel fabrication industry.

On the supply side, continuing global excess capacity and overproduction of primary steel products can influence global and Australian steel fabrication industries in two main ways.

First, the ongoing demand/production imbalance of primary steel can flow through into steel fabrication markets and distort those markets. An imbalance in demand and production of steel fabricated products in some regions can lead to dumping of excess production into other markets. This will have adverse effects on steel fabrication industries competing with dumped imports—this is consistent with the OECD’s concern about the displacement effects of trade practices like dumping.

Over the past decade, there has been significant growth in Australia’s imports of selected steel fabricated products. Despite some decrease in 2016, they remain historically high compared to a decade earlier. More than 50 per cent of imports came from China and Thailand in 2016.

Second, the ongoing demand/production imbalance in primary steel markets can create distortions in markets for steel fabricated products as a result of responses by some exporters to trade remedies on primary steel products that are being dumped or subsidised. Specifically, trade remedies on primary steel products could, in some circumstances, result in the diversion of those products into downstream markets, where trade remedies are not in place to address dumping and foreign subsidisation.

While the Commission has found some indicative data that suggests such diversion might be occurring for some steel fabricated products imported into Australia, it is not possible to draw firm or generalisable conclusions. This reflects data limitations and, importantly, difficulties in separately identifying the various impacts of the range of supply and demand factors affecting markets for particular steel fabricated products.

Where Australian steel fabricators consider they are being materially injured by dumped and/or subsidised fabricated products imported into Australia, and have reasonable grounds for this view, the Commission can undertake a thorough and comprehensive investigation of the specific product markets relevant to the application.

Australian steel fabricators have identified some barriers to applying for dumping and countervailing duties, specifically the costs of accessing the system, difficulties in meeting the requirement for standing due to the fragmented nature of some segments of the industry, and difficulties in obtaining the required evidence. These difficulties are compounded by the large number of SMEs in the industry, which generally face greater challenges in interacting with the anti-dumping system than larger businesses.

Over recent years, the government and the Commission have implemented a number of actions to facilitate SME access to the anti-dumping system. These include more guidance on how the system works; greater transparency about investigation approaches; and a pre-lodgement advice service for potential applicants. In addition, the government has expanded the International Trade Remedies Advisory (ITRA) service which helps Australian SMEs access Australia’s anti-dumping system.

Stakeholders have proposed further options for improving SME access, including through expanding knowledge and awareness of the system, simplifying the system, and facilitating access to data.

The government has tasked the Department of Industry, Innovation and Science with undertaking a review of SME access to obtain a comprehensive understanding of the problems and potential solutions. The review involves close consultation across government and with industry stakeholders.

# 1 Introduction

## Key points

- Australia's steel fabrication industry is highly diverse, with a large number of businesses producing a wide range of steel fabricated products. Many of these businesses are small-medium in size.
- The purpose of this report is to increase understanding of the key characteristics of the industry, the factors driving demand for steel fabricated products, and the impacts of developments in global markets on the economic performance of the industry.
- The Commission's August 2016 report on steel and aluminium markets showed that ongoing excess capacity in the production of primary (crude and finished) steel products—underpinned by government interventions and market distortions—was one of the most significant challenges currently facing the global steel industry.
- This report considers how the performance of the downstream steel fabrication industry is affected by trade remedy measures on primary steel products and the ongoing demand/production imbalance for those products, and identifies a number of other factors driving the performance of the industry.
- The report finds there are barriers for steel fabrication businesses in accessing and participating in the trade remedies system and canvasses options for addressing these barriers.

Australia's steel fabrication industry is highly diverse—in the size and structure of businesses operating in the industry, in the range of steel fabricated products made by those businesses, and in the customers for their products.<sup>1</sup> This report aims to increase understanding of the key characteristics of the industry, the factors driving demand for steel fabricated products, and the impacts of developments in global markets on the economic performance of the industry.

In particular, the report sets out the Commission's findings on implications for Australia's steel fabrication industry of sustained excess capacity and demand/production imbalance in global steel markets and the consequent increase in trade remedies on primary (upstream) steel products. The report identifies potential barriers to accessing the anti-dumping system by businesses in the Australian steel fabrication industry, many of which are small-medium enterprises (SMEs), and canvasses suggestions for improving access to the system.

## 1.1 Background

In August 2016, the Commission completed its analysis of global and Australian markets for primary (crude) steel and aluminium products and presented its report to the Commissioner of the Anti-Dumping Commission. The Commissioner used the Commission's report in advising the then Minister for Industry, Innovation and Science, the Hon. Greg Hunt MP, and the Assistant Minister for Industry, Innovation and Science, the Hon. Craig Laundy MP, about the impact of global excess capacity and market distortions on the growth and viability of the Australian steel and aluminium sector, and implications for the effectiveness of Australia's anti-dumping system.

In preparing the report, and an earlier report provided to the then Minister for Industry, Innovation and Science, the Hon. Christopher Pyne MP, in April 2016, the Commission identified a number of

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<sup>1</sup> Some of the processes described in this report as fabrication are considered to be manufacturing in common industry usage. For ease of reference, and consistency with broad classifications used by the Australian Bureau of Statistics, this report generally uses the term fabrication but the Commission notes that processes that may be described by industry participants as manufacturing are included—see chapter 2 for a detailed definition.



operational improvements to increase the efficiency and effectiveness of the system, which it has been implementing.<sup>2</sup> While the full benefits of these operational improvements are yet to be realised, there is already evidence of significant operational efficiency gains.<sup>3</sup>

The Commission is also continuing to work with other government agencies, particularly the Department of Immigration and Border Protection (DIBP), to ensure an effective whole-of-government approach to implementing and monitoring trade remedies, including compliance.

The Commission's August 2016 report on steel and aluminium markets presented evidence that ongoing excess capacity was one of the most significant challenges currently facing the global steel industry. The large gap between global steelmaking capacity and demand has led to deterioration in the financial situation of steelmakers around the world, and raised concerns about the longer-term economic viability and efficiency of the industry. The Commission's conclusions were consistent with findings of the Organisation for Economic Development and Co-operation (OECD) and the G20 nations, which have established mechanisms to address excess capacity in the global steel industry (including a Global Forum on Steel Excess Capacity, formed in December 2016).<sup>4</sup>

In advocating government actions to address market distortions that underpin sustained global steel excess capacity, the OECD has highlighted that 'excess capacity in one region can displace production in other regions, thus harming producers in those markets', including through 'unfair trade practices such as dumping'.<sup>5</sup>

The World Trade Organization (WTO) has highlighted the sharp increase in new trade remedies investigations that occurred over the 12 months to October 2016, reaching its highest level since 2009.<sup>6</sup> For the seven months to mid-May 2017, there was a slight deceleration of the monthly average of initiations but WTO members continued to initiate more new trade remedy investigations than terminations of trade remedy actions.<sup>7</sup> Many of these investigations relate to primary steel products.

## 1.2 The Commission's purpose in preparing this market analysis

Trade remedy measures on primary steel products, coupled with the ongoing demand/production imbalance for those products, have the potential to affect the performance of the downstream steel fabrication industry.

The Commissioner of the Anti-Dumping Commission directed the Commission to prepare this report to provide evidence-based market intelligence and analysis to the Commissioner, the Australian

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<sup>2</sup> For more information about the operational improvements, see the Commission's website at [www.adcommission.gov.au/adsystem/referencematerial/Pages/default.aspx](http://www.adcommission.gov.au/adsystem/referencematerial/Pages/default.aspx) and the Commissioner's presentations to the International Trade Remedies Forum (ITRF), available at [www.adcommission.gov.au/adsystem/Pages/ITRF.aspx](http://www.adcommission.gov.au/adsystem/Pages/ITRF.aspx).

<sup>3</sup> See, for example, the presentations to the December 2016 and May 2017 ITRF meetings, available at [www.adcommission.gov.au/adsystem/Pages/ITRF.aspx](http://www.adcommission.gov.au/adsystem/Pages/ITRF.aspx).

<sup>4</sup> OECD, '82nd Session of the OECD Steel Committee—Chair's Statement', Statement by Ronald Lorentzen, Chairman of the OECD Steel Committee, 82nd Session of the OECD Steel Committee, Paris, 23-24 March 2017, [www.oecd.org/sti/ind/82-oecd-steel-chair-statement.htm](http://www.oecd.org/sti/ind/82-oecd-steel-chair-statement.htm); G20 Leaders' Declaration: Shaping an Interconnected World, Hamburg, Germany, 7-8 July 2017, [www.g20.org/Content/EN/Anlagen/G20/G20-leaders-declaration.pdf?blob=publicationFile&v=10](http://www.g20.org/Content/EN/Anlagen/G20/G20-leaders-declaration.pdf?blob=publicationFile&v=10).

<sup>5</sup> OECD, 'Excess capacity in the global steel industry: The current situation and ways forward', 2015, p. 4.

<sup>6</sup> WTO, 'WTO members exchange views on rise in anti-dumping actions', News item, 27 April 2017, [www.wto.org/english/news\\_e/news17\\_e/anti\\_10may17\\_e.htm](http://www.wto.org/english/news_e/news17_e/anti_10may17_e.htm); Trade Policy Review Body, *Overview of Developments in the International Trading Environment: Annual Report by the Director-General* (Mid-October 2015 to mid-October 2016), WT/TPR/OV/19, 21 November 2016, [www.wto.org/english/tratop\\_e/tpr\\_e/tpr\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tpr_e.htm).

<sup>7</sup> WTO, *Report to the TPRB from the Director-General on Trade-Related Developments* (Mid-October 2016 to mid-May 2017), WT/TPR/OV/W/11, 10 July 2017, [www.wto.org/english/news\\_e/news17\\_e/trdev\\_24jul17\\_e.htm](http://www.wto.org/english/news_e/news17_e/trdev_24jul17_e.htm).

industry and interested members of the Australian community on Australia's steel fabrication industry and how it is being impacted by the global developments outlined above.

A stronger understanding of the industry, the factors driving demand for steel fabricated products, and the impact of developments in global markets on the economic performance of the industry has several benefits:

- It will inform Commission investigations in relation to steel fabricated products, both in analysing the economic condition of the applicant Australian industry and in undertaking the injury and causation analysis.
- It will help to inform the Commission's injury and causation analysis in investigations in relation to primary steel products, where the steel fabrication industry is a major customer and source of demand for the product under investigation.
- As an industry with a high proportion of SMEs, it provides a valuable case study of the challenges for SMEs in accessing the anti-dumping system—as applicants for measures, as industry participants wishing to make submissions to investigations, and as importers seeking duty assessments and/or reviews of measures.
- It will contribute to informing the government's consideration of policy options for further strengthening and improving the efficiency of Australia's anti-dumping system.

Some of the evidence obtained during the course of this market analysis was provided to the SME access sub-committee of the ITRF as a contribution to the sub-committee's consideration of the challenges for, and barriers to, SMEs in accessing the anti-dumping system.

### 1.3 Government's policy context

Australia's trade remedies system operates within the context of the government's overall economic strategy to promote business growth, employment and global competitiveness. The government's National Innovation and Science Agenda supports the implementation of the government's objectives of transitioning businesses to areas of competitive advantage and facilitating innovation and growth.

This Agenda is implemented through a whole-of-government approach which ensures coordination of policies to achieve the government's objectives.

Industry policy has an important role in contributing to the Agenda by enabling growth and productivity for globally competitive industries through a range of policy actions.

The government's policy actions in support of trade liberalisation and more open global markets, such as through free trade agreements with Australia's trading partners, also play a key role in supporting the government's Agenda.

Australia's trade remedies system operates within the framework established by the WTO. This framework forms an integral element of a free and open global trading system. Most developed countries and many developing countries also operate trade remedies regimes.

It is important to recognise that anti-dumping measures do not seek to stop imports or give an unfair competitive advantage to Australian producers. Dumping and foreign government subsidisation of goods exported to Australia is not genuine competition and can distort markets and injure Australian manufacturers. A robust and effective anti-dumping system is an essential part of the government's commitment to free and fair trade.

The purpose of Australia's trade remedies system is to remedy material injury caused to Australian industries by dumped and subsidised imports and give Australian industries the opportunity to compete with imports on a level playing field. This does not mean that the system does, or should, have the effect of shielding Australian industries from vigorous competition. Strong competitive



pressures give industries incentives to continually improve their productivity performance and strive to best meet their customers' needs.

The system includes a number of checks and balances to ensure that trade remedies are limited to remedying the material injury caused by dumped and subsidised imports. These include ensuring that the Commission's operational policies and practices are consistent with the WTO framework.

## 1.4 Key findings

The Commission's analysis has found:

- Performance has varied across sectors within the industry, which reflects the diversity of the steel fabrication industry in terms of products and end uses.
- On the demand side, three industries—the construction, manufacturing and mining industries—are the main consumers of steel fabricated products, comprising almost 90 per cent of demand for these products. Trends in the economic performance of these industries affect the performance of steel fabrication businesses, noting that businesses producing specialised products may be more affected by specific factors within the broader market.
- On the supply side, continuing global excess capacity and the demand/production imbalance for primary steel products—underpinned by government interventions and market distortions—are impacting on the global and Australian steel fabrication industries. The demand/production imbalance for primary steel can flow through into the steel fabrication market and lead to imbalance in the steel fabrication industry. In addition, the primary steel demand/production imbalance may create distortions in markets for steel fabricated products as a result of responses by some exporters to trade remedies on primary steel products that are being dumped or subsidised.
- Australia's imports of selected steel fabricated products decreased in 2016, but were historically high compared to a decade earlier. The Commission found that imports of some steel fabricated products had increased following the imposition of measures on the primary steel input to their production (although data and analytical constraints meant that a causal link could not be established). More than 50 per cent of total steel fabricated imports came from China and Thailand.
- While Australia's anti-dumping system provides a potential remedy to all industries that are suffering material injury caused by dumping or subsidisation, most applicants for anti-dumping measures on steel products have been from Australian industries producing primary steel products, with relatively few applications in respect of steel fabricated products. In Australia, there are currently two measures in place on steel fabricated products.
- Some Australian steel fabricators have argued that the costs of accessing the system (such as legal expenses), difficulties in meeting the requirement for standing due to the fragmented nature of some segments of the industry, and difficulties in obtaining the required evidence create barriers to applying for duties. Others have identified similar factors, as well as a lack of awareness and understanding of the system, as barriers to participating in investigations and applying for duty assessments and annual reviews. These difficulties are compounded by the large number of SMEs in the industry, which generally face greater challenges in interacting with the anti-dumping system than larger businesses.

The challenges faced by SMEs in accessing the anti-dumping system—as applicants for measures, as industry participants wishing to make submissions to investigations, and as importers seeking duty assessments and/or reviews of measures—are well-known. The government and the Commission have implemented a number of actions to facilitate SME access to the anti-dumping system. Stakeholders have proposed further options for improving access—by further improving knowledge and awareness of the system, by simplifying the system and facilitating access to data, and by

addressing impacts on downstream industries, such as the steel fabrication industry. These options are discussed in chapter 7.

The government has tasked the Department of Industry, Innovation and Science with undertaking a review of SME access by the end of 2017 to obtain a comprehensive understanding of the problems and potential solutions. The review involves close consultation across government and with industry stakeholders.

## 1.5 Conduct of this market analysis

This analysis was led by the Commission's Anti-Dumping Information Service (ADIS), which was established within the Commission to provide targeted economic analysis of trends and trading behaviours across markets. ADIS analysis and market intelligence also strengthens the evidence base for the Commissioner's decisions and recommendations. The ADIS was assisted by other areas of the Commission in preparing this report.

In addition, the Commission has worked closely with other areas of the Department of Industry, Innovation and Science to draw on their economic, market analysis and policy expertise and knowledge of Australian and global steel industries and the Australian steel fabrication industry. The Commission used data on the steel fabrication industry collected by the Australian Bureau of Statistics (ABS) and information on trade flows obtained from DIBP. The limitations on the use of this data are discussed in the relevant chapters of this report.

In preparing this report, the Commission has consulted widely with industry, including industry associations. Noting the diversity of the industry and the relatively limited availability of detailed statistics on the various industry segments, the Commission considered it was important to hear directly from a wide range of businesses in the industry on their particular experiences and perspectives.

To this end, the Commission has prepared case studies to illustrate the diversity of businesses making steel fabricated products, the different factors affecting their economic performance, and views about the impact of dumping and/or anti-dumping measures on their businesses. The Commission greatly appreciates the willingness of the case study businesses to assist the Commission and recognises the time and effort involved for the representatives of these businesses.

Businesses that were willing to provide information for case studies were identified through: industry associations, the International Trade Remedies Advisory Service (ITRA), referrals from other businesses, and publicly available information. The Commission worked directly with representatives of these businesses to prepare the case studies. The views expressed by the case study participants reflects their experiences and the nature of their businesses; the views set out in the case studies may not necessarily be shared by the Commission or the Commissioner.

The Commission has also taken into account relevant information and views submitted by a range of interested parties in representations to the Minister, in submissions to the Commission and other areas of the Department, through the ITRF (including information presented to the SME access sub-committee by a number of SMEs), and submissions to the Senate Estimates Economic References Committee inquiry into the future of Australia's steel industry.

Information obtained during the course of the Commission's investigations and inquiries in respect of steel and steel fabricated products has also been taken into account where relevant to the Commission's analysis of the markets for steel fabricated products.

The Commission notes that forecasts in this report were based on circumstances and available information at the time of writing, which are subject to change. Significant changes in the outlook for global and Australian steel and steel fabrication industries may alter some of the conclusions drawn from the analysis.

## 2 The Australian steel manufacturing and fabricating industry

### Key points

- Australia's steel fabricating industry is a highly diverse industry involved in the manufacture of steel products for end-use applications in a range of economically significant downstream industries. Steel fabrication is a value-adding process that transforms finished steel into specific steel products through cutting, bending, machining, welding, and/or assembling.
- The steel supply chain encompasses crude iron and steel production, through production of generic finished steel products (like steel sections), which are then distributed to steel fabricators for transformation into specific products for a range of downstream industries including construction, mining, manufacturing and agriculture.
- Steel fabricated products range from relatively simple structural products, such as doors or windows, for use in construction to highly specialised steel fabricated sections for use in complex engineering or mining projects. Around 94 per cent of market participants are small enterprises with less than 20 employees. Larger vertically integrated firms, such as Liberty Steel and BlueScope, also participate in the market.
- The Commission has drawn on Australian Bureau of Statistics (ABS) data in preparing this report. Data limitations, in the context of the wide range of steel fabricated products, have created some difficulties in obtaining disaggregated statistical information; the Commission has therefore made use of a range of information sources to develop a good understanding of the industry.

This chapter describes the types of goods that fall within the definition of steel fabricated products used for preparing this report, explains the process of steel fabrication, and notes the wide variety of such goods. The chapter also describes the structure of the Australian steel industry and where steel fabrication fits within the supply chain. This chapter then explains the statistical definition of Australian steel fabricating used in this report with reference to classifications used by the Australian Bureau of Statistics (ABS), noting that common industry usage may differ from the definition used in this report.

### 2.1 What does steel fabrication comprise?

Fabricating a steel product is a value added process that transforms finished steel products for a variety of end uses. Fabrication is a process that may be used to transform a number of metal products—however, more than three quarters of the primary input by value in fabricated products is from steel.<sup>8</sup> The market analysis in this report is focussed on steel products.

A range of processes are used in steel fabricating, some of which may be described as manufacturing by some industry participants. These include:

- cutting—a steel section may be cut to size and shape prior to fabrication, depending upon the application required or to prepare for welding
- machining—removing material through processes such as turning, drilling or bevelling
- bending—a steel section may be 'bent' in order to curve it for a particular application
- welding—welding is the process of applying heat in order to manipulate and join together materials so that they then act together as a single piece

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<sup>8</sup> ABS National Accounts Input-Output tables

- other types of assembling other than welding, such as weaving of wire products
- coating and finishing—for example, galvanising (the process of applying a protective zinc coating to steel or iron to prevent rusting).

Steel fabrication processes or transforms generic finished steel products into a range of shapes and forms for end-use applications. In Australia around half of steel fabricated product demand is from the construction industry, with the remainder largely from manufacturing, mining, and agriculture (see chapter 3 of this report).

### 2.1.1 Examples of steel fabricated products

A diverse range of products may be categorised as steel fabricated products, reflecting the wide range of end-use applications for steel products. Steel fabricated products range in complexity from simple versatile steel shapes to highly customised steel sections for use in specific applications.

An example of a relatively simple and versatile steel fabrication product would be shapes such as steel window and door frames, gutters or roofing battens used in construction and civil engineering.

Steel fabrication can also create customised items for use in major projects, such as a steel plate section for the hull of a ship or submarine, or for precision engineered products, such as high pressure vessels or components for heavy equipment. These products will be designed for a specific end-use application, with the type of fabrication required identified as part of the design process, and then appropriate steel inputs will be transformed through welding, cutting and other machining processes.

#### Examples of steel fabrication businesses

A number of companies provided public letters of support to the Australian Steel Institute submission to the Senate Economics References Committee Inquiry into the *Future of Australia's Steel Industry*. These letters give an indication of the diversity of fabrication products in Australia.

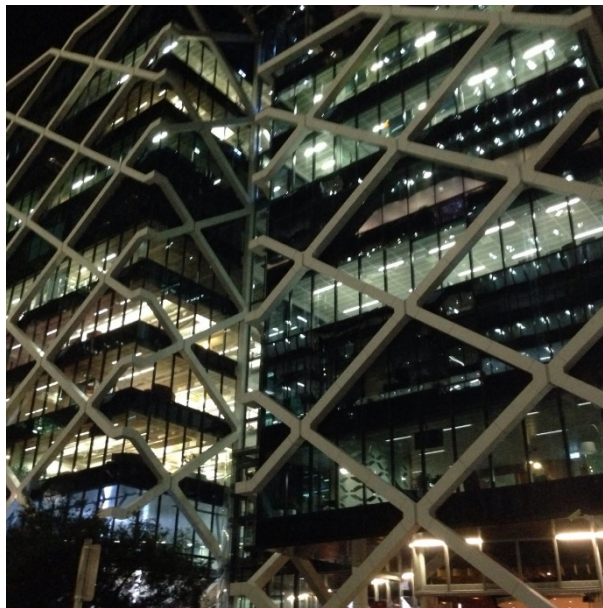
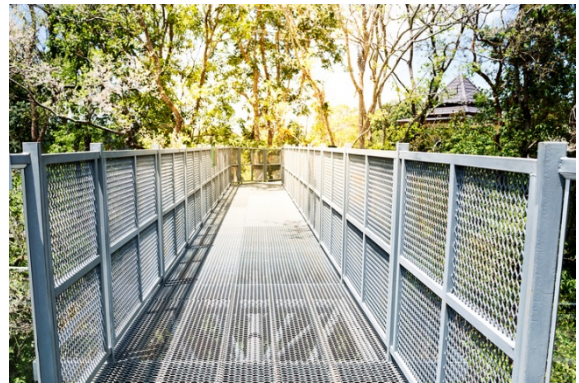
- “Our company, R&R Engineering (WA) Pty Ltd trading as Mentis Australia has been operating in Western Australia since 2000. We are a steel fabrication company specialising in the handrail and grating for mining (including Gold, Iron Ore, Coal, Gas, Oil, etc.), petrochemical, power generation, construction, agriculture, paper, food processing and steel fabricators and merchants.”
- “My company, Aardvark Steel Constructions P/L undertakes fabrication and installation of structural steel work for builders in NSW. We are currently completing work on Barangaroo and Darling Harbour Live.”
- “Our company, CDE Structures Pty Ltd, operate in the Construction, Mining, Oil & Gas and general fabrication sectors. We are a regionally based design and fabrication company founded in 2000. We have grown and changed over the years, and have continually invested in the latest modelling and information management software in an attempt to give us an edge over our overseas competitors.”
- “Our company, Protective Fencing Pty Ltd operate in the steel fabrication and steel wire mesh manufacturing market. We are a regional NSW manufacturer of High Security perimeter fencing and safety mesh products.”

*Source:* Public Letters of Support to the Australian Steel Institute submission to the Senate Economics References Committee Inquiry, *Future of Australia's Steel Industry*, February 2016.



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Figure 2.3: Examples of steel fabricated products



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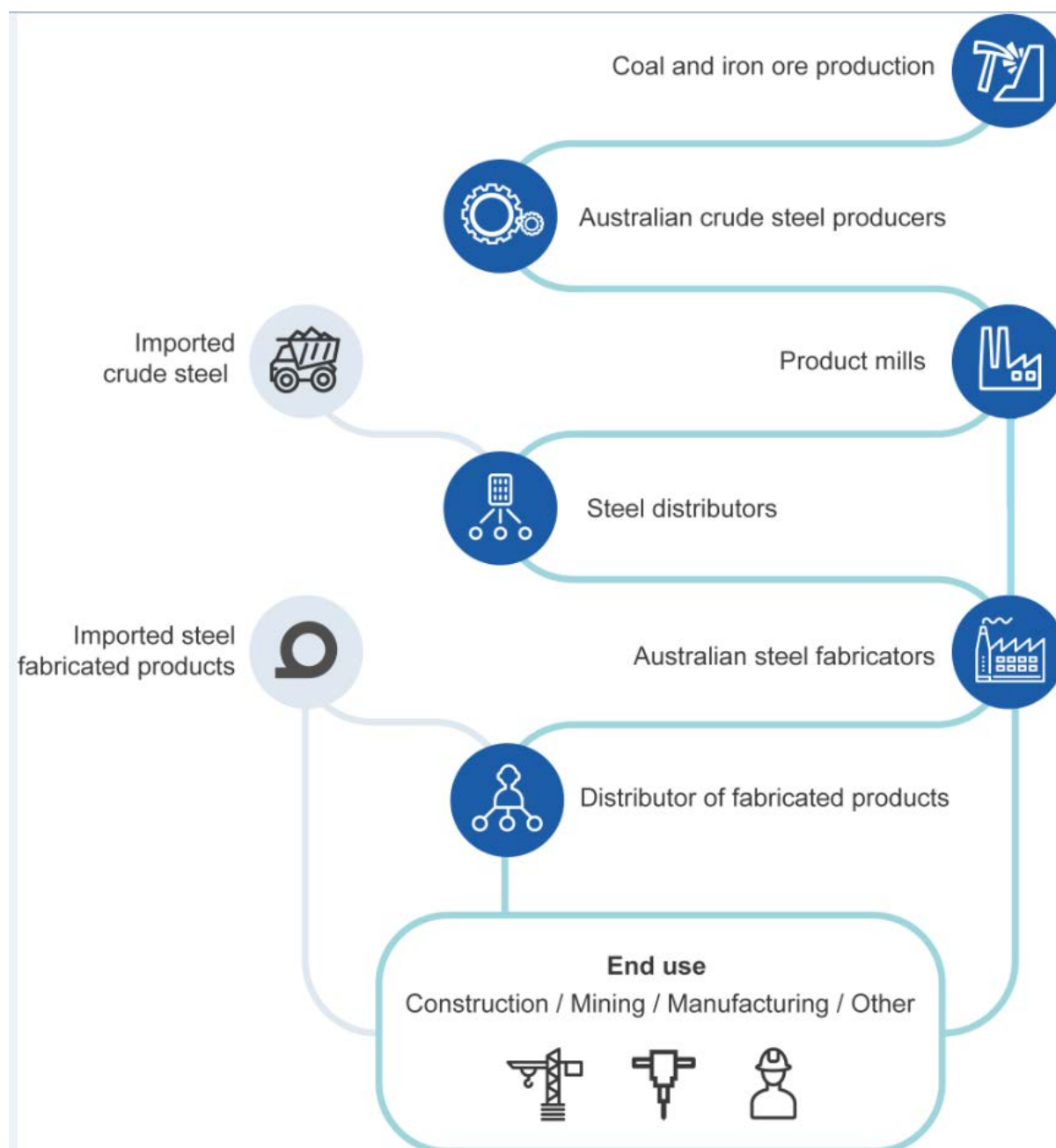
Note: Heavy duty steel grating; wire steel fence; steel pedestrian bridge; grain silo; external structural steel building frame

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## 2.2 Supply chain for steel fabricated products

A simplified diagram of the supply chain relating to the Australian steel fabrication industry is shown below.

Figure 2.4: Supply chain for crude steel and steel fabricated products in Australia



Source: Anti-Dumping Commission, using multiple sources

This supply chain demonstrates that the steel industry produces products following a process that starts with crude iron and steel production, to product mills, which produce the finished steel inputs used by steel fabricators to supply products that are demanded by a range of downstream end-use industries. For simplicity, the diagram does not show that some crude steel used by end-use industries is not fabricated as defined for the purposes of this report (for example, some steel is cast or forged for end use).



### 2.2.1 Production of crude steel and finished products

The Australian supply chain starts with either iron ore shipped from Western Australia and South Australia and combined with coal and limestone to produce crude steel in the form of semi-finished products or recycled scrap steel. The semi-finished products are sent to product mills to be turned into finished products: generic flat products (plate, hot rolled coiled); long products (such as rebar, wire rod, structural sections and rails); and ERW (Electric Resistance Welded) tubes.

There are two major domestic crude steel producers in Australia—BlueScope Steel and Liberty Steel.<sup>9</sup> A third crude steel producer, Moly-Cop, produces mainly speciality steel products for the mining industry. BlueScope and Liberty Steel are vertically integrated, with subsidiary businesses functioning throughout the supply chain. Liberty OneSteel operates steel making and product mills in Whyalla, Laverton, Sydney, and Newcastle, and BlueScope operates steel making and product mills in Port Kembla. The volume of Australian crude steel production has fallen in recent years, to approximately 5 million tonnes in 2015-16 according to the Office of the Chief Economist.<sup>10</sup>

In addition to the domestic crude steel producers BlueScope and Liberty Steel, imports are a significant source of steel product inputs that either compete directly with Australian producers or supplement their supply as Australian producers do not produce all types of steel demanded by the Australian market.

### 2.2.2 Distribution channels

The Australian steel producers and steel importers (steel trading houses that import steel products) supply the downstream steel fabrication market through distribution channels. Distributors maintain stocks of steel inputs and deliver products to fabrication businesses across Australia. Some distributors also do some preliminary manufacturing and/or fabricating, such as cutting or drilling, before selling the products to steel fabricators for further processing.

BlueScope and Liberty Steel have subsidiary distribution operations. For example, BlueScope distributes steel products through BlueScope Distribution supplying to fabricators through numerous branches Australia-wide, as well as subsidiaries such as Orrcon Steel. Liberty Steel distributes to steel fabricators through its OneSteel Metal Centre and reinforcing businesses OneSteel Reinforcing and ARC. In addition to BlueScope and Liberty Steel, there are a number of non-related distributors supplying steel product inputs to downstream steel fabricators and to end users. The Ai Group has estimated that the Australian steel industry comprises a network of more than 160 distribution and warehousing facilities.<sup>11</sup>

### 2.2.3 Australian steel fabricators

As discussed in section 2.1 above, Australian steel fabricators use steel product inputs to produce fabricated steel products through processes such as cutting, bending, machining, and welding. The Australian steel fabrication industry is characterised by a diverse range of fabricators operating across a number of markets. The industry has a total market output of approximately 1.6 million tonnes per annum, with the medium and larger fabricators processing approximately 1.1 million tonnes per annum (excluding reinforcing products and wire products).<sup>12</sup> While the large vertically integrated businesses (BlueScope and Liberty Steel) have downstream businesses (for example, BlueScope

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<sup>9</sup> On 1 September 2017, the GFC Alliance acquired the Arrium Group. The Arrium Group is now the Liberty Steel Group and OneSteel is now Liberty OneSteel, a division of Liberty Steel; see [www.libertyonesteel.com/announcement/](http://www.libertyonesteel.com/announcement/).

<sup>10</sup> Department of Industry, Innovation and Science—Office of the Chief Economist, *Resources and Energy Quarterly*, June 2017, [www.industry.gov.au/Office-of-the-Chief-Economist/Publications/ResourcesandEnergyQuarterlyJune2017/documents/Resources-and-Energy-Quarterly-June-2017.pdf](http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/ResourcesandEnergyQuarterlyJune2017/documents/Resources-and-Energy-Quarterly-June-2017.pdf).

<sup>11</sup> Ai Group, *Submission to the Senate Estimates References Committee Inquiry into the Future of Australia's Steel Industry*, Submission 10, February 2016, p. 11.

<sup>12</sup> ASI website, [steel.org.au](http://steel.org.au)

Buildings, Lysaght and OneSteel Metalcentre) that engage in some activities that are classified by the ABS as steel fabricating<sup>13</sup> (see section 2.3 of this report), it is estimated that approximately 94 per cent of Australian steel fabricating businesses have fewer than 20 employees.<sup>14</sup>

Steel fabricators supply to a range of downstream industries (discussed in detail in chapter 3 of this report). For some downstream applications, steel fabricators may face competition from other non-steel product alternatives.

Steel fabricated products may be transported to end-use industries via road, rail or local sea transportation. Depending on the end use, Australian steel fabricators may offer a range of additional related products and services. These include: project management and design of steel fabricated components including using computer aided design and 3D modelling, assembly and installation of steel fabricated components on-site, and painting or finishing or other value adding to a steel fabricated product.

## 2.3 Defining the market—data considerations

The overview of the supply chain given above describes the total steel supply chain from iron and steel production through to end use. Unless otherwise indicated, this report focuses on the Australian manufacturing industry sectors that make fabricated steel products, that is, products made from finished steel materials that have undergone a fabricating process involving cutting, bending, machining and/or welding.

Table 2.1: Steel manufacturing/fabricating industry market definition

| Included                                                                                                             | Excluded                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Products that have undergone a fabrication process involving cutting, bending, machining, welding, and/or assembling | <ul style="list-style-type: none"> <li>Crude, semi-finished and finished products</li> <li>Steel products that have undergone a manufacturing process involving casting or forging (not processes defined as fabrication)</li> <li>End-use industries for steel fabricated goods, such as construction or mining</li> </ul> |
| Products that have steel as a major input                                                                            | <ul style="list-style-type: none"> <li>Products with different primary metal inputs, such as aluminium, copper, tin and nickel</li> </ul>                                                                                                                                                                                   |

The Commission has drawn primarily on ABS data for statistical information about the industry. As noted in this chapter, steel fabricated products come in a range of forms. This diversity means that there are limitations on the amount of disaggregated statistical information that is available on the full range of steel fabricated products. The Commission has therefore made use of a range of information sources to develop a good understanding of the industry. In particular, the Commission

<sup>13</sup> BlueScope Buildings offers a design, manufacture and construction service for a range of custom engineered steel buildings, such as factories, bulk warehouses and stores ([prod.bluescope.com/about-us/our-business/bluescope-buildings/](http://prod.bluescope.com/about-us/our-business/bluescope-buildings/)). Through Lysaght, BlueScope produces guttering, fascias and other rainwater products ([www.lysaght.com/product-applications/guttering-fascia-rainwater-goods](http://www.lysaght.com/product-applications/guttering-fascia-rainwater-goods)), fencing products ([www.lysaght.com/product-applications/fencing](http://www.lysaght.com/product-applications/fencing)) and sheds and garages ([www.ranbuild.com.au/](http://www.ranbuild.com.au/)). OneSteel Metalcentre offers ‘a range of processing services including straight, pack, bevel and mitre cutting; bending; folding; drilling; notching; punching; shearing; cropping; de-burring and stripping’; and coating (galvanising, powder coating or painting) services. It also supplies roofing, rainwater and guttering products and fencing and other rural products. See [www.onesteelmetalcentre.com/industries/fabrication](http://www.onesteelmetalcentre.com/industries/fabrication).

<sup>14</sup> ABS, Catalogue 8165, Counts of Australian Businesses, released February 2017. Calculated for the ANZSIC classes defined as fabricated steel manufacturing in this report.

has collected case study information to supplement the available statistical information and provide a more detailed view of the experiences of selected businesses.

The ABS data uses industry definitions drawn from the Australian and New Zealand Standard Industrial Classification (ANZSIC) groups and classes or Australian Harmonized Export Commodity Classification (AHECC) groups.

For the purposes of this report, the Commission has used data for the following ANZSIC classes within the “fabricated metal product manufacturing” subdivision:

- Structural Steel Fabricating (2221)
- Prefabricated Metal Building Manufacturing (2222)
- Metal Roof and Guttering Manufacturing (except Aluminium) (2224)
- Other Structural Metal Product Manufacturing (2229)
- Boiler, Tank and Other Heavy Gauge Metal Container Manufacturing (2231)
- Other Metal Container Manufacturing (2239)
- Sheet Metal Product Manufacturing (except Metal Structural and Container Products) (2240)
- Spring and Wire Product Manufacturing (2291)
- Other Fabricated Metal Product Manufacturing n.e.c. (2299)

These categories represent the Commission’s best estimate of those ANZSIC classes that include steel fabricated products. However, as the subdivision covers ‘fabricated metal’, some categories include both steel and other metal products. For example, the category ‘prefabricated metal building manufacturing’ (2222) includes ‘prefabricated metal or metal framed buildings (excl aluminium) and other transportable buildings’ (22220010) and ‘aluminium or aluminium framed prefabricated buildings’ (22220020).

Note also that ANZSIC class 2293 ‘metal coating and finishing’ is excluded as units engaged in this class are generally subcontractors for fabricators (that is, they provide a service, rather than manufacture a product).

The Commission recognises that the definition of what constitutes a steel fabricated product can vary. For consistency with the available data produced by the ABS, the Commission has adopted the definition of steel fabricating used by the ABS. This may result in a broader or narrower definition of steel fabricated products than is commonly used in some parts of the Australian industry. Due to data limitations, some products that are not fabricated could potentially be captured in the data, despite the Commission’s efforts to exclude such products to the extent possible given those limitations.

### 3 Demand for steel fabricated products

#### Key points

- Three industries—the construction, manufacturing and mining industries—are the main consumers of steel fabricated products, comprising almost 90 per cent of demand for these products.
- These industries demand a wide variety of steel fabricated products for a diverse range of uses. The performance of the steel fabrication industry as a whole, and of the diverse sectors within the industry, are driven, in large part, by changes in demand from these industries.
- The largest consumer of steel fabricated products is the construction industry, which accounts for half of total demand for these products in Australia. Strong growth in building construction, particularly residential construction, has led to strong demand for steel fabricated products used in construction and demand is expected to remain strong in the near future. In contrast, demand for steel fabricated products used in engineering construction (typically for infrastructure) has fallen since the end of the investment phase of the mining boom, despite some offset from a significant increase in investment in transport infrastructure.
- The manufacturing industry is the second largest consumer of steel fabricated products. This industry's share of GDP has declined over an extended period, resulting in lower overall demand for steel fabricated products used in the manufacturing industry.
- In the mining industry, which is the third largest consumer of steel fabricated products, demand increased significantly during the investment phase of the mining boom and has fallen significantly since the end of this phase in 2012. Capital expenditure in the industry has fallen back to close to its long-term average, with the prospect of further decline in the near term.
- While these overall trends in the three largest consumers of steel fabricated products are important drivers of demand for these products, certain sectors of the steel fabrication industry produce specialised products that have more specific demand drivers. This chapter includes a detailed description of selected sectors of the steel fabrication industry to give a fuller picture of the diversity of the industry and its demand drivers.
- Australia's exports of selected steel fabricated products reached a ten year high of \$288 million in 2016. Exports are concentrated in two major products groups—structures and parts of structures, and metal fasteners. Indonesia and New Zealand are the major export markets for these products.
- Import penetration varies across the steel fabricated industry. While the market share of imports is high in some sectors, other sectors have some degree of natural import protection because their products are bulky and expensive to transport or have customised design requirements.

This chapter identifies the main sources of demand for steel fabricated products and describes trends in demand from the three main industries that use steel fabricated products. Changes in demand in these industries will affect different sectors of the steel fabricated industry differently, depending on the products made by the various sectors (which, as noted in chapter 2, are diverse) and which industry or parts of an industry are the main users of those products.

Section 3.1 of this chapter discusses trends in demand in the Australian construction, manufacturing and mining industries. Section 3.2 briefly discusses demand from export markets for Australian steel fabricated products. Section 3.3 provides more detailed information about trends in demand and performance of selected sectors of the steel fabrication industry, highlighting the diversity of the industry and the demand drivers of its performance.

The forecasts in this chapter were based on circumstances and available information at the time of writing this report, which are subject to change.

### 3.1 Drivers of demand for steel fabricated products

#### 3.1.1 Trends in demand for steel fabricated products in Australia

In Australia, about 88 per cent of steel fabricated products are purchased by three industries. These are:

- construction (50.3 per cent)
- manufacturing (20.5 per cent)
- mining (17.2 per cent).

Combined, these industries purchased \$11.6 billion of steel fabricated products in 2013-14. Table 3.1 presents more information on the three major consumers of steel products. The consumption of fabricated steel across the construction, manufacturing and mining industries are interrelated—growth in construction activity requires more fabricated steel and manufactured goods, which require more mined materials, and more mining production requires more construction. Mining-related construction can be up to half of engineering construction value.

Table 3.1: Top three industries purchasing steel manufactured/fabricated products by value, 2013–14

| Industry                             | Steel manufactured/fabricated supply (\$ millions) | Share of steel input (per cent) | Import supply (\$ millions) | Import share of supply (per cent) |
|--------------------------------------|----------------------------------------------------|---------------------------------|-----------------------------|-----------------------------------|
| Construction                         | 6,637                                              | 50.2                            | 1,742                       | 30.9                              |
| Manufacturing                        | 2,699                                              | 20.5                            | 540                         | 35.0                              |
| Mining                               | 2,273                                              | 17.2                            | 608                         | 52.8                              |
| <b>Top three industries by value</b> | <b>11,609</b>                                      | <b>88.0</b>                     | <b>5,937.4</b>              | <b>33.9</b>                       |

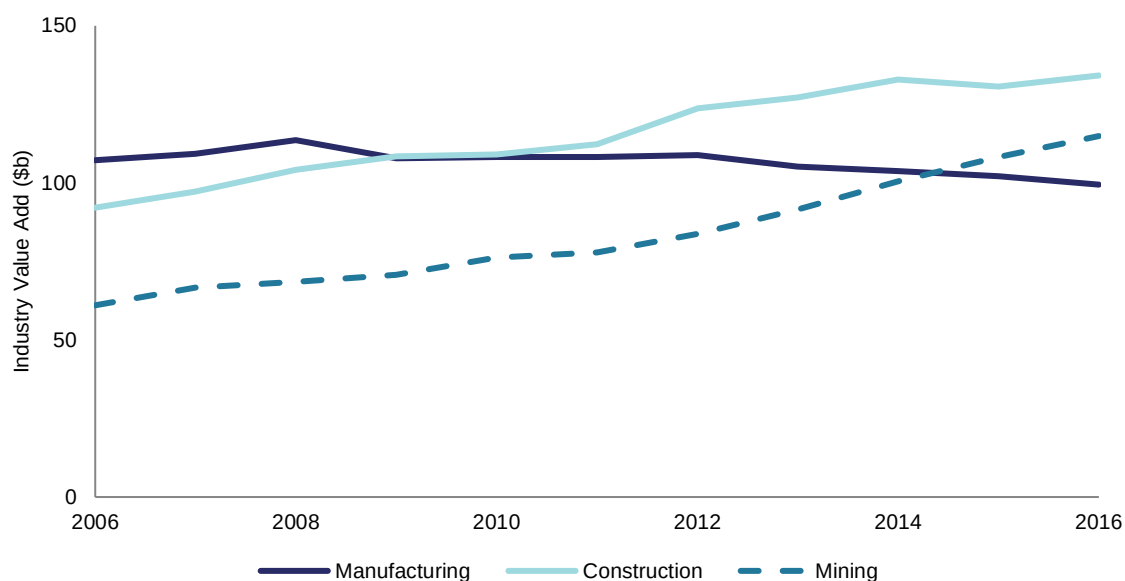
Notes: Industries that have the highest demand, by value, for steel manufactured/fabricated products.

Source: ABS, Australian National Accounts: Input-Output Tables, 2013-14 cat. no. 5209.0.55.001.

As fabricated steel is an intermediate product, the economic performance of the construction, manufacturing and mining industries largely drives the performance of the steel fabrication industry. Figures 3.1 and 3.2 illustrate how these three sectors have changed over time in terms of output and employment. Over the past decade, output in both mining and construction has increased, but manufacturing output has declined as part of a long term trend. Construction employment continues to rise but mining is beginning to level out after six years of particularly strong growth in the 2000s.



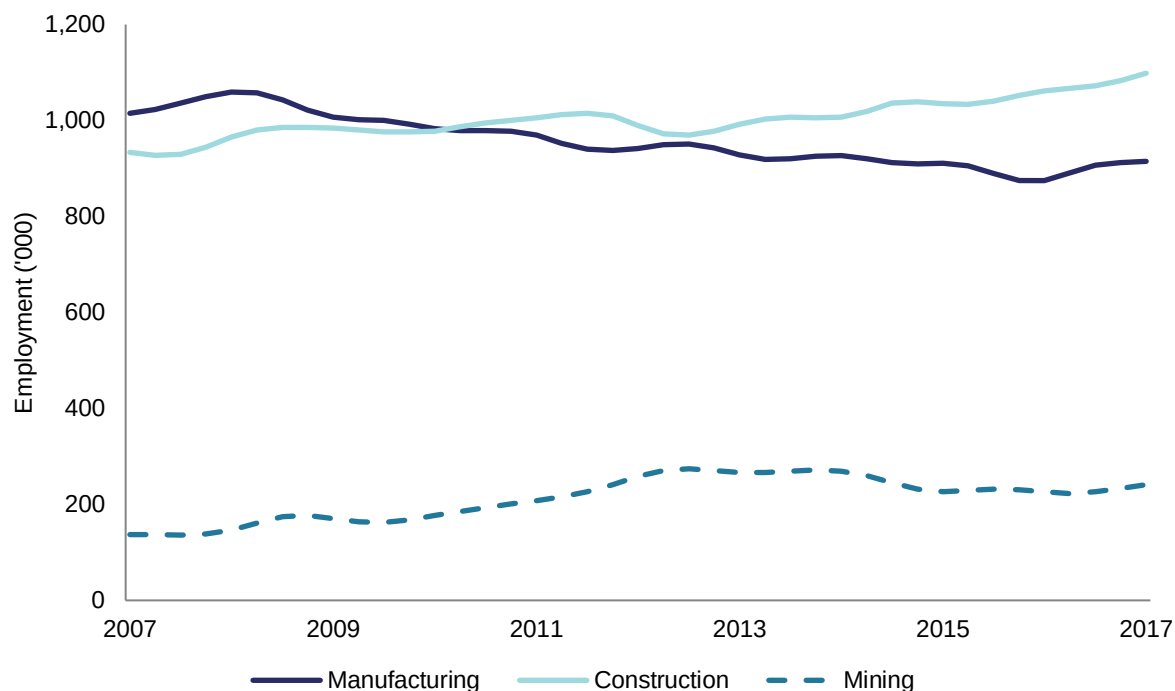
Figure 3.1: Industry Value Added for top three industries purchasing steel manufactured/fabricated products, by value, 2005-06 to 2015-16



Notes: Chain volume measures.

Sources: ABS, Australian System of National Accounts, 2015-16, cat. no. 5204.0.

Figure 3.2: Employment for the top three industries purchasing steel manufactured/fabricated products, February 2007 to February 2017



Note: Trend data.

Source: ABS, Labour Force, Australia, Detailed, Quarterly, February 2017, cat. no. 6291.0.55.003.

### 3.1.2 Demand from construction

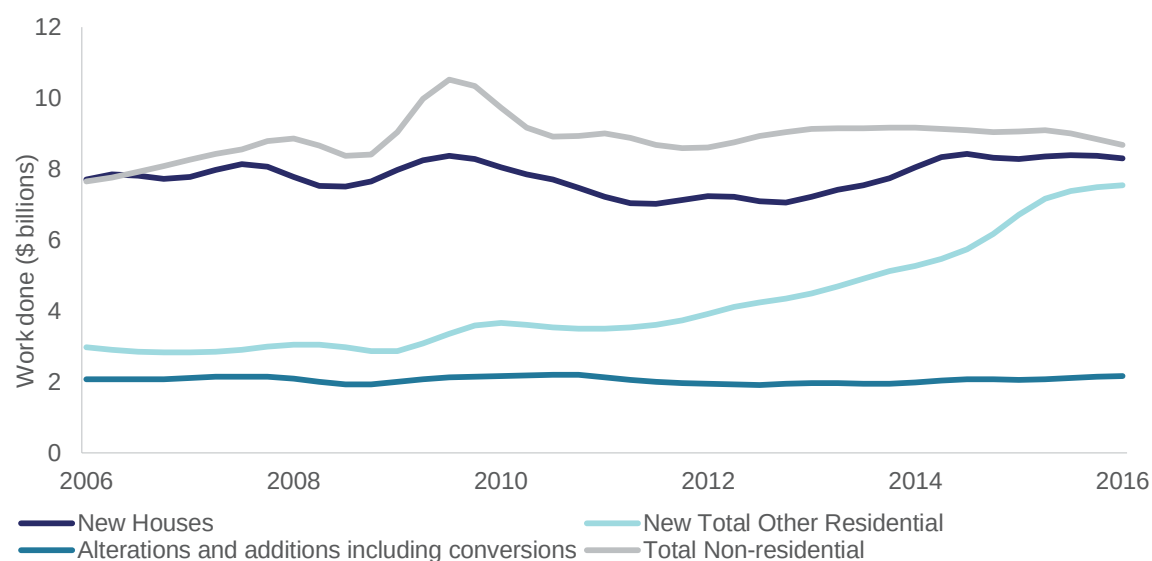
Over half of all steel fabricated supply goes to the construction industry. Developments in this industry are an important driver of demand for steel fabricated products and of the performance of steel

fabricators. Over the last ten years, the construction Industry Value Add has grown at 3.8 per cent per year and employment in the industry has grown from around 933,100 persons to nearly 1,098,500 (based on ABS data). It is now the largest industry in the economy.

### Building construction

Since 2006, all sectors of building construction have increased in chain volume measure terms (see Figure 3.3). New houses and alterations to existing property have slightly increased (by \$0.7 billion over the ten years) but the biggest increase was in total non-residential construction (\$4.6 billion). Total other residential building construction (unit development) has also been strong (\$1.0 billion increase) and 88.8 per cent of unit approvals (89.9 per cent by value) has been in capital cities.

Figure 3.3: Value of Building Work Done by sector, December 2006 to December 2016



Note: Chain volume measures; trend data.

Source: ABS, Building Activity, Australia, Dec 2016, cat. no. 8752.0, tables 1 & 3.

Future demand for steel fabricated products from building construction sectors are expected to remain strong. There is a record amount of outstanding work to complete, the majority of which is in residential construction (see Figure 3.4). Based on ABS collected data, it has been estimated that there is \$82 billion worth of work in the pipeline. Near term, the demand for steel and its transformative products is expected to increase.

Figure 3.4: Value of Building work yet to be done, December 2006 to December 2016



Note: Chain volume measures; trend data.

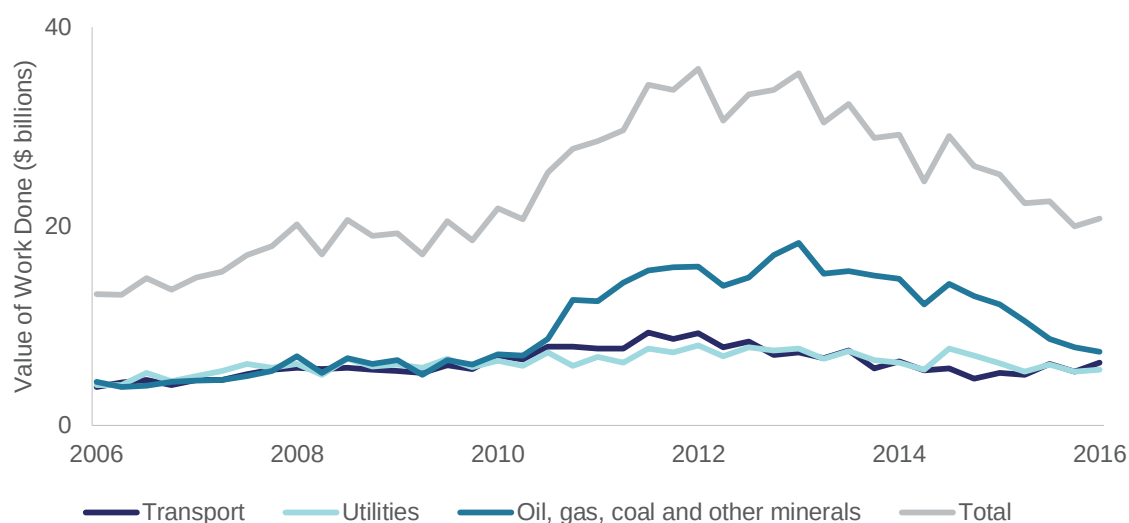
Source: ABS, Building Activity, Australia, Dec 2016, cat. no. 8752.0, table 78.

### Engineering construction

Engineering construction activity is, to a large extent, driven by investment by the mining and infrastructure industries and government. The increase and subsequent decrease in total engineering construction work has been primarily driven by the mining industry. From 2006 to 2011, engineering construction increased about 10 per cent per annum. During the final years of the mining investment phase, growth in investment was three to four times this. Since 2012 (and post the commodities boom), mining construction has fallen, with total engineering construction following this downward trend.

The transport sector also received a boost from the mining investment phase and has fallen since. Investment in railways at its peak at the end of 2012 was more than double its pre- and post-boom levels. Investment in harbours has fallen even more, with investment down almost 90 per cent since its peak at the end of 2012.

Figure 3.5: Value of Engineering Construction by sector, December 2006 to December 2016

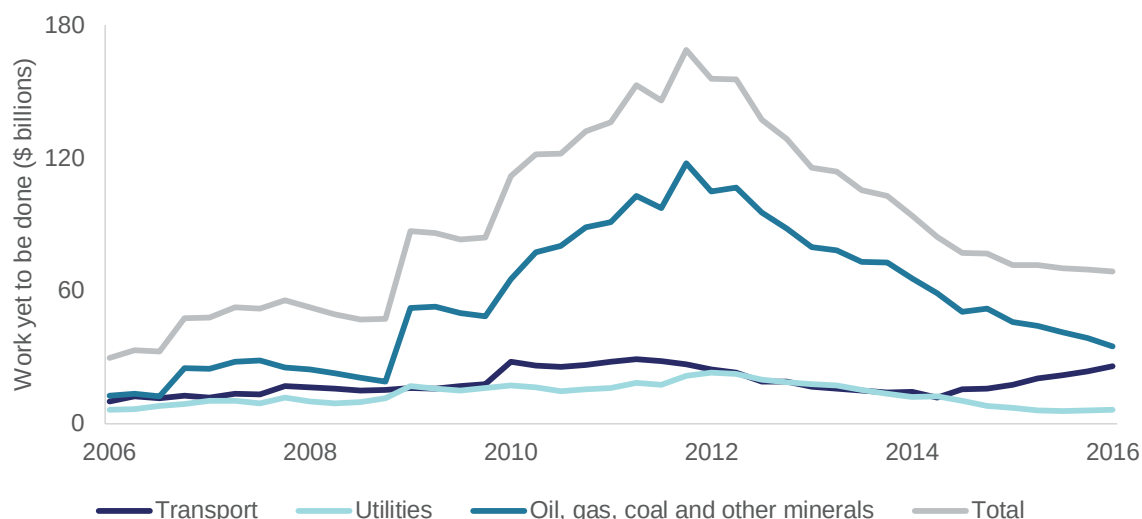


Note: Original data.

Source: ABS, Engineering Construction Activity, Australia, Dec 2016, cat. no. 8762.0, table 6.

The value of engineering construction work yet to be done has fallen significantly, now sitting at less than half its value in 2012. With mining investment continuing to decrease, there is potential for this to drop further in the coming years. The only growth area is in future transport construction. This has been driven by investment in roads, highways and subdivisions and to a lesser extent railway construction. These two sectors are offsetting the drag that future construction in harbors is having in the transport sector. In 2013, future construction in roads and harbours was the same at \$9 billion; at end December 2016, future road construction had increased to \$18.8 billion while future harbour construction was expected to fall significantly to \$0.8 billion.

Figure 3.6: Value of Engineering Construction work yet to be done, December 2006 to December 2016

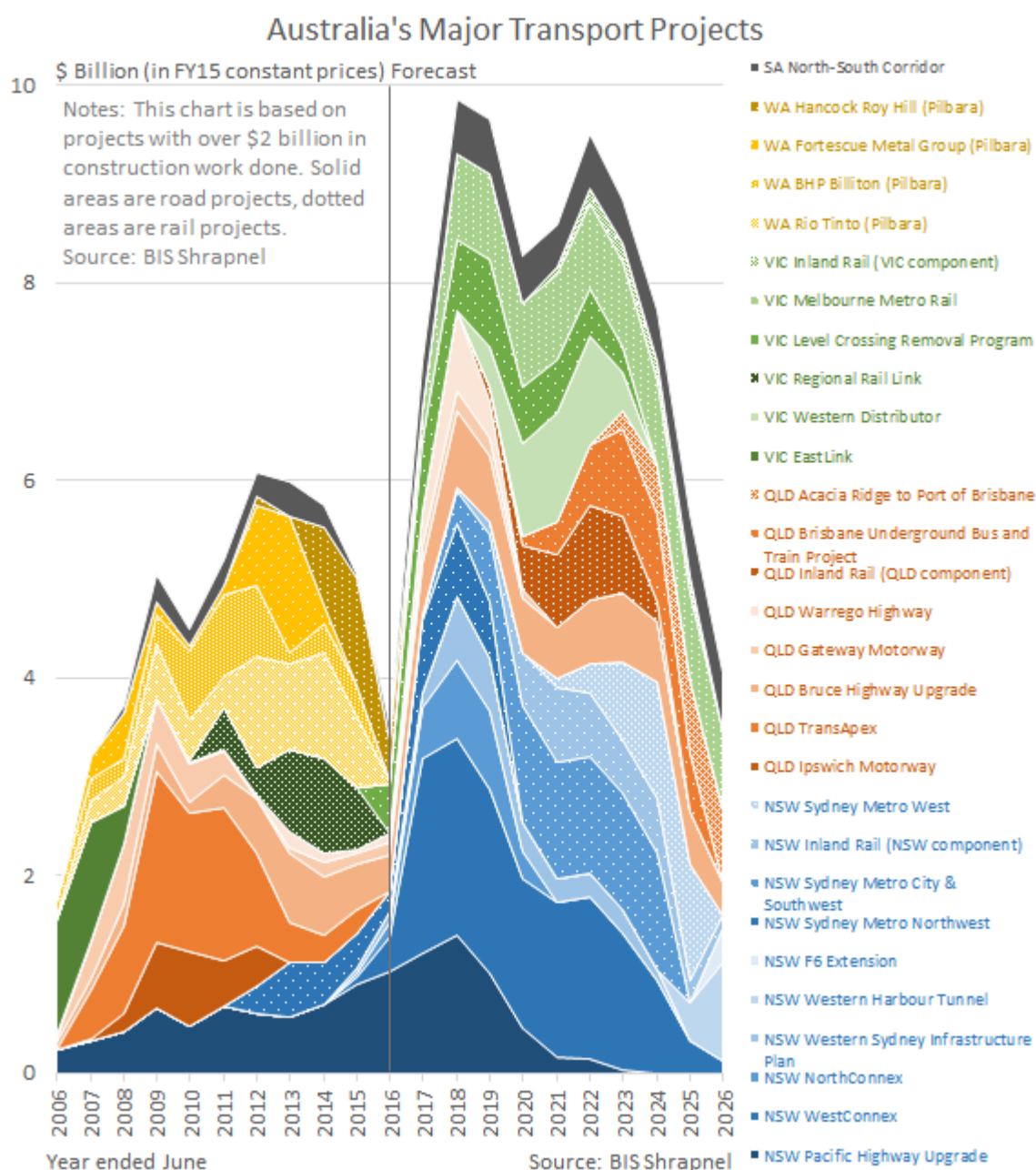


Note: Original data.

Source: ABS, Engineering Construction Activity, Australia, Dec 2016, cat. no. 8762.0, table 6.

A private forecaster BIS Oxford Economics has similarly forecast strong transport construction, particularly for road and rail projects. Details of the major projects are shown in Figure 3.7.

Figure 3.7: Major transport projects, forecasts for decade to 2026, as at February 2017



Source: BIS Oxford Economics, 'Major Transport Projects – Wave, Tsunami or Higher Tide?', Blog post by Adrian Hart with contributions from Ronal Kumar, 23 February 2017, [www2.bis.com.au/im-major-transport-projects-feb17.html](http://www2.bis.com.au/im-major-transport-projects-feb17.html).

### 3.1.3 Demand from manufacturing

The manufacturing industry is the second largest user of steel fabricated products. It uses steel fabricated goods for a variety of purposes, including in manufacturing processes (such as a grain silo) or as direct inputs to products (such as the springs in furniture).

The manufacturing industry share of GDP has declined over an extended period although recent data is mixed. In terms of employment, in the 12 months to February 2017, the manufacturing industry has added 39,900 employees (7.4 per cent). Many of the areas that grew use steel fabricated goods.

Other metrics are not showing the same improvement. Gross value added for the industry decreased over 23 consecutive quarters since September 2011, with the decline accelerating in the past year. The Producer Price Index shows both input and output prices largely static since 2011. The Business

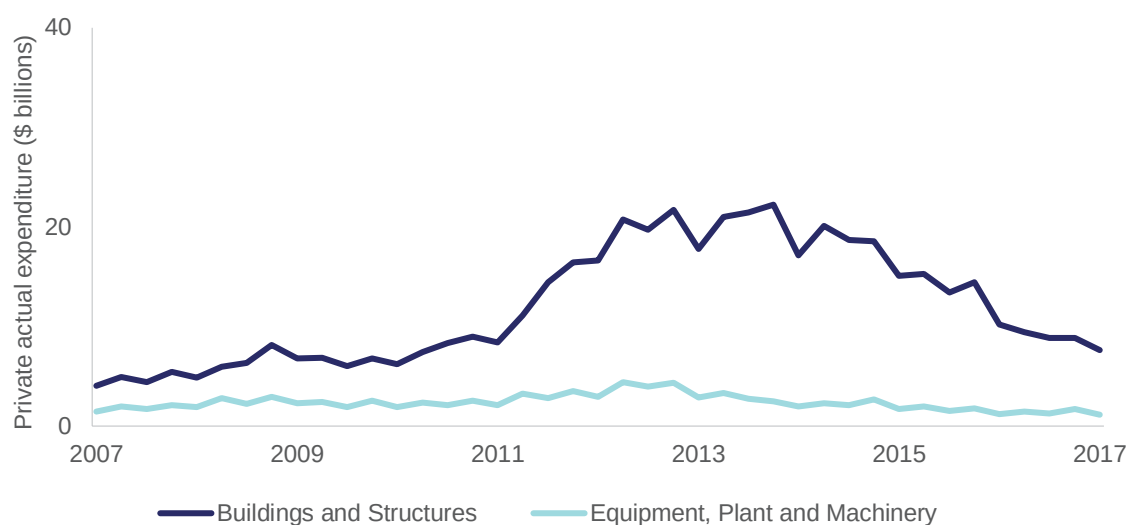
Indicators index also shows a decrease in the manufacturing industry. In chain volume measure, inventories, sales and profits have been in long term decline.

### 3.1.4 Demand from mining

The mining industry is the third largest purchaser of steel fabricated products.

The mining investment phase increased the number and size of mines in Australia. Figure 3.8 shows the majority of private expenditure in mining was on building and structures from 2011 to 2016. Expenditure on equipment, plant and machinery in contrast is much lower and has been relatively constant. Total private expenditure is expected to continue to decline and is now not far above its long term average.

Figure 3.8: Private actual expenditure in Mining, March 2007 to March 2017



Note: Original data.

Source: ABS, Private New Capital Expenditure and Expected Expenditure, Australia, Mar 2017, cat. no. 5625.0, table 1A.

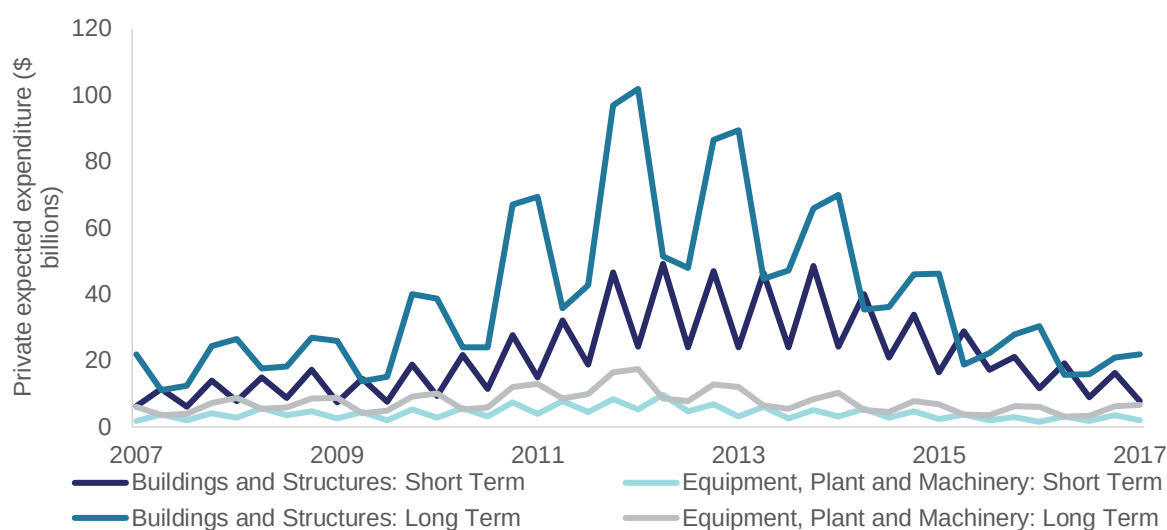
Real investment in Australia's mining industry edged down by 2.3 per cent in the June quarter 2017, as a result of a drop in investment in buildings and structures. Plant and machinery investment rose marginally, but remains a relatively small share (15 per cent) of total investment.<sup>15</sup>

Expected short and long-term capital expenditure in mining has fallen back to 2006 levels (see Figure 3.9). Short-term building and structures expenditure increased rapidly from 2009 to 2012. It is consistently the highest source of expenditure in the mining industry. Long term expenditure also increased but peaked slightly later than short term investment.

<sup>15</sup> Department of Industry, Innovation and Science—Office of the Chief Economist, *Resources and Energy Quarterly*, September 2017, p. 12, [www.industry.gov.au/Office-of-the-Chief-Economist/Publications/ResourcesandEnergyQuarterlySeptember2017/documents/Resources-and-Energy-Quarterly-September-2017.pdf](http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/ResourcesandEnergyQuarterlySeptember2017/documents/Resources-and-Energy-Quarterly-September-2017.pdf).



Figure 3.9: Private expected expenditure in Mining, March 2007 to March 2017



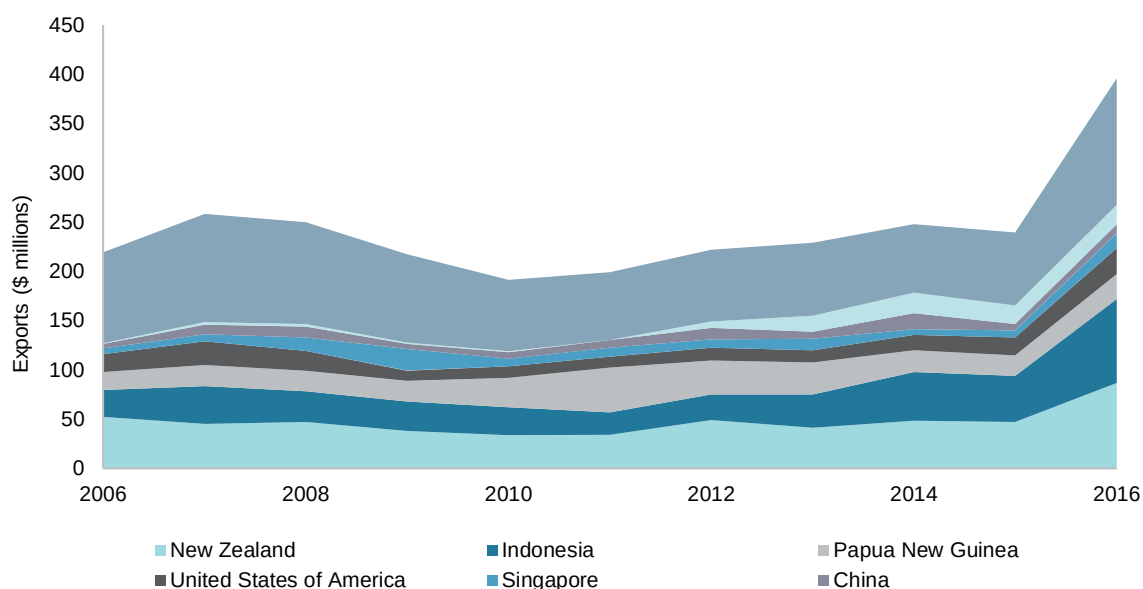
Note: Original data.

Source: ABS, Private New Capital Expenditure and Expected Expenditure, Australia, Mar 2017, cat. no. 5625.0, table 1B & 1C.

### 3.2 Australian exports of steel fabricated products

Australia's exports of selected steel fabricated products reached a ten year high of \$288 million in 2016. This represents an average annual growth rate of 2.8 per cent over the decade or 6.0 per cent per annum since the low in 2010.

Figure 3.10: Australian steel manufactured/fabricated exports, 2006 to 2016



Notes: This analysis does not include the confidentialised cells from the international trade dataset.

Sources: ABS, International Trade, Australia, cat. no. 5465.0.

Almost half of exports in 2016 went to New Zealand (22.0 per cent) and Indonesia (21.4 per cent). The destination of exports is more concentrated than ten years ago when these two countries together comprised 36.5 per cent of exports. Since 2013, these two countries have been Australia's largest export markets. Indonesia has been Australia's fastest growing market, increasing at an annual rate of

30.4 per cent over the past five years. A majority of exports fall into two product groups (AHECC heading—4-digit level). Of total exports, 29.5 per cent are structures and parts of structures which include doors, windows, equipment for scaffolding, and bridges, while another 26.3 per cent are cotters, cotter-pins and other non-threaded articles.

### 3.3 Detailed description of selected sectors of the Australian steel fabrication industry

Steel fabrication production is very diverse. This section gives more detailed information about trends in demand and performance for selected sectors of the steel fabrication industry. It includes information about imports of these products where they are significant. The information is sourced from the ABS and IBIS World.

As noted in chapter 2 of this report, the Commission recognises that the definition of what constitutes a fabricated product, and the terms used to describe these products (as fabricated or manufactured), can vary across industry participants and other stakeholders. For consistency with the available data produced by the ABS, the Commission has adopted the definition of steel fabricated product used by the ABS. This may result in a broader or narrower definition of fabrication than is commonly used in some parts of the Australian industry. Due to data limitations, some products that are not fabricated could potentially be captured in the data, despite the Commission's efforts to exclude such products to the extent possible given those limitations.

Table 3.2 shows employment trends for the four industry sectors discussed in detail in this section.

Table 3.2: Total steel fabrication industry employment ('000), 2007-2016

| Industry                                     | 2007        | 2008        | 2009        | 2010        | 2011        | 2012        | 2013        | 2014        | 2015        | 2016        |
|----------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Structural Metal Product Manufacturing       | 18.4        | 18.0        | 16.3        | 16.8        | 17.7        | 16.2        | 13.9        | 16.4        | 15.2        | 13.5        |
| Metal Container Manufacturing                | 9.6         | 8.5         | 8.0         | 8.7         | 6.5         | 5.8         | 5.8         | 9.2         | 6.6         | 7.8         |
| Sheet Metal Product Manufacturing            | 1.1         | 0.9         | 1.0         | 1.2         | 1.0         | 1.2         | 0.6         | 0.8         | 1.0         | 0.9         |
| Other Fabricated Metal Product Manufacturing | 7.4         | 7.2         | 7.4         | 6.2         | 4.7         | 4.9         | 4.7         | 5.0         | 5.2         | 4.3         |
| <b>Total</b>                                 | <b>36.6</b> | <b>34.7</b> | <b>32.6</b> | <b>32.9</b> | <b>29.9</b> | <b>28.1</b> | <b>24.9</b> | <b>31.3</b> | <b>28.0</b> | <b>26.5</b> |

Notes: Based on four quarter averages to May. Steel employment is defined as ANZSIC sub-division 21.

Source: ABS, Labour Force, Australia, Detailed, Quarterly, February 2017, cat.no. 6291.0.55.003, EQ06.

#### 3.3.1 Structural metal product manufacturing

Structural metal is estimated to make up five per cent of manufacturing's Industry Value Added and was estimated in February 2017 to employ 19,700 people (up from 13,500 in mid-2016), making it the highest employing sector in steel fabricating. This was a ten-year high for this sector of the steel fabrication industry.

##### *Structural steel fabricating*

Structural steel fabricating produces a variety of goods, ranging from relatively simple reinforcing bars to highly engineered, custom-built structural components. Structural steel products are primarily used in the construction of building and infrastructure projects. The demand for structural steel is also affected by competition from substitute products, such as reinforced concrete, brick, timber and aluminium. As seen in Figure 3.3, non-residential demand, as measured by the value of building work done, has been steady since 2011. The second area of demand, from transportation infrastructure,

has increased in value over the past couple of years, approaching its 2012 peak. Finally, mining investment has been in decline since the peak of the commodities boom.

This industry sector has a medium level of concentration. BlueScope and Liberty OneSteel have about 40 per cent market share. Bluescope and Liberty OneSteel are vertically integrated businesses, with a range of businesses through the supply chain, from primary steel production to fabrication and distribution. Structural steel fabricating and reinforcing is their main fabrication business.

Imports of structural steel fabricating products are expected to make up 31.9 per cent of domestic demand in 2016-17, a substantial increase from 5.4 per cent in 2006-07. Exports increased by 10 per cent per year over the five years to 2015-16 but this was off a relatively low base. Imports are roughly 20 times the value of exports.

#### *Prefabricated metal building manufacturing*

The prefabricated metal building manufacturing industry sector supplies portable buildings to many downstream users, including mining and construction companies, schools, tourist operators and households. The range of products is diverse and includes medium-density housing, site offices, accommodation units, ticketing booths and staff amenities such as bathrooms and mess halls.

This industry sector has been in decline since 2012-13. Sales and service income has fallen by 19.7 per cent since this time, with Industry Value Added dropping 26.8 per cent. Imports are expected to account for 7.5 per cent of domestic demand in 2016-17. Both imports and exports are relatively low, due to the high cost associated with transporting these bulky products.

In comparison to the other industry sectors examined in this section, this sector has a more diverse demand side. Agriculture and major events are sectors that demand these goods. Agricultural demand is likely to increase in the near future and Australia's hosting of major events, including the 2018 Commonwealth Games, is expected to add to short-term demand.

The three biggest companies, ATCO, Ausco Modular and Fleetwood, account for an estimated 38.5 per cent of total revenue. This industry sector has a below average level of concentration, with a relatively large proportion of small businesses.

#### *Metal roof and guttering manufacturing*

Trends in the housing and non-residential building markets heavily influence the fortunes of the metal roof and guttering manufacturing sector. A significant constraint on its growth comes from its heavy exposure to competition from substitute products, such as aluminium, ceramic and concrete roofing and PVC guttering systems. Concrete and ceramic roof tiles currently hold about 65 per cent of the residential roofing market, with metal roofing accounting for the balance.

The industry sector has a high concentration of ownership with the four largest players accounting for an estimated 83.4 per cent of industry revenue in 2015-16. In this sector, 29.1 per cent of firms have a turnover of \$2 million or more, compared to the manufacturing average of 15.0 per cent.

There is minimal international trade in the metal roof and guttering manufacturing sector, reflecting the low value and bulky nature of the product.

Sales and service income has been strong. Since 2011-12, it has been growing at 17.8 per cent per annum and has almost doubled in value. Industry Value Added also increased at 18.6 per cent per annum, but this is coming off a low base.

#### *Other structural metal product manufacturing*

The products manufactured by the other structural metal product sector include garage doors, window shutters, metal doors, door and window frames, and curtain walls. The sector also supplies products used in infrastructure projects such as railings and steel grates, and customised door and shutter systems for road-freight vehicles (trucks and vans).

International trade is low in this industry sector as structural metal components are typically large and expensive to transport over long distances and many products have customised design requirements; therefore, most products are manufactured in Australia.

As the product mix is highly fragmented and diverse, so is this industry sector at the firm level. There is a higher than average proportion of small and medium businesses, with the largest firms (those with more than 200 employees or turnover greater than \$2 million) having less than seven per cent market share.

Industry Value Added and the value of sales have been flat since 2010-11. An increase in industry productivity has resulted in employment decreasing over the same period.

### 3.3.2 Metal container manufacturing

Metal container manufacturing represents a small part of the Australian economy at less than one per cent of manufacturing's Industry Value Added, sales and employment. Employment has been volatile over the 2006-16 period. Industry Value Added has been steady and sales and service income have increased at almost one per cent per annum.

#### *Boiler and tank manufacturing*

Firms in this industry sector use heavy gauge metals to manufacture metal boiler and tank products, which include steam boilers, pressure tanks, storage tanks and other metal containers. The boiler and tank manufacturing sector has a highly fragmented structure with a low market share concentration. No companies employ more than 200 staff and 97.7 per cent employ fewer than 20. This is the lowest concentration of the industries examined in this report.

Industry Value Added and sales and service income are now about 40 per cent lower than the peak in 2012-13.

#### *Other metal container manufacturing*

This industry sector consists of companies that manufacture metal containers such as bins, cans and drums for use in a variety of applications. Sales and service income has been increasing at an average 5.0 per cent a year since 2010-2011 and Industry Value Added at 4.7 per cent a year. While growing, the industry sector is experiencing pressure from competition from low priced imports as well as substitute products made from different materials.

In the past, the main driver of demand for other metal container manufacturing products has been the food manufacturing industry. This industry's demand for steel cans will continue to benefit producers in the other metal container manufacturing sector.

The sector has a moderate level of concentration. The top four firms (Orora, Visy, Jamestrong Packaging and National Can Industries) account for 59.7 per cent of industry revenue. Almost 14 per cent of firms employ more than 20 people and over 66 per cent have a turnover of \$200,000 or more, which is well above the manufacturing industry average.

### 3.3.3 Sheet metal product manufacturing

Demand for products produced by the sheet metal product manufacturing sector come from the non-residential building construction, manufacturing and air-conditioning and heating services. Sheet metal product manufacturers are typically small in scale and target narrow regional or product markets, which results in a fragmented industry structure. The biggest player in this industry sector is GWA Group Ltd with a market share of 3.1 per cent. Strong and increasing competition has characterised the sector over the past five years, forcing many smaller enterprises to exit the sector.

Sales and service income has been decreasing by an average 7.6 per cent a year since 2011-12, with Industry Value Added decreasing at 7.9 per cent a year. Employment has been slightly decreasing as well. According to the ABS National Accounts, about 47.3 per cent of this sector's supply by value is

coming from steel fabricated products (while other products are produced from other metals such as tin).

#### 3.3.4 Other fabricated metal product manufacturing

The other fabricated metal product manufacturing sector is a small part of the Australian economy, making up 2.9 per cent of manufacturing Industry Value Added and 2.1 per cent of sales and service income. The contribution to the overall economy has been decreasing and employment has been shrinking since 2006, but employment has risen in recent quarters.

##### *Spring and wire product manufacturing*

The spring and wire product manufacturing sector is a mature sector, with most product lines well established. Agriculture is a key driver of demand for products in the sector, largely for the construction of fences and animal pens. Other demand drivers include furniture and automotive manufacturing, construction and mining. The performance of agriculture, furniture and automotive manufacturing is a strong driver of spring and wire production.

This sector has a high level of concentration—over nine per cent of firms employ 20 or more people (compared to the manufacturing average of 7.4 per cent) and 21 per cent of firms have a turnover of \$2 million or more (the third highest of manufacturing industries considered in this appendix). Four companies together hold 61.3 per cent of market share, with Liberty OneSteel the largest at 43.6 per cent.

Sales have remained steady over the past five years but Industry Value Added over this period has decreased slightly.

##### *Fabricated metal product manufacturing*

This is a diverse sector—of the 19 products made by the sector, only one (metal blinds and awnings) is considered a steel fabricated product. This product has been under pressure from imports (accounting for 61.2 per cent of domestic demand) and substitute products. The industry sector in general is highly fragmented and has remained steady in terms of sales, Industry Value Added and employment.

### 3.4 Concluding observations

Three industries—the construction, manufacturing and mining industries—are the main consumers of steel fabricated products. These industries demand a wide variety of steel fabricated products for a diverse range of uses. The performance of the steel fabrication industry as a whole, and of the diverse sectors within the industry, are driven, in large part, by changes in demand from these industries.

The largest consumer of steel fabricated products is the construction industry, which accounts for half of total demand for these products in Australia. Strong growth in building construction, particularly residential construction, has led to strong demand for steel fabricated products used in construction and supported the performance of sectors supplying these products, such as the metal roof and guttering manufacturing sector.

In contrast, demand for steel fabricated products used in engineering construction (typically for infrastructure) has fallen since the end of the investment phase of the mining boom, despite some offset from increased investment in transport infrastructure. Sectors supplying these products, such as the prefabricated metal building manufacturing sector, have experienced a decline in performance since the end of the mining boom's investment phase.

The long term decline in the second largest consumer of steel fabricated products—the manufacturing industry—has led to lower overall demand for steel fabricated products used in manufacturing. This has had a negative impact on sectors supplying products used in the manufacturing industry, such as the sheet metal product manufacturing sector.

In the third largest consumer of steel fabricated products—the mining industry—demand increased significantly during the investment phase of the mining boom and has fallen significantly since the end of this phase in 2012. This has affected sectors supplying the mining industry, including the structural steel fabricating sector and prefabricated metal building manufacturing sector.

However, certain sectors of the steel fabrication industry produce specialised products that have more specific demand drivers. For example, demand from the agriculture industry has supported the performance of the prefabricated metal building manufacturing sector and the spring and wire product manufacturing sector (especially fabricators of fences and pens) while demand from furniture manufacturing (which is likely to be correlated with activity in residential construction) has also supported the spring and wire product manufacturing sector.

This diversity in the demand drivers of performance in the steel fabrication industry is also reflected in differences in competitive pressures from substitutes. Substitution to competing products made of materials other than steel has been particularly important for businesses producing steel roofing and guttering, steel containers and structural steel products.

Import penetration varies across the steel fabricated industry. While the market share of imports is high in some sectors, other sectors have some degree of natural import protection because their products are bulky and expensive to transport (such as prefabricated steel buildings and steel roofing and guttering) and some products also have customised design requirements (such as other structural steel products).

There is also diversity in structure across different sectors of the steel fabricated industry. The large vertically integrated businesses (BlueScope and Liberty OneSteel) have downstream fabricating businesses that operate in some sectors of the industry, such as the structural steel fabricating sector and the spring and wire product manufacturing sector. However, across the industry as a whole, it has been estimated that approximately 94 per cent of Australian steel fabricating businesses have fewer than 20 employees. Sectors with a high proportion of SMEs include the prefabricated metal building manufacturing sector and the sheet metal product manufacturing sector.



## 4 Global steel markets and implications for the supply of steel fabricated products

### Key points

- Despite signs of a modest recovery in the global steel market, considerable structural imbalances remain, excess capacity remains a significant issue, and investments in new steelmaking capacity have continued. Economically inefficient government interventions and trading restrictions have been widely recognised as a major cause of the continuing failure to address excess capacity and the sustained demand/production imbalance for primary steel products.
- While Australia's imports of selected steel fabricated products decreased in 2016, they remain historically high compared to a decade earlier, despite the end of the investment phase of the mining boom in 2012. The main product group imported in 2016 was structures and parts of structures. More than 50 per cent of imports came from China and Thailand.
- Continuing excess capacity and demand/production imbalance in global primary steel markets influence steel fabrication industries. The demand/production imbalance in primary steel markets may flow through into the steel fabrication market and lead to an imbalance in steel fabricated product markets. Primary steel market imbalances may also create distortions in markets for steel fabricated products as a result of responses by some exporters to trade remedies on primary steel products that are being dumped or subsidised.
- Some Australian steel fabricators have expressed concern about the downstream impacts of anti-dumping duties on primary steel products. However there has also been widespread support for a level playing field for all Australian industries.
- Distortions to global steel fabrication markets caused by dumping and foreign subsidisation can have negative impacts on Australian steel fabricators.

This chapter describes current conditions in global markets for primary steel products and for steel fabricated products, to the extent possible given data limitations. It updates the analysis of global markets for primary steel products contained in the Commission's August 2016 report and assesses the implications of developments in these markets for the downstream markets for steel fabricated products. The implications on these downstream markets of trade remedies on primary steel products is also considered.

Other factors relevant to supply conditions in the Australian steel fabrication industry are briefly identified; however, the focus of this chapter is on the impacts of dumping and foreign subsidisation of steel products for Australian steel fabricators.

As noted in chapter 3, changes in demand conditions are also important in determining the performance of producers of steel fabricated products.

### 4.1 Global steel market conditions

In August 2016, the Commission reported to the Commissioner on its analysis of global and Australian markets for primary (crude) steel and aluminium products. The report highlighted the impact of global excess capacity and market distortions on the growth and viability of the Australian steel (and aluminium) sector, and implications for the effectiveness of Australia's anti-dumping system.

#### 4.1.1 Overview of global primary steel market conditions over the decade to 2016

Prior to the global financial crisis (GFC), demand for steel products had grown rapidly, reaching unprecedented levels, supported by rapid investment in new infrastructure in China. China's

consumption of steel grew each year by an average of ten per cent up until 2013. The growth in demand contributed to significant increases in producer margins which, together with expectations of continuing strong demand for steel products, encouraged large-scale investment in new capacity. China, a net importer of steel as late as 2006, is now the world's largest producer and also the world's largest net exporter of steel.

While prices and margins for primary steel producers would have been expected to return to more 'normal' levels once global capacity caught up with demand, the GFC, a subsequent slowdown in global economic activity and an acceleration of China's economic transition (from investment-led growth to being more consumption-based) resulted in prices and margins falling below 'normal' long-term (underlying) levels.

Prices for steel remain significantly below their pre-GFC peaks, which has reduced margins and increased the financial pressure on producers. In some cases, producer margins are negative. Inventories remain at high levels and steel utilisation rates, which were as high as 85 per cent or more pre-GFC, were much lower in 2016 at 75 per cent.

Excess capacity—a problem that afflicts the steel industry during every downturn in the business cycle—remains a significant issue for the sector. While steel is a cyclical industry, the OECD has stated that 'the current downturn is of particular concern given its depth and length', suggesting that it appears 'perhaps worse' than the cyclical downturn experienced from 1997 to 2002.<sup>16</sup> The OECD has identified excess capacity as one of the most significant challenges currently facing the global steel industry.

The growing gap between global steelmaking capacity and demand has led to a deterioration in the financial situation of steelmakers, and raised concerns about the longer-term economic viability and efficiency of the industry. Despite this, new investments in steelmaking capacity have continued in many parts of the world.

In its August 2016 report, the Commission identified evidence of government interventions and trade restrictions that influence market behaviours and decision-making by producers in Asian primary steel markets in ways that diverge from competitive market behaviours and commercial decisions. The Commission's analysis supported a finding that the impacts of economically inefficient market interventions in Asia have amplified, and are likely to have extended the duration of, the current cyclical global downturn and the resulting difficult operating conditions faced by the Australian steel industries.<sup>17</sup>

These findings were consistent with conclusions reached by the OECD and the G20 nations. In 2015, analysis by the OECD's Directorate for Science, Technology and Innovation identified two main reasons for excess capacity—cyclical market downturns and government interventions and other market distortions. In relation to government interventions, the OECD stated that:

*... excess capacity that persists over time can also be indicative of government actions that hinder adjustments that would normally occur in competitive markets. Due to the importance and strategic nature of the steel industry to many national economies, a tendency during market downturns is to preserve the capacity of the industry, in order to alleviate unemployment and other social problems that would otherwise occur due to capacity closure. In addition, in some large net steel-importing regions, governments are also interested in moving towards greater "self-sufficiency" in steel production in order to reduce their dependency on imports ... despite current market conditions, a large number of new projects are taking place, which will increase global crude steelmaking capacity significantly in coming years.*

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<sup>16</sup> OECD, *Evaluating the Financial Health of the Steel Industry*, DSTI/SU/SC(2015)12/FINAL, 2016, p. 26.

<sup>17</sup> The Chinese government recently provided information to WTO members on programs that provide assistance to steel companies; see [https://docs.wto.org/dol2fe/Pages/FE\\_Search/FE\\_S\\_S009-DP.aspx?language=E&CatalogueIdList=235695&CurrentCatalogueIdIndex=0&FullTextHash=371857150&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True](https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S009-DP.aspx?language=E&CatalogueIdList=235695&CurrentCatalogueIdIndex=0&FullTextHash=371857150&HasEnglishRecord=True&HasFrenchRecord=True&HasSpanishRecord=True)

*... Specific concerns related to government steel policies include government subsidies ... continued approvals for new steel facilities ... and the activities of government financial agencies ...*<sup>18</sup>

Concerns about the economic and social impacts of continuing global steel excess capacity have led the OECD and the G20 group of nations to establish mechanisms to address excess capacity in the global steel industry, including a Global Forum on Steel Excess Capacity (established by the G20 group in December 2016).<sup>19</sup>

The adverse impacts of continuing global steel excess capacity included the potential, identified by the OECD, that ‘excess capacity in one region can displace production in other regions, thus harming producers in those markets’, including through ‘unfair trade practices such as dumping’.<sup>20</sup> These concerns were also emphasised at the April 2016 OECD high-level steel symposium, which drew attention to the significant increase in the use of trade defence instruments to address ‘unfair trade resulting from current global excess capacity’, noting that these instruments would only provide temporary relief against unfair trade and not long-lasting solutions for the broader industry.<sup>21</sup>

#### 4.1.2 Recent developments in global primary steel markets

In March 2017, the OECD Steel Committee noted that while there were signs of a ‘modest recovery in the global steel market’, it stressed that considerable structural imbalances remain and expressed concerns about continuing increases in steelmaking capacity.<sup>22</sup> The Committee reiterated the urgency of addressing the excess capacity problem, noting with concern the evidence of ‘mounting trade frictions’.

In July 2017, the leaders of the G20 nations expressed concern about continuing excess capacity and ‘urgently call for the removal of market-distorting subsidies and other types of support by governments and related entities’.<sup>23</sup> They called on all members of the Global Forum in Steel Excess Capacity to ‘rapidly develop concrete policy solutions that reduce steel excess capacity’.<sup>24</sup>

Excess capacity in global steel markets remains considerable, capacity utilisation rates continue to be very low, and the financial situation is still challenging for most companies.<sup>25</sup>

The capacity overhang will not be resolved in the foreseeable future by increases in global demand for steel. The World Steel Association's preliminary assessment suggests that steel demand recovered by only 1 per cent in 2016, following a decline of 3.3 per cent in 2015. A modest recovery in global

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<sup>18</sup> OECD, *Excess capacity in the global steel industry: The current situation and ways forward*, 2015, p. 3, <http://www.oecd.org/sti/ind/excess-capacity-in-the-global-steel-industry.pdf>.

<sup>19</sup> OECD, ‘82nd Session of the OECD Steel Committee—Chair's Statement’, Statement by Ronald Lorentzen, Chairman of the OECD Steel Committee, 82nd Session of the OECD Steel Committee, Paris, 23-24 March 2017, [www.oecd.org/sti/ind/82-oecd-steel-chair-statement.htm](http://www.oecd.org/sti/ind/82-oecd-steel-chair-statement.htm); G20 Leaders' Declaration: *Shaping an Interconnected World*, Hamburg, Germany, 7-8 July 2017, [www.g20.org/Content/EN/Anlagen/G20/G20-leaders-declaration.pdf?blob=publicationFile&v=10](http://www.g20.org/Content/EN/Anlagen/G20/G20-leaders-declaration.pdf?blob=publicationFile&v=10).

<sup>20</sup> OECD, *Excess capacity in the global steel industry: The current situation and ways forward*, 2015, p. 4.

<sup>21</sup> OECD, *Background Note No. 3: Trade and Trade Policy Developments*, April 2016, p. 2, [www.oecd.org/sti/ind/Background%20document%20No%203\\_FINAL\\_Meeting.pdf](http://www.oecd.org/sti/ind/Background%20document%20No%203_FINAL_Meeting.pdf).

<sup>22</sup> OECD, ‘82nd Session of the OECD Steel Committee—Chair's Statement’, Statement by Ronald Lorentzen, Chairman of the OECD Steel Committee, 82nd Session of the OECD Steel Committee, Paris, 23-24 March 2017, [www.oecd.org/sti/ind/82-oecd-steel-chair-statement.htm](http://www.oecd.org/sti/ind/82-oecd-steel-chair-statement.htm).

<sup>23</sup> G20 Leaders' Declaration: *Shaping an Interconnected World*, G20 Germany 2017, Hamburg, 7-8 July 2017, p. 4, [www.g20.org/gipfeldokumente/G20-leaders-declaration.pdf](http://www.g20.org/gipfeldokumente/G20-leaders-declaration.pdf).

<sup>24</sup> *ibid.*

<sup>25</sup> A de Carvalho, *Steel Market Developments Q2 2017*, OECD DSTI/SC(2017)1/FINAL, July 2017, available on the OECD Steel Committee website [oe.cd/stlmktdev](http://oe.cd/stlmktdev); H Otsuka, *Capacity Developments in the World Steel industry*, OECD Directorate for Science, Technology and Innovation, Steel Committee, DSTI/SC(2017)2/FINAL, August 2017, available at [oe.cd/steel](http://oe.cd/steel).

economic growth over the medium term<sup>26</sup> is expected to support stronger growth in steel demand but growth rates are expected to remain modest. While China's apparent steel demand grew 9.7 per cent year-on-year in the first half of 2017, it is expected to decline in 2018 and 2019 as government investment in infrastructure eases, and as a renewed focus on financial stability and supply-side reforms dampens private investment.<sup>27</sup> As China accounts for around 43 per cent of total world steel consumption, even modest declines in consumption will weigh on total world steel consumption.

Further, the global steel industry's crude steelmaking capacity continues to increase. The amount of steelmaking capacity closed between January and December 2016 was offset by new capacity additions, resulting in a net increase of 32.4 million tonnes per year (tpy) in 2016 (1.4 per cent), to a level of 2,389.7 million tpy from 2,357.3 million tpy in 2015.<sup>28</sup> Despite continuing excess capacity, the OECD Steel Committee noted in March 2017 that available data suggested that nearly 40 million metric tonnes (mmt) of gross capacity additions are currently underway and could come on stream during the three-year period of 2017-19, while an additional 53.6 mmt of capacity additions are in the planning stages for possible start-up during the same time period.

In 2016, world steel production increased by 0.8 per cent to 1,628.5 mmt, driven, in large part, by a 1.2 per cent increase in China (to 808.4 mmt) and rapid growth of 7 per cent in the Middle East.<sup>29</sup> This followed a fall of 3.3 per cent in 2015.<sup>30</sup> Annual world steel production is forecast to continue to grow—at 4.1 per cent in 2017, 0.7 per cent in 2018 and 0.7 per cent in 2019. A marginal decline in Chinese steel production (as infrastructure and construction activity there slows) is expected to be outweighed by strong steel production growth in the rest of the world, particularly in India.<sup>31</sup>

India's steel production grew at a relatively subdued rate of 2.4 per cent year-on-year in the three months to July, following the double-digit growth of late 2016 and early 2017 when new capacity continued to be completed. Strong steel production growth is forecast for 2018 and 2019, supported by ongoing new additions to capacity, and accelerating demand growth from government investment in urban development and infrastructure. India's National Steel Policy 2017 sets official targets for growth in the steel industry.<sup>32</sup>

Steel production in the rest of the world (excluding China and India) has continued to grow, reflecting an ongoing, steady improvement in global business confidence and industrial production indicators, and new additions to steel production capacity. In 2018 and 2019, the pace of production growth across the rest of the world is forecast to slow but remain relatively robust, supported by an ongoing recovery in developed economies and accelerating growth in emerging markets and developing economies.<sup>33</sup> Crude steel production growth is expected to outpace crude steel consumption growth in 2018 and 2019, maintaining the imbalance between demand and production.<sup>34</sup>

There are risks that global production will exceed demand by a greater amount than forecast if governments prioritise economic growth and stability over policy measures to address excess

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<sup>26</sup> Global growth is forecast to reach 3.5 per cent in 2017, 3.6 per cent in 2018 and 3.7 per cent in 2019, up from 3.1 per cent in 2016. Department of Industry, Innovation and Science—Office of the Chief Economist, *Resources and Energy Quarterly*, September 2017, p. 17, [www.industry.gov.au/Office-of-the-Chief-Economist/Publications/ResourcesandEnergyQuarterlySeptember2017/documents/Resources-and-Energy-Quarterly-September-2017.pdf](http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/ResourcesandEnergyQuarterlySeptember2017/documents/Resources-and-Energy-Quarterly-September-2017.pdf).

<sup>27</sup> *ibid.*, p. 26.

<sup>28</sup> OECD, '82nd Session of the OECD Steel Committee—Chair's Statement', *op. cit.*

<sup>29</sup> OECD, '82nd Session of the OECD Steel Committee—Chair's Statement', *op. cit.* See also A de Carvalho, *Steel Market Developments Q2 2017*, OECD DSTI/SC(2017)1/FINAL, July 2017, available on the OECD Steel Committee website [oe.cd/stlmktdev](http://oe.cd/stlmktdev).

<sup>30</sup> A de Carvalho, *Steel Market Developments Q2 2017*, OECD DSTI/SC(2017)1/FINAL, July 2017, p. 8, available on the OECD Steel Committee website [oe.cd/stlmktdev](http://oe.cd/stlmktdev).

<sup>31</sup> Department of Industry, Innovation and Science—Office of the Chief Economist, *Resources and Energy Quarterly*, *op.cit.*, p. 28.

<sup>32</sup> *ibid.*, p. 27.

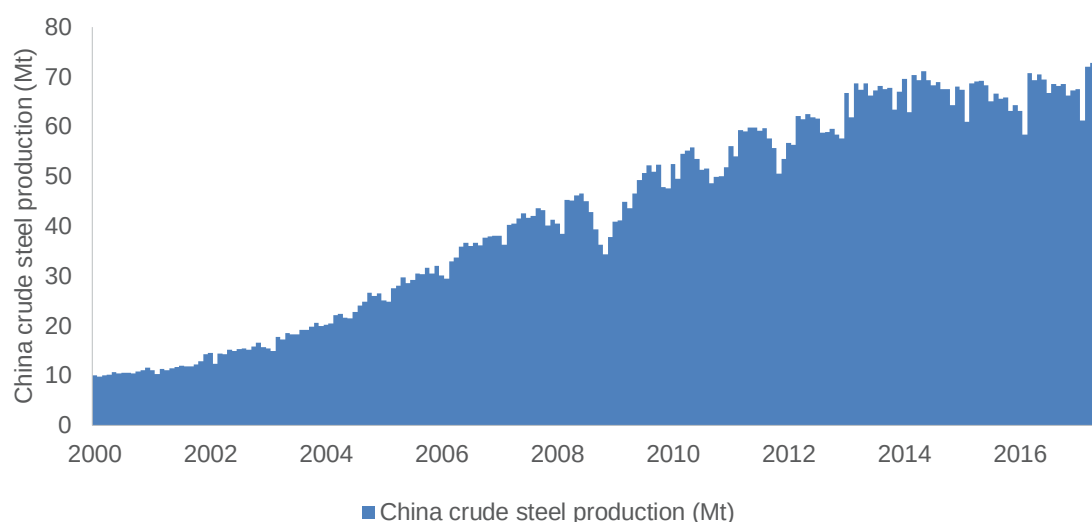
<sup>33</sup> *ibid.*, p. 27.

<sup>34</sup> *ibid.*, p. 28.

capacity. For example, after a decline in production in 2016, Chinese crude steel production reached a record level in June 2017, based on World Steel Association data (see Figure 4.1). The increase in production, in response to higher steel prices, may reflect speculative stockpiling and futures trading, due to concerns of supply shortages following government announcements on the winter curtailment policy and supply-side reforms.<sup>35</sup>

However, in the short to medium-term, with small, less efficient mills and smelters being squeezed out of the industry in China—in order to raise the efficiency of energy usage in Chinese industry—the remaining large/efficient producers face reduced competition. The resultant increased margins for those surviving producers has tended, and will tend, to encourage increased production, eventually restoring Chinese production to pre-rationalisation levels.<sup>36</sup>

Figure 4.1: Chinese crude steel production, January 2000 to June 2017



Note: Monthly data.

Source: Bloomberg (2017) World Steel Association.

In regard to global trade in primary steel products, Chinese steel exports were down by 26 per cent in the first five months of 2017, partly due to stronger domestic demand and partly due to increasing trade restrictions in other countries on Chinese imports.<sup>37</sup> In India, domestic consumption has not entirely absorbed growing steel output and exports of steel have surged, although from a low base, growing by 142 per cent year-on-year in April 2017. Indian steel imports decreased by 23 per cent over the same period, driven by both increased domestic production and restrictive trade policies. India remains on track to overtake Japan as the world's second largest steel producer in 2018, with production forecast to grow by 7.0 per cent to 110 million tonnes, and by a further 6.3 per cent in 2019 to 117 million tonnes.<sup>38</sup>

#### 4.1.3 China's steel fabrication industry

The Commission has found limited information and analysis is publicly available on the global steel fabrication industry.

This section focuses on China as a major supplier of steel fabricated products and a large supplier of steel fabricated imports to Australia (see section 4.2 below). The Commission has drawn on

<sup>35</sup> *ibid.*, p. 26. The winter curtailment policy, which takes effect from mid-November 2017 to mid-March 2018, requires a 50 per cent reduction in steel production in major steel producing cities, in order to improve air quality.

<sup>36</sup> *ibid.*, p. 9.

<sup>37</sup> *ibid.*, p. 24.

<sup>38</sup> *ibid.*, p. 26.

information in a December 2016 IBISWorld report on the Chinese metal fabrication industry. While the report discusses metal fabrication as a whole, steel fabricated products comprise the majority of industry output at 57.8 per cent, while the remainder of the industry consists of iron fabricated products 21.7 per cent, aluminium fabricated products 17.3 per cent, and other 3.2 per cent.

In the five-year period through 2016, the Chinese metal fabrication industry grew at an average annualised rate of 8 per cent to reach \$167 billion in 2016. In 2016, Chinese exports were estimated to total \$16.0 billion and accounted for 9.6 per cent of total industry revenue.<sup>39</sup> China Customs information indicated that the major export destinations in 2015 were Japan (10.6 per cent of export value), South Korea (7.6 per cent), the United States (6.5 per cent), and Australia (6.0 per cent).<sup>40</sup>

In 2016, around 8,644 metal fabricating entities operated in China, an increase from 6,585 in 2011, reflecting annualised growth of 5.6 per cent over the period. Over the five years to 2021, the number of enterprises was forecast to increase at an annualised rate of 4.3 per cent to 10,689.<sup>41</sup> The industry employed around 1.3 million workers in 2016.<sup>42</sup>

## 4.2 Australian steel imports

Australia is a net importer of crude steel. In 2015, Australia's production of crude steel was 4,925,000 metric tons, accounting for less than 0.3 per cent of world production. Australia's apparent steel consumption was 6,968,000, with net imports making up the difference between production and consumption.<sup>43</sup>

Australia is also a net importer of indirect steel. Indirect steel is the steel that is contained in manufactured goods, which includes fabricated and non-fabricated goods. In 2014, Australia exported 829,000 tons of indirect steel and imported 5,656,000 tons of indirect steel.<sup>44</sup>

The Commission has estimated that Australia imported \$2.5 billion of selected steel manufactured/fabricated products (as defined in chapter 2) in 2016. More than 50 per cent of imports come from China (38.9 per cent) and Thailand (22.0 per cent).

Chinese imports have grown by an average 15.4 per cent a year. This increase accounted for about half of the total increase in imports in the past decade.

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<sup>39</sup> IBISWorld Industry Report, *Metal Fabrication in China*, December 2016, p. 12.

<sup>40</sup> *ibid.*

<sup>41</sup> *ibid.*, p. 7.

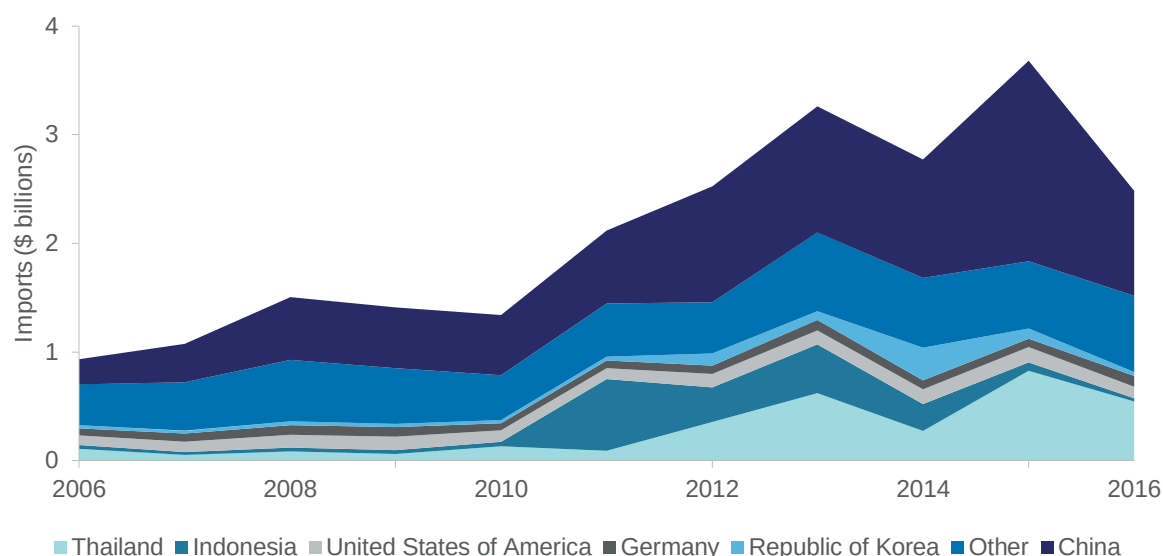
<sup>42</sup> *ibid.*, p. 4.

<sup>43</sup> Steel Statistical Yearbook.

<sup>44</sup> *ibid.*



Figure 4.2: Australian steel manufactured/fabricated imports, 2006 to 2016



Note: This analysis does not include the confidentialised cells from the international trade dataset.

Sources: ABS, International Trade, Australia, cat. no. 5465.0.

While Australia's imports of selected steel manufactured/fabricated products decreased in 2016, they remain historically high compared to a decade earlier (see Figure 4.2), despite the end of the investment phase of the mining boom in 2012. The 32.5 per cent decline in imports in 2016 compared to the previous year is likely to reflect, in large part, reduced demand for products used in engineering construction and mining-related investment (see chapter 3).

The main product group imported in 2016 was structures and parts of structures. These accounted for 61.2 per cent of Australian imports in 2016. These products include racks, shelves, brackets and equipment for scaffolding. As noted in chapter 3, these products are typically used for construction and infrastructure projects, including mining-related infrastructure.

The Ai Group submitted in 2016 to the Senate Estimates Inquiry into the Future of Australia's Steel Industry that:

*Import penetration is a major pressure point for many businesses engaged in the steel fabrication sectors. For instance, in the major structural steel segment, import competition is expected to have surged almost fourfold in the past five years, accounting for 22.2% of domestic demand in 2014-15 (IBISWorld). For lighter fabricated steel products, competitive pressures have been particularly compounded by the high levels of standardised and low-value added products which have elevated the degree of price-based competition. In the fabricated metals product sector where iron and steel is a principal material input, import penetration rose from 52.4% of domestic demand in 2010-11 to around 56.8% in 2014-15 and is projected to account for 59.5% of domestic demand by 2020-21.<sup>45</sup>*

While trade is important for the growth of the Australian economy and living standards, through its contribution to productivity improvement, innovation and consumer choice, it is important that trading behaviours are not distorted by inefficient government interventions and unfair trading practices like dumping.

<sup>45</sup> Ai Group, *Submission to the Senate Estimates References Committee Inquiry into the Future of Australia's Steel Industry*, Submission 10, February 2016, pp. 14-15.



### 4.3 Implications of global steel market developments for the Australian steel fabrication industry

Primary steel products comprise a significant proportion of the inputs to making steel fabricated products. Developments in global primary steel markets therefore impact on global and Australian steel fabrication industries.

Continuing excess capacity and the demand/production imbalance in global primary steel markets could influence steel fabrication industries: through the flow-through of that imbalance into the steel fabrication market via an increase in the supply, and reduction in the price, of a major input to steel fabricating; and through distortions in markets for steel fabricated products caused by the responses of some exporters to trade remedies on primary steel products that are being dumped or subsidised.

#### 4.3.1 Flow-through of primary steel demand/production imbalances into steel fabrication markets

Using economic supply and demand analysis, demand/production imbalances in global primary steel markets could be expected to flow through into the global steel fabrication market in the following way. As noted in section 4.1.1 above, steel prices remain significantly below their pre-GFC peaks, inventories are high, and steel producers face reduced margins and financial pressures. Low prices for primary steel inputs used in making steel fabricated products may increase the supply of steel fabricated products (when other market factors are unchanged).

A corollary of an expected increase in the domestic supply of fabricated products—in countries where excess capacity and the demand/production imbalance of primary steel products is high and primary steel prices are low (including where they are sold below the full cost of production)—is an oversupply of these fabricated products compared to domestic demand.<sup>46</sup> In other words, the ongoing demand/production imbalances in global primary steel markets could lead to demand/production imbalances in steel fabricated product markets.

Steel fabricators in countries where there is a domestic demand/production imbalance could be expected to seek export markets, especially for products that are of high-value and/or easily transportable. The low price of a major input to their production would give them a competitive advantage over fabricators in other countries. In this way, the sustained demand/production imbalance in global markets for primary steel products could have an adverse effect on Australian steel fabricators.

#### 4.3.2 Distortions in steel fabrication markets caused by primary steel demand/production imbalances

Demand/production imbalances in global primary steel markets could also create distortions in markets for steel fabricated products. This could occur as a result of the responses of some exporters to trade remedies on primary steel products that are being dumped or subsidised.

Foreign subsidisation of primary steel production in many countries (which is underpinning continuing excess capacity and sustained demand/production imbalance) and dumping of excess production have led to an increase in trade remedies to address the injury to domestic primary steel producers from these trading practices. As noted in chapter 6, the WTO has highlighted the sharp increase in new trade remedies, especially on primary steel products.

Trade remedies on primary steel products could have three main effects on steel fabrication markets.

First, some primary steel products that are no longer exported to markets where they were previously dumped could be diverted to the domestic steel fabrication industry of the home country, increasing the supply of steel fabricated products. If the increased supply of these steel fabricated products

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<sup>46</sup> Given the magnitude of the demand/production imbalance for primary steel products, an imbalance between demand and production (in economics, demand/supply disequilibrium – at cost-reflective prices) in the downstream steel manufacturing/fabricating market is likely even taking into account an increase in demand due to substitution from products made by other materials (in economics, the substitution effect from lower relative prices) and due to greater affordability (in economics, the income effect from lower prices).

cannot be absorbed by domestic consumers,<sup>47</sup> they could be exported to other countries, some at dumped prices (to reduce the build-up of inventories of these products). This could result in a trading behaviour known as ‘input dumping’.

When a steel producer making a major input to the production of a steel fabricated good has benefited financially from foreign subsidisation, this could be a factor in analysing whether there is a ‘particular market situation’ in the steel fabricated product market of that country. This is because foreign government subsidisation of primary steel inputs is likely—where the financial benefit is passed through to steel fabricators buying the input—to distort the downstream fabricating market.

Second, governments of countries where there is excess production of primary steel products may provide assistance to their steel fabrication industries to encourage domestic fabricators to use more primary steel products. Such subsidisation could result in low-priced steel fabricated products, which could then be exported to other countries.

These two effects are consistent with the concern expressed by the OECD, as noted above in section 4.1.1, that ‘excess capacity in one region can displace production in other regions, thus harming producers in those markets’, including through ‘unfair trade practices such as dumping’.

Third, in countries where anti-dumping and countervailing duties have been imposed on dumped primary steel products, cheap dumped or foreign-subsidised products will no longer be available in the domestic markets for inputs used by steel fabricators. The imposition of trade measures on primary steel products aims to remedy the material injury caused to the domestic industry by dumping. It is nevertheless true that, as a result of measures being in place, import prices for those products from exporters found to have been dumping and/or benefiting from foreign subsidisation will increase by the amount of the duties. Imports of those products will still be available from those exporters, and from other exporters (not found to have been dumping or benefiting from foreign subsidisation), at non-dumped prices.

Where injury to domestic primary steel producers has resulted in price suppression and/or price depression, the imposition of measures will allow domestic producers to increase prices (allowing them to recover their costs of production).

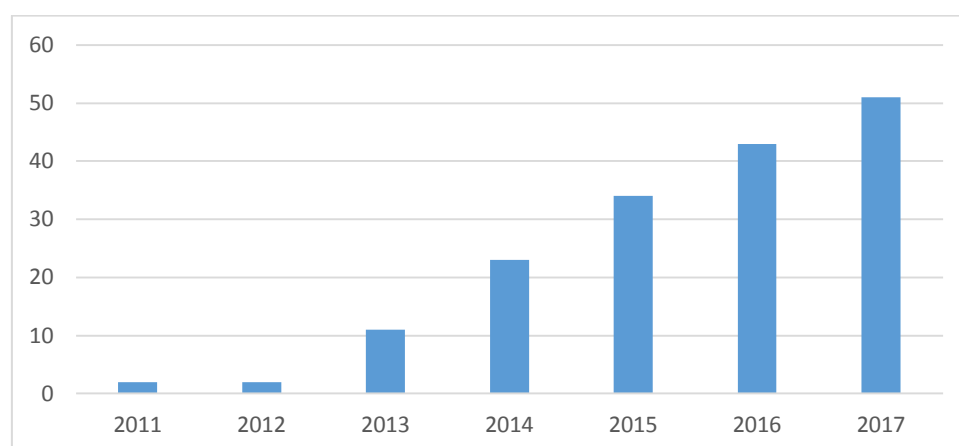
For both of these reasons, the domestic steel fabrication industry will see a corresponding increase in the cost of a major input. Some Australian steel fabricators have raised concerns about this downstream impact of trade remedies on primary steel products.

Reflecting the global demand/production imbalance for primary steel and the associated increase in dumping and subsidisation of these products, the imposition of trade remedy measures on primary steel products used in the manufacture of fabricated steel products has increased significantly in recent years around the world (see Figure 4.3 and chapter 6). In Australia, there were two measures on primary steel products in 2011; this has risen steadily to the current level of 41 anti-dumping measures (plus measures on two steel fabricated products). These measures have been implemented as a result of domestic steel producers applying for measures in circumstances where the Commission has found dumping is occurring and is causing material injury to the Australian industry.

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<sup>47</sup> As noted in the footnote above, domestic consumers are unlikely to absorb the increased supply, given the magnitude of the gap between demand and production of primary steel products (at cost-reflective prices). In addition, government fiscal restraint aimed at reducing government debt and budget deficits is placing a brake on economic growth in many countries.

Figure 4.3: Number of steel measures in place as at 30 September 2017



Source: ADC case statistics

The following two case studies give the views of two downstream steel fabricators on the consequences of the imposition of measures on the primary steel products used in their businesses.

### Case Study—Best Bar: Steel Reinforcement Products

Best Bar Reinforcements (Best Bar) is an Australian owned manufacturer of steel reinforcement products for sale to Australian civil, commercial and residential construction industries. Best Bar employs more than 350 staff across nine branches throughout Australia.

Best Bar manufactures steel reinforcement products from rebar (a primary steel product), supplying to the construction industries. Typically, customers will provide Best Bar with drawings for projects and Best Bar will work with project engineers to develop a reinforcing solution.

#### Steel reinforcing bar (rebar)

Rebar is the major input for producing Best Bar's range of steel reinforcing products. Rebar was the subject of an anti-dumping investigation into exports from seven countries in 2014-15 (ADC 264). As a result of this investigation, measures are currently in place on rebar from China, Korea, Spain, Taiwan and Singapore.

Best Bar predominantly purchases rebar from a mill in Singapore (Natsteel) that produces its product in line with Australian standards and which is Australian Certified Reinforcing Steel (ACRS) accredited. Best Bar has had a long standing relationship and supply agreement with Natsteel. The relationship dates back 21 years. Natsteel was formerly a shareholder of Best Bar. Best Bar considers security of supply important and would not consider purchasing cheaper rebar on the spot market.

Rebar can also be imported from many other countries in the Asian region. Rebar is produced by one Australian company, Liberty OneSteel, which produces between 75-80 per cent of the rebar in the Australian rebar market according to Best Bar, with the remainder supplied by imports.

#### Anti-dumping measures: impact on Best Bar

Best Bar has raised three concerns about anti-dumping measures. First, downstream businesses face financial pressures when measures are imposed and fixed price contracts are already in place.

Second, Best Bar states that as a smaller company, it faces significant costs, which it is unable to afford, to advocate against the imposition of measures in anti-dumping investigations.

Third, Best Bar considers that companies with large market shares could use the anti-dumping system for an anti-competitive purpose. Best Bar notes that Liberty OneSteel is the only domestic manufacturer of rebar, has a dominant market position, and participates actively not only as a supplier of rebar but as a producer and distributor of the same products that Best Bar produces from rebar.

Best Bar considers the imposition of dumping measures on rebar has negatively impacted its ability to compete against Liberty OneSteel's downstream entities, resulting in its market share declining from 15 per cent to closer to 10 per cent. Best Bar believes that its lost market share has been picked up by Liberty OneSteel's related entities (OneSteel Reinforcing and the Australian Reinforcing Company (ARC)).

Best Bar considers that the anti-dumping system should include appropriate checks and balances that take into account market structure and competition concerns in considering the effect of imposing measures. It advocates a 'fairness test' in anti-dumping investigations where an applicant for measures controls a significant portion of the domestic market. Such a test would consider the interests of businesses such as Best Bar to ensure a 'diverse and vibrant independent steel fabrication sector'.

*Sources:* ADC meeting with Best Bar, November 2016; Dumping Investigation ADC 264 – Steel Reinforcing Bar exported from Korea, Malaysia, Singapore, Spain, Taiwan, Thailand and Turkey ([www.adcommission.gov.au/cases/Pages/ArchivedCases/ADC264.aspx](http://www.adcommission.gov.au/cases/Pages/ArchivedCases/ADC264.aspx)); On Record, Burnet, Duckworth & Palmer LLP, *CBSA Anti-Dumping Duties: Unforeseen cost increases and the consequences for parties to construction contracts*, December 2016 ([www.bdplaw.com/content/uploads/2016/12/BDP-Construction-Newsletter-Dec.-20161.pdf](http://www.bdplaw.com/content/uploads/2016/12/BDP-Construction-Newsletter-Dec.-20161.pdf)); Best Bar, Submission regarding OneSteel's allegations of injury and its causation, EPR264 Submission No 44, 3 June 2015, p. 2; Best Bar, Submission No 22 to the Senate Economics References Committee Inquiry into the *Future of Australia's Steel Industry*, 25 February 2016; Best Bar, Submission to Productivity Commission Research Paper *Developments in Anti-Dumping Arrangements*, 2 October 2016; Best Bar website [www.bestbar.com.au](http://www.bestbar.com.au).

### Case Study – DE Engineers

DE Engineers is an Australian owned manufacturer of grain silos. It is located in Western Australia and employs approximately 40 full time staff. DE Engineers manufactures a range of silos for sale to the Australian market.

Galvanised pipe, a form of hollow structural sections (HSS), is a primary steel product and is the major input for silos manufactured by DE Engineers. DE Engineers uses 'hot dipped galvanised pipe', which is a particular type of HSS. Hot dipped galvanised pipe was previously manufactured in Australia by ATM, a division of Liberty OneSteel, at the Acacia Ridge facility. Liberty OneSteel no longer manufactures hot dipped galvanised pipe in Australia.

In June 2012, measures were imposed on HSS, including on hot dipped galvanised pipe used by DE Engineers. In December 2013, DE Engineers requested an exemption from measures in relation to imports of certain HSS. DE Engineers alleged in its application that no goods produced in Australia are identical to hot dipped galvanised pipe, and no goods produced in Australia are like or directly competitive.

The exemption was not granted because, while the Australian industry did not produce identical goods, it did produce goods that are directly competitive with the goods subject to the exemption application.

DE Engineers considers that larger market participants, such as Liberty OneSteel, also import hot dipped galvanised pipe but are able to use their understanding of the system to obtain 'a preferable result'.

DE Engineers states that grain silos are important to the West Australian and Australian agriculture industry. DE Engineers considers the system should consider the effect it has on businesses such as DE Engineers, particularly in circumstances where an identical product is not available locally.

*Source:* Information provided to the Anti-Dumping Commission, text used with permission

The Commission recognises that anti-dumping measures have impacts on downstream industries.

Some commentators have suggested that not imposing anti-dumping and countervailing duties on primary steel products would give Australian steel fabricators access to cheap (dumped and/or

subsidised) steel inputs. However, this would be at the cost of unremedied injury to Australian producers of primary steel products.

Government action to address dumping and foreign subsidisation, consistent with WTO rules, is intended to create a level playing field for Australian industries with imports. Where there is evidence of dumping and foreign subsidisation, verified through a thorough investigation by the Anti-Dumping Commission, the imposition of anti-dumping and countervailing duties allows Australian industries to compete on their merits with imported products.

The Commission notes that in recent consultations with downstream industries affected by anti-dumping measures, there has been general support for a level playing field for both upstream and downstream businesses and for government action to address unfair trading practices.

Further, the Commission notes that its investigation and review processes are transparent and consultative to ensure that decisions by the Minister and by the Commissioner (as provided for under the legislation) are based on sound and robust evidence and analysis. The Commission encourages all industry participants and other stakeholders affected by these decisions to participate in the Commission's investigations and reviews to present evidence and submit their views. The Commission encourages broad involvement in its processes, not just by industry applicants seeking measures where there is evidence of dumping and/or subsidisation, but also by industry participants wishing to make submissions to investigations and by importers seeking duty assessments and/or reviews of measures.

As noted in this section of the report, distortions to global steel fabrication markets caused by dumping and foreign subsidisation may have negative impacts on Australian steel fabricators. The anti-dumping system is available to assist Australian steel fabricators that are materially injured by dumping and/or foreign subsidisation.

Chapter 6 discusses trends in trade remedies on steel fabricated products and canvasses some reasons why Australian steel fabricators have not made more use of their ability to make applications for trade remedies to address the dumping and foreign subsidisation of steel fabricated products. Options for improving access to the anti-dumping system are discussed in chapter 7.

#### 4.3.3 Other factors affecting the Australian steel fabrication market

While the focus of this chapter is on the impacts of dumping and foreign subsidisation of steel products for Australian steel fabricators, the Commission notes that steel fabricators have expressed concerns about other supply-related factors.

Local steel manufacturers have raised concerns about the engineering quality of imported fabricated steel products, and the quality of the primary steel inputs used in their manufacture, especially whether they meet relevant Australian industry compliance standards.

The Ai Group has raised concerns about government procurement processes and ensuring 'Australian steel makers and fabricators businesses have real and fair opportunities to compete in providing goods and services to major Australian projects'.<sup>48</sup>

The government recently made changes to the way it buys goods and services to help ensure equitable access to government contracts for Australian companies, particularly small businesses. These changes include:

- Revised Commonwealth Procurement Rules that require a consideration of the economic benefits of procurement to the Australian economy for non-construction procurement above \$4 million and construction procurement above \$7.5 million.
- The introduction of the Code for the Tendering and Performance of Building Work (2016) which requires preferred tenderers for government construction contracts to provide information on

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<sup>48</sup> Ai Group, *Submission to the Senate Estimates References Committee Inquiry into the Future of Australia's Steel Industry*, Submission 10, February 2016, pp. 34-35.

the extent to which domestically sourced materials will be used on the project and the impact on local jobs and skills growth.

In consultations conducted by the Commission in preparing this report, some steel fabricators stated that the imposition of anti-dumping duties on imported primary steel inputs could cause financial difficulties where projects are being supplied under existing fixed price contracts. The Commission recognises this concern and notes that such issues can arise with increases in other input costs during the term of a contract. A potential solution is to negotiate contractual terms that provide for pass-through of specified unavoidable input cost increases.

#### 4.4 Conclusions

The anti-dumping system is available to assist Australian industries, including the steel fabrication industry, where there is evidence that they are materially injured by dumping and/or foreign subsidisation.

While there is limited detailed information on the performance of global steel fabrication markets, there are grounds for expecting that continuing excess capacity and a sustained demand/production imbalance in global primary steel markets could have had negative impacts on the Australian steel fabrication industry.

Despite a reduction in Australia's imports of selected steel fabricated products in 2016, they remain historically high compared to a decade earlier, despite the end of the investment phase of the mining boom in 2012. The main product group imported in 2016 was structures and parts of structures. More than 50 per cent of imports came from China and Thailand.

The sustained imbalance between the demand and production of primary steel could create conditions in the global steel fabrication market that result in a similar imbalance between demand and production. An imbalance between primary steel production and demand could also create distortions in markets for steel fabricated products as a result of responses by some exporters to trade remedies on primary steel products that are being dumped or subsidised.

Despite signs of a modest recovery in the global steel market, excess capacity and the demand/production imbalance for primary steel products continues. The OECD and G20 nations have expressed concerns about economically inefficient government interventions and trading restrictions as a major cause of the continuing failure to address excess capacity and the demand/production imbalance for primary steel products.

Continuing demand/production imbalances for these product markets could continue to place pressure on steel manufacturing/fabricating businesses, including in the Australian industry.

The Commission is unable to reach general conclusions on whether Australian steel fabricators are being materially injured by dumped and/or subsidised fabricated products imported into Australia—despite the potential for such injury to come about as a result of global excess capacity and demand/production imbalances for primary steel products.

Where there are sufficient grounds to initiate an investigation following an application by an Australian industry, the Commission can undertake a thorough and comprehensive assessment of the evidence and make findings for the specific products markets that are investigated. During any such investigation, the Commission would fully investigate and analyse conditions in the specific product markets relevant to the application and identify the factors influencing the performance of the Australian industry.

## 5 Steel fabricated imports and dumping duties on primary steel products—some examples

### Key points

- The Commission has undertaken an analysis of imports into Australia of steel fabricated goods made using selected primary steel products that are subject to anti-dumping measures over the ten year period to 2016. Due to data limitations, and the difficulty of separating out the impacts of other factors influencing imports of fabricated products, the results are indicative only.
- For some steel fabricated products, there is data showing a noticeable increase in imports of these products following the imposition of measures on the primary steel input to their production. Further analysis is necessary to establish the extent to which the increases in steel fabricated imports reflect flow-on effects from distortions in markets for the primary steel input or whether they reflect other factors influencing the markets for the steel fabricated products.

Chapter 4 explained how continuing excess capacity and the demand/production imbalance in global primary steel markets could have adverse impacts on global and Australian steel fabrication industries. Specifically, a sustained demand/ production imbalance for primary steel products could lead to a similar imbalance in markets for steel fabricated products, and responses by some exporters to trade remedies on primary steel products that are being dumped or subsidised could lead to distortions in markets for steel fabricated products.

In this chapter, the Commission reports the findings from its analysis of trends in imports of selected steel fabricated products that are produced using primary steel products that are subject to anti-dumping measures in Australia. While recognising that the results are necessarily indicative, the Commission has found data showing noticeable increases in imports of a small sample of steel fabricated products following the imposition of measures on the primary steel product used in their production. Further evidence and analysis are needed before firm conclusions can be drawn and any causal link can be established.

### 5.1 Methodology for the analysis

The Commission works with the Department of Immigration and Border Protection (DIBP) to monitor and analyse trade flow data to measure the effectiveness of anti-dumping measures and identify possible evidence of non-compliance and circumvention of measures. For the analysis reported in this chapter, the Commission worked with DIBP to obtain and analyse import data for steel fabricated goods made from upstream steel imports to which trade measures apply.

The DIBP trade data used in the analysis relates to imports of steel fabricated products under 'chapter 73' of the Australian Harmonized Export Commodity Classification, which covers 'articles of iron or steel'. The Commission considered import trends for selected products assessed as falling within this tariff classification for the ten year period to 2016.

As highlighted in chapters 2 and 3, steel fabricated products are diverse in nature and in their drivers of demand, being made from different primary steel inputs, for different end uses, and subject to different market developments. Therefore, it is not possible to draw general conclusions from an analysis of the broad product category.

Accordingly, the Commission conducted a disaggregated analysis for a small sample of fabricated products manufactured using primary steel products that are subject to anti-dumping measures.



A preliminary analysis was undertaken in respect of three primary products—zinc coated (galvanised) steel, hollow structural sections and aluminium zinc coated steel.

Due to the data set, this analysis has been based on tariff classifications rather than on goods descriptions. For primary steel products subject to measures, the tariff classifications set out in the respective Dumping Commodity Registers on the Commission's website were used. For the relevant steel fabricated products, the Commission sought advice from DIBP on the likely tariff classifications for imports of these products.

There are some significant limitations on this quantitative analysis. Consequently, the findings from the analysis are indicative only as:

- The Commission's analysis focused on examples of steel fabricated products and its findings relate only to those example products. Accordingly, the observations cannot necessarily be generalised to all of the steel fabricated products made using the primary steel product subject to measures.
- The tariff classifications used by the Commission in conducting its analysis are likely to include a broader set of imported goods, not just the selected fabricated products. Similar considerations apply for the three primary steel products.
- Import trends for specific fabricated products are influenced by a range of factors. These include demand trends related to developments in the downstream industries using those products as well as changes in competition from substitute products, the significance of transport costs in relation to the total cost of the product, and the nature of the product including whether it is homogenous or highly customised for the customer's needs (see chapter 3). Australian distribution networks, the importance of after-sales service and other factors will also affect the willingness and ability of end users to purchase imported, rather than Australian, steel fabricated products. The Commission has not been able, with the information available to it, to separate out the different effects of these factors.

Due to these limitations and confidentiality considerations, the Commission has reported its findings at a high level.

While the data provide some indication that imports of some steel fabricated products have increased following the imposition of measures on the primary steel product used in their production, the Commission considers that further evidence and analysis are needed to confirm these initial indications and to establish a causal link. The Commission will continue to seek better information and undertake analysis of import trends.

## 5.2 Primary steel products subject to measures and imports of steel fabricated products—three indicative examples

### 5.2.1 Zinc coated (galvanised) steel

Zinc coated (galvanised) steel comprises flat rolled iron or steel products (whether or not containing alloys) that are plated or coated with zinc. Anti-dumping measures have been in place on zinc coated (galvanised steel) from China, Korea and Taiwan<sup>49</sup> since 5 August 2013. The Commission is currently undertaking a dumping investigation in relation to galvanised steel exported to Australia from India, Malaysia and Vietnam, and a countervailing investigation in relation to galvanised steel exported from India and Vietnam.<sup>50</sup>

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<sup>49</sup> Dumping duties were imposed on galvanised steel exported from China, Korea and Taiwan, except for exports by Dongkuk Steel Mill Co. Ltd and Ta Fong Steel Co. Ltd. Countervailing duties were also imposed on galvanised steel exported from China.

<sup>50</sup> Information on investigations can be found on the electronic public record at [www.adcommission.gov.au/cases/Pages/CurrentCases/EPR-370.aspx](http://www.adcommission.gov.au/cases/Pages/CurrentCases/EPR-370.aspx).

**Table 5.1: End uses and products made from zinc coated (galvanised) steel**

| Examples of end-use sectors        | Examples of products manufactured/ fabricated using galvanised steel                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Building and construction industry | <ul style="list-style-type: none"> <li>• commercial and industrial buildings light structural sections (purlins and girts)</li> <li>• structural sections for carports, sheds and garages, plastering and ceiling accessories</li> <li>• garage door tracks</li> <li>• structural nail-plates, post stirrups, frame connectors and bracing for timber frames</li> </ul>                                         |
| Manufacturing industry             | <ul style="list-style-type: none"> <li>• feedstock as input for pipe and tube manufacture</li> <li>• air-conditioning ducting</li> <li>• cable trays</li> <li>• components in domestic appliances</li> <li>• hot water system components</li> <li>• electrical meter cabinets</li> <li>• tool boxes</li> <li>• meter boxes</li> <li>• grain silo components</li> <li>• general manufactured articles</li> </ul> |

*Source: BlueScope, Application for the publication of dumping and countervailing duty notices: Galvanised Steel exported from India, Malaysia and Vietnam, November 2014, p. 17.*

The Commission's analysis of disaggregated trade flow data over the decade 2006 to 2016 found that import trends varied according to the type of product made using galvanised steel.

Data for the following products provide some initial indications that following the imposition of trade remedies on galvanised steel products, there has been a noticeable increase in exports to Australia of fabricated products made using galvanised steel. For some products, the import data (based on the selected tariff classifications) shows that imports commenced in 2015. These include structural decking (flooring systems), structural sections for sheds and garages, and steel farm gates. Based on the data, imports for these products commenced after the imposition of measures on zinc coated (galvanised) steel. Other products made from zinc-coated galvanised steel have been imported for longer periods but increased in volume after the imposition of measures on zinc coated (galvanised) steel. For example, light structural sections (purlins and girts) were imported in small volumes in 2006, but annual import volumes in 2015 and 2016 were significantly above historical levels.

As noted in section 5.1 above, import trends for specific fabricated products are influenced by a range of factors. The increase in exports of fabricated products made using galvanised steel, particularly from China, could be explained by factors other than the imposition of anti-dumping measures on galvanised steel products. For example, the slowdown in the Chinese economy in 2015 reduced building and construction activity and would have led to lower domestic demand for steel fabricated products used in these industries. Without a corresponding reduction in the production of steel fabricated goods by Chinese businesses, the reduction in domestic consumption could have led to an increase in exports as these businesses sought to find new markets for their products and run down unplanned increases in stocks of these products.

Where the failure to adjust production to a slowdown in demand reflects foreign subsidisation and inefficient government interventions in markets, this can lead to dumping and the export of subsidised steel fabricated products to export markets like Australia. More detailed information and analysis would be needed to allow a causal link to be established.

### 5.2.2 Hollow structural sections

Hollow structural sections (HSS) consist of welded pipes and tubes made of steel, comprising circular and non-circular hollow sections. Anti-dumping measures have been imposed on HSS exported to Australia from China, Korea, Malaysia and Taiwan since 3 July 2013<sup>51</sup> and from Thailand since 19 August 2016. Steel fabricated products made from HSS are varied, as shown in Table 5.2.

**Table 5.2: End uses and products made from hollow structural sections**

| Examples of end-use sectors                                                                                                                                                                                                                                                                                                                | Examples of products manufactured/ fabricated using HSS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• engineering construction</li> <li>• manufacturing</li> <li>• mining, oil and gas</li> <li>• residential and non-residential construction</li> <li>• temporary fencing</li> <li>• transport</li> <li>• furniture and play equipment</li> <li>• rural applications</li> <li>• automotive</li> </ul> | <ul style="list-style-type: none"> <li>• scaffolding and fencing (fixed and temporary)</li> <li>• trailer frames (boat and box)</li> <li>• mining equipment</li> <li>• sign posts</li> <li>• playground equipment and shade provision in parks and public spaces</li> <li>• architectural finishes in large open span structures (such as airports and shopping centres)</li> <li>• major structural engineering applications</li> <li>• gates—domestic, industrial, commercial and rural</li> <li>• vehicle chassis</li> <li>• light manufactured goods</li> <li>• gantries that support railway electrification cables</li> <li>• domestic, rural, commercial and industrial structures</li> <li>• sporting stadiums</li> <li>• light fabrication and maintenance work</li> <li>• truss systems for roofing within variable structure types</li> <li>• agricultural equipment, for example spray systems, hay feeders, cattle crushers and cattle yards</li> </ul> |

*Source: Austube Mills, Application for the publication of dumping and/or countervailing duty notices: Hollow Structural Sections exported from India and the United Arab Emirates, November 2015, p. 12.*

The Commission's analysis of disaggregated trade flow data over the decade 2006 to 2016 found varying import trends for different fabricated products made using HSS. Data for the following products indicate that the imposition of trade remedies on HSS products was followed by increased exports of fabricated products made using HSS to Australia:

- Trade data for steel fabricated fencing and fencing products shows that over the period 2006 to 2016, Australia imported more than 192,000 tonnes from 23 countries, with negligible imports under this tariff classification prior to 2015. Imports increased significantly after the imposition of measures on HSS. The vast majority of recent imports have been sourced from China.
- For the tariff classifications assessed as trailer frames, Australia imported more than 425,000 items from 73 countries over the decade. Imports occurred across the decade, with China emerging as the main source of imports in 2015 and 2016. Significantly more trailer frames were imported in 2016 than in 2006.

As noted in section 5.1, a range of factors can influence import trends for specific fabricated products. Differences in these factors are likely to explain the different trends found for different types of

<sup>51</sup> Dumping duties were imposed on HSS exported from China, Korea, Malaysia and Taiwan. Interim countervailing duties were also imposed on HSS exported from China, except for exports by Huludao City Steel Pipe Industrial Co Ltd, Qingdao Xiangxing Steel Pipe Co Ltd and Dalian Steelforce Hi-Tech Co Ltd.

fabricated products made from HSS. More detailed information and analysis would be needed to establish which factors are most significant for different types of products.

### 5.2.3 Aluminium zinc coated steel

Aluminium zinc coated steel is a flat rolled product that is plated or coated with aluminium-zinc alloys.<sup>52</sup> In August 2013, anti-dumping measures were imposed on aluminium zinc coated steel exported to Australia from China and Korea.<sup>53</sup>

**Table 5.3: End uses and products made from aluminium zinc coated (galvanised) steel**

| Examples of end-use sectors        | Examples of products manufactured/ fabricated using aluminium zinc coated steel                                                                                                                                                                                                                                                                                                                                                             |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Building and construction industry | <ul style="list-style-type: none"> <li>• roll formed roof and wall cladding</li> <li>• rain water guttering and downpipes</li> <li>• roof flashing and trims</li> <li>• residential roof trusses</li> <li>• residential roofing battens</li> <li>• ceiling battens</li> <li>• residential house framing</li> <li>• wall structural sections</li> <li>• office wall framing</li> <li>• garden sheds</li> <li>• garage door panels</li> </ul> |
| Manufacturing industry             | <ul style="list-style-type: none"> <li>• components in domestic appliances</li> <li>• hot water system components</li> <li>• cabinets</li> <li>• flues</li> <li>• ducting</li> <li>• grain silos</li> <li>• general manufactured articles</li> </ul>                                                                                                                                                                                        |

*Source: BlueScope Steel Limited, Application for anti-dumping duties: Aluminium zinc coated steel exported from the People's Republic of China, Republic of Korea and Taiwan, August 2012, p. 16.*

As for the first two examples, there were variations over the decade 2006 to 2016 in import trends for fabricated products made using aluminium zinc coated steel products. The Commission's analysis found indications that the imposition of trade remedies on aluminium zinc coated steel products preceded an increase in exports to Australia of fabricated products for which aluminium zinc coated steel was a primary input. For example, imports of rain water guttering commenced in 2015, which followed the imposition of measures on aluminium zinc coated steel.

In contrast, a clear pattern could not be found for grain silos. Over the period 2006 to 2016, Australia imported more than 125,000 grain silos from 29 countries. Imports occurred across the period, with fluctuations in volumes over the period.

<sup>52</sup> The full goods description for anti-dumping purposes can be found on the Dumping Commodity Register at [www.adcommission.gov.au/measures/Pages/default.aspx](http://www.adcommission.gov.au/measures/Pages/default.aspx).

<sup>53</sup> Dumping duties were imposed on aluminium zinc coated steel exported from China and Korea. Countervailing duties were also imposed on aluminium zinc coated steel exported from China.

### Case study – S&L Steel Fab Pty Ltd

S&L Steel Fab Pty Ltd (S&L Steel) is an Australian company that provides steel fabrication, engineering and erection services. Founded in 1974, S&L Steel has undertaken a diverse range of projects, including fabrication and site installation of bridges, mining equipment and pressure vessels.

Over more than four decades in the industry, S&L Steel has expanded to operate out of a workshop in Western Sydney with over 10,000 sq metres of undercover workshop space. This has enabled S&L Steel to broaden its focus to providing steel products for significant commercial projects. These include recent projects to provide structural steel for the Hornsby Pedestrian Bridge and the Sydney Metro Northwest Sky train towers.

S&L Steel had a workforce of up to 150 people and reinvested reasonable profits back into the company. In March 2014, S&L Steel noted that many staff had been with the company many years, and that the retention rate for its boilermakers and welders was 15-20 years. During this time, S&L Steel made strategic decisions to invest in in-house painting and blasting facilities, as well as a plasma cutter, to add greater value to its clients.

Recently, however, the company has reduced its employees to fewer than 100 people. S&L Steel believes that this is primarily the result of an influx of steel imported from China which S&L considers to be cheap and sub-quality. S&L Steel believes that it has been adversely impacted by poor quality products that are subsidised by foreign governments, and that this makes it difficult to compete in the domestic Australian market.

Sources: S&L Steel website [www.slsteel.com.au](http://www.slsteel.com.au); Luis Santos, S&L Steel, Letter of Support to Submission No 19 to the Senate Economics References Committee Inquiry, *Future of Australia's Steel Industry*, p. 87; John Boley, Resources in Focus, *Smooth Transition: S&L Steel*, March 2014, p. 49, [www.resourceinfocus.com.au/mag/RIFAUMar2014/#?page=48](http://www.resourceinfocus.com.au/mag/RIFAUMar2014/#?page=48).

### 5.3 Conclusions

Where the prices of steel fabricated imports are reduced by dumping and/or foreign government subsidisation, including of primary steel inputs to the production of fabricated products, there can be negative financial and economic impacts on Australian steel fabricators.

The Commission is not able to draw firm or general conclusions on the impacts of the demand/production imbalance in global primary steel markets and the impacts of trade remedies on those products on the downstream steel manufacturing and fabricating industry in Australia. This reflects data limitations and, importantly, difficulties in separately identifying the various impacts of the range of supply and demand factors affecting markets for particular steel fabricated products. Consequently, the Commission's examination of import trends for selected product groups are only indicative and cannot support a causal link at this stage.

The Commission is able to consider applications by Australian steel manufacturers and fabricators that consider they are being materially injured by dumped and/or subsidised fabricated products imported into Australia. Where there are sufficient grounds to initiate an investigation (as set out in domestic legislation), the Commission will undertake a thorough and comprehensive assessment of the evidence, including seeking and verifying relevant detailed information from the Australian industry, exporters and importers. This will allow the Commission to fully investigate and analyse conditions in the specific product markets relevant to the application and identify the factors influencing the performance of the Australian industry producing the products in question.

## 6 Trade remedies on steel fabricated products—Australia and overseas jurisdictions

### Key points

- Since the global financial crisis, total trade remedy investigations and measures in force for steel products have been rising globally. The World Trade Organization has highlighted the sharp increase in new trade remedies investigations that occurred over the 12 months to October 2016, reaching its highest level since 2009.
- Many of these investigations and measures have been in respect of primary steel products. Steel fabricated products comprise a small proportion of measures imposed.
- Consistent with global trends, trade-exposed Australian steel producers have increasingly sought trade remedies under Australia's anti-dumping system. Similar to overseas experience, most applicants have been from Australian industries producing primary steel products, with relatively few applications in respect of steel fabricated products.
- There are currently two measures in place in Australia on steel fabricated products. A third application in respect of a steel fabricated product was terminated because the evidence indicated that the exporters were not dumping and had not received countervailable subsidies.
- Australian steel fabricators have identified barriers to applying for anti-dumping and countervailing measures, including costs of accessing the system (such as legal expenses), difficulties in meeting the requirement for standing due to the fragmented nature of some segments of the industry, and difficulties in obtaining the required evidence.

Australia's trade remedy system provides a remedy to Australian industries where dumping or foreign government subsidisation has caused material injury to that industry. Australian industries producing goods that are 'like' to competing imported goods can apply to the Anti-Dumping Commission for anti-dumping measures where there are reasonable grounds to support a finding of material injury caused by dumping and/or subsidisation.<sup>54</sup>

This chapter sets out information on trade remedy investigations and measures on steel products in Australia, Canada, the United States, and the European Union, with a focus on steel fabricated products. The scope of the Commission's analysis has been limited by the availability of data.

### 6.1 Background—global trends in trade remedy investigations and measures on steel products

Since the GFC, total trade remedy measures in force against steel products (primary and fabricated products) have been rising, both globally and in Australia. There has also been a significant increase in the number of initiations. While anti-dumping investigations do not necessarily lead to the imposition of measures, a rise in the number of investigations is an early indicator suggesting a likely rise in the number of measures imposed.

The World Trade Organization (WTO) highlighted the sharp increase in new trade remedies investigations that occurred over the 12 months to October 2016, reaching its highest level since 2009.<sup>55</sup> For the seven months to mid-May 2017, there was a slight deceleration of the monthly average

<sup>54</sup> Appendix 1 provides a more detailed overview of Australia's anti-dumping system. Further information is available on the Commission's website [www.adcommission.gov.au/adsystem/Pages/default.aspx](http://www.adcommission.gov.au/adsystem/Pages/default.aspx).

<sup>55</sup> WTO, 'WTO members exchange views on rise in anti-dumping actions', News item, 27 April 2017, [www.wto.org/english/news\\_e/news17\\_e/anti\\_10may17\\_e.htm](http://www.wto.org/english/news_e/news17_e/anti_10may17_e.htm); Trade Policy Review Body, *Overview of Developments in the International Trading Environment: Annual Report by the Director-General (Mid-October*

of initiations but WTO members continued to initiate more new trade remedy investigations than terminations of trade remedy actions.<sup>56</sup>

In regard to anti-dumping, the WTO has found that metal products were subject to the most initiations in recent years, accounting for 38 per cent of all initiations in the calendar year 2014, 46 per cent in 2015 and 43 per cent in 2016 (the latest reported period). In each period, at least 89 initiations targeted metals, of which 85 per cent focused on steel products. Over the three periods combined, the United States (61), Australia (35), the European Union (28), Canada (27) and Mexico (23) accounted for more than half of the 323 initiations on metals. Initiations against metals across the three periods targeted mostly products from China (91, of which 79 involved steel products), the Republic of Korea (33, of which 32 involved steel), India (22, of which 19 involved steel), and Chinese Taipei. In many instances, investigations were launched on the same product from several exporting countries. For instance, four steel products were the focus of 67 investigations.<sup>57</sup>

In respect of countervailing (anti-subsidy) measures, metals accounted for most of the initiations reported over the three WTO reporting periods. For the three periods combined, 67 of the 110 total initiations recorded covered metals, all but five on steel products. The United States initiated over half of the investigations of steel products. Ten of the 16 steel-related initiations in the third period involved products from China.<sup>58</sup>

Annual trade remedy investigation initiations by the United States into steel products increased more than sevenfold from 2008 to 2015. In 2016, more than half the trade remedy cases initiated by the US were into steel products.<sup>59</sup> China was the country against which most trade remedy investigations into steel were initiated by the US during 2008 to 2015.<sup>60</sup>

In the European Union (EU), trade remedy measures in force against steel have risen steeply in recent years. In 2016, 13 of the 24 new investigation initiations or reopenings were into steel products.<sup>61</sup> As at November 2016, the EU had 40 trade remedy measures on steel, with fourteen investigations on foot.<sup>62</sup>

## 6.2 Measures on manufactured/ fabricated steel products—Australia

Following global trends, trade remedy investigation initiations and measures imposed in respect of steel have also increased substantially in Australia in recent years. As at 30 September 2017, approximately 77 per cent of the Anti-Dumping Commission's current caseload was steel cases (including investigations, continuation inquiries, annual reviews, and duty assessments).

In recent years, the Commission has undertaken a record number of dumping and subsidisation investigations into steel imports. As a result of these investigations, 50 anti-dumping measures (in the form of dumping duty, countervailing duty and provisional measures) are in place on 14 steel products from 16 countries. One 'measure' is one type of duty applied to one country.

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[2015 to mid-October 2016](#)), WT/TPR/OV/19, 21 November 2016, [www.wto.org/english/tratop\\_e/tpr\\_e/tpr\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tpr_e.htm).

<sup>56</sup> WTO, *Report to the TPRB from the Director-General on Trade-Related Developments* (Mid-October 2016 to mid-May 2017), WT/TPR/OV/W/11, 10 July 2017, [www.wto.org/english/news\\_e/news17\\_e/trdev\\_24jul17\\_e.htm](http://www.wto.org/english/news_e/news17_e/trdev_24jul17_e.htm).

<sup>57</sup> *ibid.*, pp. 30-32.

<sup>58</sup> *ibid.*, pp. 33-35.

<sup>59</sup> United States International Trade Commission, [www.usitc.gov/trade\\_remedy/731\\_ad\\_701\\_cvd/investigations.htm](http://www.usitc.gov/trade_remedy/731_ad_701_cvd/investigations.htm). Of 131 trade remedy cases initiated by the US in 2016, 74 related to steel.

<sup>60</sup> United States Department of Commerce, International Trade Administration, Enforcement and Compliance website at <http://enforcement.trade.gov/stats/inv-initiations-2000-current.html>.

<sup>61</sup> European Commission, Trade Defence Statistics covering 2016, 28/02/2017, pp. 6-7, [http://trade.ec.europa.eu/doclib/docs/2017/january/tradoc\\_155243.pdf](http://trade.ec.europa.eu/doclib/docs/2017/january/tradoc_155243.pdf).

<sup>62</sup> European Commission, News Archive: The EU imposes provisional anti-dumping duties on steel and iron products from China, 14 November 2016, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1579&title=The-EU-imposes-provisional-anti-dumping-duties-on-steel-and-iron-products-from-China>.



- 19 of these 51 measures apply to products produced by Liberty OneSteel
- 20 of these 51 measures apply to products produced by BlueScope.

Investigations and resulting measures have primarily involved goods produced in China and to a lesser extent Korea and Taiwan. Twenty-nine per cent of steel measures are on goods from China, 16 per cent from Korea and 12 per cent from Taiwan.

Australian trade measures are generally effective as they result in lower imports from exporters subject to measures (that is, exporters found to have been dumping and/or benefiting from foreign subsidisation) and improve Australian industry's ability to compete on a level playing field.

Most measures are imposed on primary steel products. At present, two fabricated steel products—wind towers and deep drawn stainless steel sinks—are subject to anti-dumping measures. In a third application received by the Commission in respect of a steel fabricated product, measures were not imposed because the Commissioner could not be satisfied that there was sufficient evidence of material injury caused by dumping and/or subsidisation. On 23 February 2017, the Commissioner terminated an investigation into steel shelving units because the evidence indicated that the exporters were not dumping and had not received countervailable subsidies.<sup>63</sup>

The Commission is currently conducting an investigation into the alleged dumping of stranded wire rope, which is a steel fabricated product, exported from South Africa.<sup>64</sup>

There are a small number, and low proportion, of measures on steel fabricated products compared to primary steel products. There have been relatively few applications to the Commission in respect of steel fabricated products.

The following case study outlines one of the investigations into fabricated steel products conducted by the Anti-Dumping Commission.

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<sup>63</sup> Investigation 355, Steel Shelving Units from China, [adcommission.gov.au/cases/Pages/CurrentCases/EPR-355.aspx](http://adcommission.gov.au/cases/Pages/CurrentCases/EPR-355.aspx).

<sup>64</sup> Further information on the investigation ADC 401 is available at [www.adcommission.gov.au/cases/Pages/CurrentCases/ADC-401.aspx](http://www.adcommission.gov.au/cases/Pages/CurrentCases/ADC-401.aspx).

### Case Study – Tasman Sinkware: Deep Drawn Stainless Sinks

On 31 January 2014, the Anti-Dumping Commission received an application for dumping and countervailing measures in respect of 'deep drawn stainless sinks' exported to Australia from China.

The application was lodged by Tasman Sinkware Pty Ltd (Tasman), the only Australian manufacturer in the industry. The Commission did not have sufficient data to accurately assess the market size of the Australian deep drawn stainless steel sinks industry, noting that there were more than 350 potential importers. Three cooperative Chinese exporters were selected for verification visits. These three exporters were believed to represent approximately 25 per cent of the market.

The goods subject to Tasman's application were: 'Deep drawn stainless steel sinks with a single deep drawn bowl having a volume of between 7 and 70 litres (inclusive), or multiple drawn bowls having a combined volume of between 12 and 70 litres (inclusive), with or without integrated drain boards, whether finished or unfinished, regardless of type of finish, gauge, or grade of stainless steel and whether or not including accessories.' The term 'deep drawn' refers to a process in the manufacturing of stainless steel sinks.

Tasman argued that it had suffered material injury from dumped and subsidised goods exported to Australia from China. It provided evidence that imports increased in volume by 30.5 per cent between 2009-10 and 2010-11 and that the market share of the allegedly dumped and subsidised goods increased by 12 per cent while the Australian industry declined by 20 per cent over the same period.

The Commission found that dumping and subsidisation of the Chinese exports had occurred during the investigation period. The dumping margins ranged from 5.0 to 49.5 per cent, and the subsidy margins ranged from 3.0 to 6.4 per cent. On 26 March 2015, the then Parliamentary Secretary to the Minister for Industry, Innovation and Science decided to impose an effective combined interim countervailing duty and interim dumping duty as an ad valorem duty that ranged between 5.0 and 52.6 per cent (depending on the exporter).

Source: EPR 238, the electronic public record for dumping and subsidisation case 238 deep drawn stainless steel sinks exported from China, available on the Commission's website [www.adcommission.gov.au](http://www.adcommission.gov.au).

In its submission to the Senate Inquiry into the Sustainability of Australian Steel Industry, the Australian Steel Institute acknowledged the low number of applications for anti-dumping and countervailing measures in respect of steel fabricated products and noted:

*The 'mill gate' steel has been very successful in proving dumping, however none of the fabricated steel has even put a case together. This steel has originally come from a steel mill in a standard length, such as 12, 15 or 18 metres and is then cut, drilled, welded, painted, etc to form structural steel for bridges, building, etc. None of these products have ever lodged a dumping case, as the system is not 'user-friendly' to these products or this sector.<sup>65</sup>*

The case study of Trailers 2000 sets out one company's perspective on barriers to accessing the anti-dumping system. The fragmented nature of the industry and the large number of small producers presented challenges to meeting the threshold for standing. An application satisfies the standing requirement:

- if the production volume of Australian manufacturers of like goods supporting the application accounts for more than 50 per cent of the total Australian production of like goods manufactured by the portion of the Australian industry which has expressed either support or opposition to an application; and
- where those supporting the application account for not less than 25 per cent of the production of like goods in Australia.

<sup>65</sup> Australian Steel Institute, *Submission to the Senate Inquiry into the Sustainability of the Australian Steel Industry*, Submission 19, 25 February 2016, p. 11, [www.aph.gov.au/Parliamentary\\_Business/Committees/Senate/Economics/Australias\\_Steel\\_Industry/Submissions](http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Australias_Steel_Industry/Submissions).

## Case Study – Trailers 2000

Trailers 2000 fabricates box trailers from various steel inputs. The main steel inputs include hot-dipped galvanised (HDG) steel plate and coil, generic HSS profiles such as RHS and SHS, and flat bar angle sections.

The company considers it and all Australian trailer manufacturers are being injured by dumped and subsidised fully fabricated box trailers from China.

The company considered lodging an application for an investigation, but did not have the required production volume to meet the threshold for standing. The company attempted to gather the support of other box trailer manufacturers (an industry with many small manufacturers) to lodge a joint application, but was unsuccessful in gaining this support. As the company was unable to secure the participation of other box trailer manufacturers in Australia, standing could not be established.

*Source:* Information provided by Trailers 2000 to the Commission.

*Note:* Hollow structural sections (HSS) can be circular (CHS), square (SHS) or rectangular (RHS). RHS steel is commonly used in welded steel frames while SHS is more often used in columns.

### 6.3 International trends in anti-dumping measures

#### 6.3.1 Overview

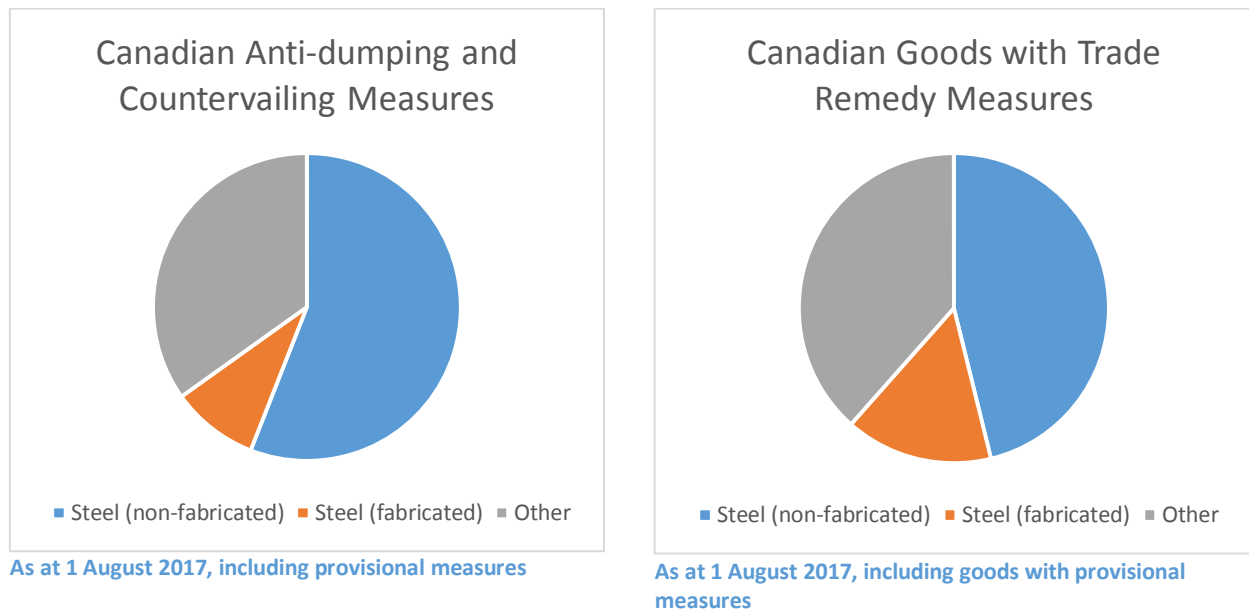
In recent years there has been a steady increase in the number of investigations and ultimately measures in place on steel products globally. However, similar to the situation currently in Australia, measures on steel fabricated products in other developed countries are significantly outnumbered by those on primary steel products, despite some recent increase in the number of measures on steel fabricated products.

#### 6.3.2 Canada

As at 1 August 2017, Canada had 109 separate anti-dumping and/or countervailing measures on 26 different goods. Of these measures, 71 were in place against the import into Canada of 16 distinct steel products. Of the 71 measures on steel products, there were ten measures in place on four steel fabricated products. These products are:

- fabricated industrial steel components
- stainless steel sinks
- steel grating
- unitised wall modules.

Figure 6.1: Canadian trade remedies



Source: Canadian Border Services Agency

The number of measures on fabricated steel products is low in comparison to the number of measures on primary and unfinished steel goods. Measures on steel fabricated products in Canada have only been imposed in recent years. The first investigation into a fabricated steel product was initiated in September 2010, and measures were put in place in April 2011. Measures in place against three of the steel fabricated products—unitised wall modules, steel grating and stainless steel sinks—have been the subject of a reinvestigation. Measures in place on steel grating have also been the subject of an expiry review. In each case, it was determined that the measures should continue due to the likelihood of dumping existing or recurring and causing injury to the Canadian industry. An expiry review into stainless steel sinks is currently ongoing.

The steel industry in Canada is similar to that in Australia. While Canada has a greater number domestic primary steel manufacturers than Australia, it has also been characterised by a decline in production, value and jobs as a consequence of the demand/production imbalance in global primary (crude) steel markets.

## Case study—Canadian Measures on Steel Grating

### Application

On 3 August 2010, the Canada Border Service Agency (CBSA) received a complaint from Fisher & Ludlow Ltd alleging that imports into Canada of certain steel grating originating in China were being dumped and subsidised and causing injury or threat of injury to the Canadian industry. The CBSA subsequently initiated an investigation.

The complainant was a major producer of certain steel grating in Canada, accounting for more than half of the industry. There was one other known Canadian producer of certain steel grating, Borden Metal Products Pty Ltd, which was not a complainant but supported the complaint filed by Fisher & Ludlow.

### The goods

The goods which were the subject of the investigation were described as ‘Metal bar grating of carbon, alloy, or stainless steel, consisting of load-bearing pieces and cross pieces, produced as standard grating or heavy-duty grating, in panel form, whether galvanized, painted, coated, clad or plated, originating in or exported from the People’s Republic of China’.

Following the CBSA investigation and the injury inquiry by the Canadian International Trade Tribunal (CITT), measures were put in place against carbon and alloy steel bar grating.

### Continuation

In December 2015, the CBSA determined that the expiry of the measures would likely result in the continuation or resumption of dumping and subsidising of certain steel grating from China. In 2016, the CITT found that if the original finding were rescinded, the likely resumption or continuation of the dumping and subsidising of the goods would likely cause material injury to the domestic industry. As a result, the CITT continued the measures in place.

In analysing the broader economic climate and imports of certain steel grating from non-subject countries, the Commission was satisfied that the material injury could be attributed to the Chinese imports.

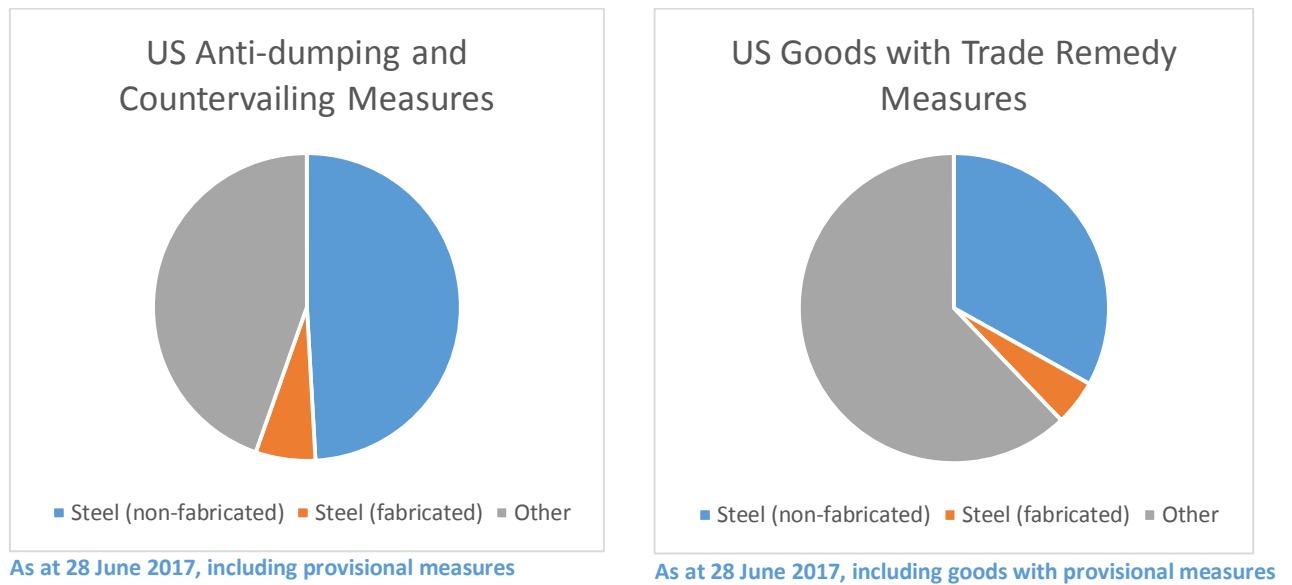
Source: CBSA, [www.cbsa-asfc.gc.ca/sima-lmsi/mif-mev-eng.html](http://www.cbsa-asfc.gc.ca/sima-lmsi/mif-mev-eng.html)

### 6.3.3 United States

As at 28 June 2017, the United States had a total of 399 separate trade remedy measures in place across 148 distinct products. Of these measures, 221 were against 56 separate steel products. In relation to steel manufactured/ fabricated products, 25 of the dumping or countervailing measures are in place on seven steel manufactured/ fabricated products. The steel manufactured/ fabricated goods that attract duties in the United States are:

- drawn stainless steel sinks
- high pressure steel cylinders
- pre-stressed concrete steel wire strand
- steel grating
- steel wire garment hangers
- uncovered innerspring units
- utility scale wind towers.

Figure 6.2: United States trade remedies



Source: United States International Trade Commission

More than half of the dumping and countervailing measures imposed by the United States are on steel products. Like Canada, the number of measures on steel fabricated products is low in comparison to the number of measures on primary and unfinished steel goods.

## **Case study—US Measures on Steel Grating**

### **The application**

On 29 May 2009, the United States International Trade Commission (ITC) initiated an investigation into steel grating from China.

The applicants seeking the measures were Alabama Metal Industries Corp. and Fisher & Ludlow Inc. The applicants had standing to seek trade remedy measures as they, together with the domestic producers identified as supporting the claim, represented over 50 per cent of the US domestic market for certain steel grating.

### **The goods**

Certain steel grating is comprised of downstream steel products which are manufactured from multiple separate pieces of steel, including load bearing pieces and cross pieces. These separate pieces are joined together by welding, riveting, swaging or pressing. The goods are used in a wide range of heavy load-bearing applications including flooring, railroad car stand platforms and fire escape platforms.

The goods which were the subject of the investigation were described as ‘certain steel grating, consisting of two or more pieces of steel, including load-bearing pieces and cross pieces, joined by any assembly process, regardless of: (1) size or shape; (2) method of manufacture; (3) metallurgy (carbon, alloy or stainless); (4) the profile of the bars; and (5) whether or not they are galvanized, painted, coated, clad or plated’, from the People’s Republic of China.

### **Dumping and injury investigations**

In the United States, it is the responsibility of the Department of Commerce to determine whether dumping is occurring. If found in the affirmative, the ITC is tasked with conducting the injury analysis.

Based on the facts available and the inferences drawn, the Department concluded that dumping and subsidisation were occurring.

The ITC considered whether the dumping and/or subsidisation had caused or threatened to cause material injury to the US steel grating industry. It found that a number of purchasers in the domestic market had switched from the US product to the Chinese product and cited price as the primary causal factor. There was evidence that US producers of certain steel grating were forced to reduce their selling price to compete with the dumped goods. The ITC considered the price depression was not solely due to the prevailing economic climate at the time, and found that price suppression was also evident.

These findings were sufficient for the ITC to be satisfied that the dumped and/or subsidised steel grating exported from China was causing material injury to the domestic industry. As a result, duties were imposed.

### **Continuation**

In October 2015, the ITC determined that revocation of the measures would likely lead to the continuation or recurrence of material injury to the US industry within a reasonably foreseeable time. As a result, the ITC continued the measures that were in place.

Source: United States International Trade Commission, [www.usitc.gov/investigations/701731/2010/certain\\_steel\\_grating\\_china/final.htm](http://www.usitc.gov/investigations/701731/2010/certain_steel_grating_china/final.htm), [www.usitc.gov/investigations/701731/2015/certain\\_steel\\_grating\\_china/first\\_review\\_expedited.htm](http://www.usitc.gov/investigations/701731/2015/certain_steel_grating_china/first_review_expedited.htm).



### 6.3.4 The European Union

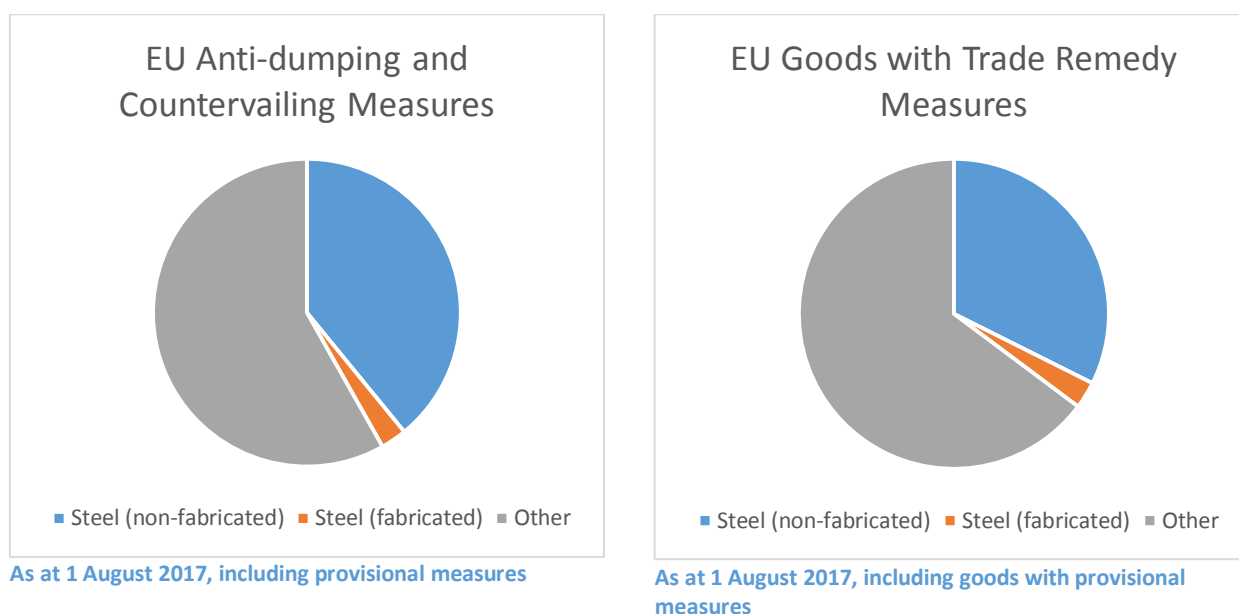
The European Union (EU) operates as an economic bloc, with the European Commission given responsibility by Member States to conduct investigations and impose trade remedy measures for the single European market.

As at 1 August 2017, the EU had 110 separate dumping or countervailing measures in place on 70 separate products (under the WTO counting standard of one measure being one type of trade remedy on one product per country). Of these trade remedy measures, 46 are on 25 distinct steel products. Three measures are in place against two steel manufactured/ fabricated products. The two products are:

- PSC wires and strands (certain pre- and post-stressing wires and strands)
- steel ropes and cables.

Further, as at 1 February 2017, the EU had 42 investigations ongoing (across all types of investigations, e.g. new, expiry, reopening etc.) on 27 different products. Sixteen of the ongoing investigations related to nine different steel products.

Figure 6.3: European Union trade remedies



Source: European Commission

The EU has many primary steel producers. There is a steel manufacturing industry in most European countries.<sup>66</sup>

The EU also has many businesses in the steel fabrication industry. In 2010, fabricated metal manufacturing (including steel) comprised 11.9 per cent of total EU manufacturing employment.<sup>67</sup> More than three quarters (82.5%) of employees in the fabricated metal manufacturing sector were employed by SMEs (in Europe, an SME is defined as having fewer than 250 employees) and SMEs produced 76.7 per cent of the value add for the sector.<sup>68</sup>

Of the total number of trade remedy measures in place, 2.8 per cent are on steel fabricated products.

<sup>66</sup> *Steel Statistical Yearbook 2016*, World Steel Association, 15 November 2016.

<sup>67</sup> EuroStat, 'Manufacture of fabricated metal products statistics', [ec.europa.eu/eurostat/statistics-explained/index.php/Archive:Manufacture\\_of\\_fabricated\\_metal\\_products\\_statistics\\_-\\_NACE\\_Rev.\\_2](https://ec.europa.eu/eurostat/statistics-explained/index.php/Archive:Manufacture_of_fabricated_metal_products_statistics_-_NACE_Rev._2)

<sup>68</sup> *ibid.*

## 6.4 Conclusions

The number of steel fabricated products that have been subject to trade remedy measures is low in relation to the number of primary steel products subject to measures.

Some products (or similar products) are subject to measures in several jurisdictions. Examples include stainless steel sinks (Australia, the United States and Canada), steel grating (the United States and Canada), wind towers (Australia and the United States), and various types of pre-stressed steel wire (the United States and EU).

Globally, the imposition of trade remedy measures on steel fabricated products is a recent development. All measures on steel fabricated products in Australia and Canada, and five of the seven measures in the United States, have been implemented since 2010. The only current measures that were initially imposed prior to 2000 are on steel ropes and cables imported into the EU.

The relatively low number of trade remedy measures on steel fabricated products may reflect several factors:

- Around the world, steel fabrication industries are typically more fragmented than primary steel production industries and many sectors in steel fabrication industries are comprised of large numbers of SMEs. This fragmentation and large number of producers for some steel fabricated products can create challenges and costs in identifying and then organising relevant members of the industry producing the ‘like’ goods for an application for anti-dumping measures. The smaller number of larger businesses in primary steel manufacturing markets makes it easier for applicant businesses to meet the standing requirements to bring an application than for potential applicants from steel fabrication industries.
- Larger companies with access to greater resources may be better able to access the anti-dumping system. The complexity of, and evidentiary requirements for, submitting an application and defending interests during an investigation often results in applicants employing legal advisors and consultants. The costs of these advisors and consultants can be substantial and, for SMEs, can represent a significant proportion of their revenues.
- The diversity of many steel fabricated products can create difficulties in accurately and unambiguously describing the products the subject of an application. The WTO Anti-Dumping Agreement requires an application for measures to include a complete description of the product in question.<sup>69</sup> Many steel fabricated products are made to order and according to design specifications that are unique to each project. Such customisation and production of bespoke steel fabricated products can make it challenging to formulate a goods description that is sufficiently narrow to allow injury to be established and suitably broad to encompass all relevant products that are causing injury to the domestic industry. In contrast, primary steel products are typically more homogenous than steel fabricated products.

Chapter 7 identifies some potential barriers to SME access to Australia’s anti-dumping system and some options for addressing those barriers.

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<sup>69</sup> Anti-Dumping Agreement Article 5.2(ii).

## 7 Conclusions and implications

### Key points

- Australia's anti-dumping system provides a potential remedy to all industries that are suffering material injury caused by dumping or subsidisation. To date, most applicants for anti-dumping measures on steel products have been from Australian industries producing primary steel products, with relatively few applications in respect of steel fabricated products.
- Australian steel fabricators have identified barriers to accessing the system, including its complexity, high costs (such as legal expenses and consultant fees), difficulties in meeting the requirement for standing due to the fragmented nature of some segments of the industry, and difficulties in obtaining the required evidence. These difficulties may be compounded by the large number of SMEs in the industry, which generally face greater challenges in interacting with the anti-dumping system than larger businesses.
- Following the 2012 Brumby Review, the Government and the Commission have implemented a number of actions to facilitate SME access to the anti-dumping system, including several recent improvements.
- Stakeholders, including a sub-committee of the International Trade Remedies Forum (ITRF), have identified further potential options for policy and operational improvements in three main categories: further improving knowledge and awareness of the system; simplifying the system and facilitating access to data; and addressing impacts on downstream industries.
- As part of its commitment to continuous improvement, the Commission will continue to look for ways to: improve its operational policies and practices to increase transparency; simplify and streamline its documentation, processes and procedures; and adopt best practice analytical techniques.
- Following the May 2017 ITRF meeting, the Commissioner established a sub-committee of the ITRF to examine issues in relation to access to trade data.
- The Government has tasked the Department of Industry, Innovation and Science with undertaking a review of SME access to obtain a comprehensive understanding of the problems and potential solutions.

This chapter summarises the Commission's main conclusions from its analysis of the Australian steel fabrication industry and the implications of global developments in primary steel and steel fabricated product markets for Australian markets for steel fabricated products.

The chapter outlines information and views obtained from SMEs and industry groups on potential reasons for low SME participation in the anti-dumping system. The Commission identifies some options for improving access by SMEs—as applicants for measures, as industry participants wishing to make submissions to investigations, and as importers seeking duty assessments and/or reviews of measures.

### 7.1 Conclusions from the Commission's analysis of steel fabrication markets

Australia's steel fabrication industry is highly diverse, with a large number of businesses producing a wide variety of steel fabricated products that are used in a range of economically significant downstream industries. Many steel fabrication businesses are SMEs—over 90 per cent of market participants are small enterprises with fewer than 20 employees (as discussed in chapter 2).

The performance of the industry is driven by a mixture of factors, from both the demand side and the supply side. Reflecting the diversity of products and end uses, performance has varied across sectors of the industry.

On the demand side, three industries—the construction, manufacturing and mining industries—are the main consumers of steel fabricated products, comprising almost 90 per cent of demand for these products. Trends in the economic performance of these industries affect the performance of steel fabricating businesses. However, the impact on specific sectors and businesses, particularly those producing specialised products, may differ due to more specific factors influencing demand trends within the certain parts of the broader market in which they operate.

At a general level, strong growth in building construction, particularly residential construction, has led to strong demand for steel fabricated products used in building construction and supported the performance of steel fabricators supplying these products. In contrast, demand for steel fabricated products used in engineering construction (typically for infrastructure) has fallen since the investment phase of the mining boom ended in 2012, and this has had an adverse effect on the performance of steel fabricators supplying products used in engineering construction.

Steel fabricators supplying the manufacturing industry have experienced a long term decline in demand overall, while demand from the mining industry increased significantly during the investment phase of the mining boom and has fallen significantly since this phase ended (chapter 3).

On the supply side, the Commission's August 2016 report on steel and aluminium markets showed that ongoing excess capacity in the production of primary steel products—underpinned by government interventions and market distortions—was one of the most significant challenges currently facing the global steel industry.

Despite signs of a modest recovery in the global steel market over the past year, excess capacity and the demand/production imbalance for primary steel products continues (particularly in Asia). With governments potentially continuing to prioritise economic growth and stability over strong policy actions to address excess steel production capacity, and investments in new steelmaking capacity continuing to occur, the prospects for resolving the demand/supply imbalance in the near term appear limited.

Economically inefficient government interventions and trading restrictions are widely recognised, including by the OECD and G20 nations, as important reasons for limited success in addressing excess capacity and the demand/production imbalance for primary steel products.

Continuing excess capacity and a sustained demand/production imbalance in global primary steel markets could influence steel fabrication industries through two main mechanisms. First, the demand/production imbalance in primary steel markets could flow through into the steel fabrication market and lead to similar imbalance in the steel fabrication industry. Second, the demand/production imbalance for primary steel products could lead to distortions in markets for steel fabricated products as a result of responses by some exporters to trade remedies on primary steel products that are being dumped or subsidised.

While Australia's imports of selected steel fabricated products decreased in 2016, they remain historically high compared to a decade earlier. More than 50 per cent of imports came from China and Thailand (chapter 4).

Since the GFC, total trade remedy investigations and measures in force for steel products have been rising globally. The majority of these investigations and measures have been in respect of primary steel products. Consistent with global trends, trade-exposed Australian steel producers have increasingly sought trade remedies under Australia's anti-dumping system (chapter 6).

To test the theory that the demand/production imbalance for primary steel products could create distortions in markets for steel fabricated products as a result of responses by some exporters to trade remedies on primary steel products that are being dumped or subsidised, the Commission examined

trade flow data. Due to data limitations, and the difficulty of separating out the impacts of other factors influencing imports of fabricated products, the results are indicative only.

The Commission found preliminary data, for a small sample of steel fabricated products, of a noticeable increase in imports of these products following the imposition of measures on the primary steel input to their production. While indicative (due to data limitations), this data suggests that trade remedies on primary steel products could, in some circumstances, result in the diversion of those products into downstream markets, where trade remedies are not in place to address dumping and foreign subsidisation. However, further evidence and analysis are needed to confirm the findings and establish a causal link with conditions in global primary steel markets (chapter 5).

Where the price of steel fabricated products imported into Australia are reduced by the use of dumped inputs, by foreign government subsidisation, or by dumped prices reflecting oversupply, there could be negative financial and economic impacts on Australian steel fabricators.

The Commission is able to consider applications by Australian steel fabricators that consider they are being materially injured by dumped and/or subsidised fabricated products imported into Australia. Where there are sufficient grounds to initiate an investigation (as set out in domestic legislation), the Commission will undertake a thorough and comprehensive assessment of the evidence, including seeking and verifying relevant detailed information from the Australian industry, exporters and importers. This will allow the Commission to fully investigate and analyse conditions in the specific product markets relevant to the application and identify the factors influencing the performance of the Australian industry producing the products in question.

Government action to address dumping and foreign subsidisation, consistent with WTO rules, is intended to create a level playing field for Australian industries with imports. Where there is evidence of dumping and foreign subsidisation causing or threatening to cause material injury to Australian industry, verified through a thorough investigation by the Anti-Dumping Commission, the imposition of anti-dumping and countervailing duties allows Australian industries to compete on their merits with imported products.

The Commission notes that in recent consultations with downstream industries affected by anti-dumping measures, there has been general support for a level playing field for both upstream and downstream businesses and for government action to address unfair trading practices (chapter 4).

Australia's anti-dumping system provides a potential remedy to all industries who are suffering material injury caused by dumping or subsidisation.

Consistent with global experience, most applicants for anti-dumping measures on steel products have been from Australian industries producing primary steel products, with relatively few applications in respect of steel fabricated products. In Australia, there are currently two measures in place on steel fabricated products (chapter 6).

## 7.2 Potential barriers to accessing the anti-dumping system

Australian steel fabricators have identified the costs of accessing the system (such as legal expenses), difficulties in meeting the requirement for standing due to the fragmented nature of some segments of the industry, and difficulties in obtaining the required evidence as barriers to applying for dumping and countervailing duties. These difficulties may be compounded by the large number of SMEs in the industry, which generally face greater challenges in interacting with the anti-dumping system than larger businesses.

These problems are well-known. The Brumby Review of the Anti-Dumping System, which was published in 2012, recognised the costly and burdensome nature of preparing for and participating in

anti-dumping or countervailing investigations, especially for SMEs.<sup>70</sup> It acknowledged the significant investment required by stakeholders to present their case and to defend their interests.

Recognising that SMEs may face unique challenges in accessing the anti-dumping system, the Commissioner of the Anti-Dumping Commission, as presiding member of the International Trade Remedies Forum (ITRF), established a subcommittee of the ITRF in 2016 to consider and advise on the factors influencing SME use of and involvement with the anti-dumping system. The terms of reference for the sub-committee stated that it would:

- consider SME participation in the anti-dumping and countervailing system, and identify any specific barriers to SME participation
- consider whether there are any gaps in current SME support services and consider how SME advisory services can be better delivered to support SMEs to access the anti-dumping and countervailing system
- identify options for enhancing SME access to the anti-dumping and countervailing system.

Membership of the sub-committee comprised representation across the range of stakeholders in the system and included industry groups representing SMEs and steel fabricators. In addition, the sub-committee sought the views of individual SMEs, including steel fabrication businesses, to gain a fuller understanding of SMEs' experiences. The Commission provided the sub-committee with case studies of SME steel fabricators gathered for this report to further inform the sub-committee. In April 2017, the ITRF provided advice to government describing the barriers to SME access to the system identified by the sub-committee and outlining options for improving SME access. Proposed options are discussed in section 7.3.2 below.

In terms of barriers to SME access to the system, the sub-committee found a range of views, with not all SMEs sharing the same concerns. The barriers and concerns identified by SMEs varied depending on whether their experience was in relation to seeking the imposition of measures or in being impacted by the implementation of measures (such as importers and downstream industries). This diversity of views is consistent with the Commission's findings in this analysis that the steel fabrication industry is highly diverse and the performance of specific sectors and businesses is affected by different combinations of factors.

Those SMEs with experience of seeking the imposition of measures noted the following concerns:

- difficulties in accessing data, including import data and trade flows, in order to support an application
- costs of accessing the system—the complexity and legalistic nature of the anti-dumping system lead to large resource costs and the need for SMEs to obtain external support
- risk of damaging relationships with customers from participating in an investigation
- difficulties in monitoring measures—following the imposition of measures, SMEs have to invest resources in the system, for example, associated with appeals process and monitoring for potential circumvention.

Those SMEs who have been impacted by measures (for example, because measures have been imposed on inputs purchased by them) put the following concerns to the sub-committee:

- Goods descriptions are too broad and appropriate provisions are not in place to ensure goods that are not produced in Australia do not get captured by measures.
- The system favours large manufacturers as they have a 'bigger voice'.

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<sup>70</sup> John Brumby and Australian Attorney-General's Department (issuing body), *The Brumby Anti-Dumping Review*, 2012, available at <http://nla.gov.au/nla.arc-141581>.

- There is potential for anti-competitive behaviour where an applicant for measures also imports the goods under consideration.
- SMEs lack the resources needed to participate in investigations and incur substantial costs from having to engage consultants.
- SMEs have difficulty in acquiring knowledge about the system, including information on measures and investigations. Importers may not find out about investigations or measures until late in the process.
- Investigations do not consider injury to downstream industries caused by the imposition of duties on their inputs and do not take into account effects on competition.
- Anti-dumping measures can be seen as ‘closing the door’ on alternate sources of supply.
- Investigation timeframes are too long and this can cause uncertainty for business.

From its experience in supporting SMEs in engaging with the anti-dumping system, the ITRA identified a number of factors as barriers to access by SMEs. These included:

- lack of readily available (low cost) data on market size and country of export
- difficulties in obtaining information to support their case and satisfy evidence requirements
- difficulties in supplying the Commission with the necessary information in the required format, in part reflecting limited data and record keeping/accounting resources compared to larger businesses
- difficulty in meeting standing requirements<sup>71</sup> when there are many players in the Australian industry
- difficulty in demonstrating material injury where the SME is in a start-up phase, has limited trading history, or is part of an immature industry, or where an SME Australian industry member represents a very small fraction of the total Australian market
- lack of awareness of the system and how it works, and difficulty in understanding the system
- limited capacity to monitor measures.

### 7.3 Actions to improve access to the system

The Government and the Commission have implemented a number of actions to facilitate SME access to the anti-dumping system. Stakeholders have proposed further options for improving access.

#### 7.3.1 Existing actions to improve access by SMEs

The Brumby Review observed that more information and guidance helps better inform and empower stakeholders which in turn helps to lower costs and improve awareness of, and access to, the system. Accordingly, in an effort to enhance access, the Commissioner has in recent years improved information and guidance and improved transparency. For example, the Commission publishes guidance notes and information about measures on products, current and past cases, the operation of the system as a whole, and its engagement with stakeholders through the ITRF on its website. In addition, the Commission offers information directly to stakeholders on the implementation measures and how the anti-dumping system works through its client services function, which provides advice in response to telephone and email queries.

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<sup>71</sup> Amongst other requirements, an application must be supported by a sufficient part of the Australian industry for an investigation to be initiated (referred to as ‘standing’). An application is taken to be supported by a sufficient part of the Australian industry if persons (including the applicant) who produce or manufacture like goods in Australia and who support the application: (a) account for more than 50 per cent of the total production or manufacture of like goods produced or manufactured by that portion of the Australian industry that has expressed either support for, or opposition to, the application; and (b) account for not less than 25 per cent of the total production or manufacture of like goods in Australia.



In addition, the Commission offers a pre-lodgement advice service to potential applicants for anti-dumping measures. This service helps potential applicants ensure they understand how to complete the application form and what information they need to provide, and can provide advice to the applicant on how to develop an effective goods description. The Commission recognises that the tariff classification system can be complex, especially for SMEs that are not familiar with it, and that the degree of customisation of some steel manufactured/ fabricated products (and products in some other industries) create challenges in describing the goods accurately.

At the same time, the Government has expanded the International Trade Remedies Advisory service (ITRA) which helps Australian SMEs access Australia's anti-dumping system. The ITRA service can be accessed by all eligible Australian SMEs impacted by the anti-dumping system, including producers and manufacturers who may be injured by dumped and subsidised imports as well as importers and end users who may be affected by anti-dumping measures. The ITRA Service helps SMEs by:

- raising awareness of how the anti-dumping system works
- giving advice on anti-dumping and countervailing matters, including options for businesses to participate in the anti-dumping system
- assisting with preparing applications for investigations and all other case types (e.g. reviews, duty assessments and exemptions)
- assisting with making submissions to the Commission
- facilitating cooperation between SMEs to ensure applications have the required level of support to meet the standing requirement.

### 7.3.2 Potential options to further improve access by SMEs

This section outlines a range of options proposed by stakeholders, including the ITRF sub-committee on SME access. Options generally fall into three main categories:

- further improving knowledge and awareness of the system and understanding of how the system works and how to engage with it
- simplifying the system, including facilitating access to data and reducing the evidence burden
- addressing impacts on downstream industries, including maintaining the ability to source inputs from competing suppliers.

Reflecting the diversity of stakeholder experiences and differences in the economic and market factors affecting their performance, opinions differ on how best to address the concerns of downstream industries—in respect of this report, the downstream industry is the steel fabrication industry. However, there is agreement among SMEs that better awareness of the system and simplification would be generally beneficial to all stakeholders.

#### **Improving knowledge and awareness of the system**

As noted in section 7.3.1, the Government and the Commission have implemented a number of actions to improve information and guidance to stakeholders about the system, provide assistance to stakeholders in participating in the system, and improve transparency about the Commission's processes. However, the Commission recognises that further improvements would benefit stakeholders, particularly SMEs.

Stakeholders have noted that customs brokers and freight forwarders play an important role in communicating information to stakeholders, including importers. The Minister has appointed the Customs Brokers and Forwarders Council of Australia (CBFCA) as a member of the ITRF.

The ITRF sub-committee identified the need to develop and implement a comprehensive interested party notification system which could alert, in a timely manner, interested parties (to current and, where relevant, previous investigations or inquiries) that: documents have been placed on the public record, including Commission findings and reports; there have been changes to anti-dumping system policies and practices; and related investigations or inquiries have been initiated. This recommendation was consistent with feedback received by the Commission in a recent survey of users of the Commission's website.

The Commission has now implemented an alerts system that informs subscribers of changes to information on the website, including the three types of information identified by the ITRF sub-committee. More than 200 subscriptions to this alert system have already been received. The Commission will seek feedback from subscribers on potential improvements to the service (where technically possible on the current website platform). In addition the Commission has recently, in response to stakeholder suggestions, enhanced the Dumping Commodity Register on its website to 'flag' measures that are currently subject to an investigation, inquiry or review to help stakeholders monitor for potential changes to measures in place.

In regard to data access, the Commissioner established a sub-committee of the ITRF following the May 2017 meeting to examine issues in relation to access to trade data. This sub-committee was established in response to interest expressed by ITRF members in examining data access issues in more depth and developing potential options to address these issues. As noted in section 7.3.1, SMEs have experienced challenges in obtaining data required to support an application, including data on imports, trade flows and markets shares, and data required to monitor measures. Government agencies that collect and disseminate trade and other information, including the ABS and DIBP, are contributing to the sub-committee on these issues.

#### **Simplifying the system and improving access to data**

A number of proposals have been made by stakeholders on ways to simplify and reduce the expense of the application process, including simplifying application forms, reducing evidence requirements for SMEs, and 'pre-filling' information from data currently held by government agencies.

While the Commission is open to considering options for reducing the burden on potential SME applicants for measures, the Commission must ensure such approaches are consistent with sound, evidence-based decision-making and its obligations under international agreements (including the WTO agreements on anti-dumping and countervailing duty measures).

As part of its commitment to continuous improvement, the Commission will continue to look for ways to improve its operational policies and practices for conducting investigations and reviews to increase transparency, take account of businesses' different accounting systems (such as simplified systems used by some SMEs), and seek to adopt best practice analysis techniques that take into account the available data. As resources permit, the Commission will review and revise its anti-dumping system documentation, review application screening practices and requirements, and consider potential enhancements (consistent with domestic legislation and international obligations) to streamline policies and practices that may be burdensome for SMEs.

In this regard, the Commission notes the views of the SME access sub-committee on the resource intensiveness of such reviews by the Commission and the sub-committee's recognition that some of the complexity in the Commission's processes and documentation result from the complexity of the legislative framework (which, in many cases, reflects the international agreements on anti-dumping and countervailing duty measures, to which Australia is a signatory).

#### **Addressing impacts on downstream industry**

Stakeholder views on the impact of anti-dumping measures on downstream industries and markets reflect their different interests, perspectives and experiences of the system. Consequently, there are opposing views among stakeholders and other interested parties on how downstream impacts are best addressed.

As noted in chapter 4, the Commission recognises that anti-dumping measures have impacts on downstream industries. The Commission further notes that in consultations with downstream industries affected by anti-dumping measures, there has been general support for a level playing field for both upstream and downstream businesses and for government action to address unfair trading practices.

It is important to recognise that anti-dumping measures do not seek to stop imports or give an unfair competitive advantage to Australian producers. The objective of the system is only to create a level playing field by remedying the injury to Australian industry of dumping and foreign subsidisation, consistent with international agreements. Governments of most developed countries, and many developing countries, have established anti-dumping systems to achieve these objectives.

In the absence of anti-dumping and countervailing duties on primary steel products, the adverse impacts on Australian steel fabricators of cheap (that is, dumped and/or subsidised) steel fabricated imports could be offset, in part, by access to cheap (dumped and/or subsidised) steel inputs. However, this would be at the cost of unremedied injury to Australian producers of primary steel products. A lack of action to remedy proven injury would have adverse economic, employment and social impacts for the Australian community as a whole.

### 7.3.3 Review of access by small and medium enterprises to the anti-dumping system

The Government has tasked the Department of Industry, Innovation and Science with undertaking a review of SME access to obtain a comprehensive understanding of the problems and potential solutions. The review involves close consultation across government and with industry stakeholders. The review will be completed by the end of 2017 and findings and recommendations will be provided to the Government for consideration in early 2018.

## Appendix 1: Overview of Australia's trade remedy system

The objective of Australia's trade remedy system is to investigate and, where appropriate, remedy the material injury to an Australian industry caused by imported goods that are 'dumped' into Australia or subsidised in the country of origin. Trade remedies in the form of anti-dumping or countervailing duties can be imposed to allow the Australian industry producing 'like' goods to compete on a level playing field with imported goods.

### What is dumping?

Dumping occurs when a foreign exporter sells goods into Australia at a price that is below the 'normal value' of the goods. The normal value will usually be the domestic price of the goods in the country of export. The margin of dumping is the amount by which that normal value exceeds the 'export price' of the goods.

Dumping is not prohibited under international trade agreements and it is not illegal. However, WTO nations have recognised that dumping can give foreign exporters an 'unfair' competitive advantage over the domestic industry in the country in which the goods are dumped. Consistent with WTO rules, anti-dumping duties may be imposed when dumping causes, or threatens to cause, material injury to an Australian industry.

### What is subsidisation?

Subsidisation occurs when imported goods benefit from government assistance in the country of export. Subsidisation can be:

- an export subsidy that encourages export performance and/or
- a domestic subsidy or other financial benefit that (directly or indirectly) reduces the costs of all goods produced by the domestic industry, including goods that are exported.

Commonly found subsidies include: preferential loans; grants; tax incentives; and the provision of goods or services for less than adequate remuneration (typically less than the cost of supply). WTO nations have recognised that foreign government subsidisation can give foreign exporters an 'unfair' competitive advantage over the domestic industry in the country to which the goods are exported.

A countervailing duty can be imposed to offset the amount of the subsidy where the subsidy applies to a specific firm, group of firms or industry. Export subsidies, and subsidies contingent on the use of domestic over imported goods, are prohibited under WTO rules.

### Dumping or subsidisation must cause material injury to be actionable

In order for dumping or subsidisation to be actionable under Australian law, the dumped or subsidised imports must be shown to cause material injury to the relevant Australian industry.

### What is material injury?

Material injury is assessed through relevant indices and factors that demonstrate the state of the relevant Australian industry including:

- volumes of dumped or subsidised imports
- price effects of dumped or subsidised imports
- consequent economic effects on, for example, profit, capacity utilisation, and market share.

Material injury may be current material injury, threatened material injury, or material hindrance to the establishment of an Australian industry.

### There must be a causal link between material injury and dumped or subsidised goods

Consistent with WTO rules, trade remedies may not generally be imposed unless there is evidence of a causal link between material injury and the dumped or subsidised imports.

Any injury caused by a factor other than by the dumped or subsidised goods being imported (such as contractions in demand, imported goods that are not dumped or subsidised, or developments in technology) must not be attributed to the dumped or subsidised goods.

### The form of Australian trade remedies

Where dumped or subsidised goods have caused material injury to an Australian industry, remedial action may be taken by the Minister in the form of anti-dumping or countervailing duties, or by the acceptance of an effective price undertakings by the exporter.

Anti-dumping duties can be ad valorem, fixed, floor price, or a combination of fixed and variable duties. Countervailing duties can be ad valorem, a fixed amount per unit or a combination of the two.

Price undertakings are an agreement by the exporter to sell at a minimum price. In this case, anti-dumping duties are not collected on the imported goods. The acceptance of an undertaking is at the Minister's discretion.

### Administration of Australia's trade remedy system

The Anti-Dumping Commission administers Australia's anti-dumping system. The Commission investigates the dumping and subsidy claims lodged by an Australian industry applicant.

The investigation includes examination of the alleged dumping or subsidies (as applicable), the injury suffered by the Australian industry concerned, and the causal link between the dumping or subsidy and injury found to have been suffered by the Australian industry. The Commissioner of the Anti-Dumping Commission recommends to the Minister whether anti-dumping or countervailing duties should be imposed.

### What is the connection between government interventions or influence in markets and trade remedies?

Trade-exposed Australian industries often seek trade remedies in circumstances where government interventions or influence in markets distort market behaviour and result in dumped or subsidised goods being exported to Australia.

In investigating alleged dumping or subsidisation, the Commission considers foreign government interventions or influence in the following ways:

- **Directly:** In the course of investigations into alleged subsidisation, the Commission directly assesses whether a foreign government has intervened in or influenced the relevant market by providing subsidies to a specific exporting firm, group of firms or industry.
- **Indirectly:** In the course of an investigation into alleged dumping, the Commission may assess whether a 'market situation' exists in the relevant foreign market or markets for key inputs. A market situation may be found where a foreign government has intervened in or influenced the relevant market such that it does not function as a competitive market. In those circumstances the Commission may determine the normal value of the relevant goods by reference to information other than the domestic price of the goods in the country of export.