



**CONTINUATION 449 AND 450 AND REVIEWS OF MEASURES
456 AND 457**

**INQUIRY INTO THE CONTINUATION AND REVIEW OF
ANTI-DUMPING MEASURES APPLYING TO**

**ZINC COATED (GALVANISED) STEEL
EXPORTED FROM PEOPLE'S REPUBLIC OF CHINA, THE
REPUBLIC OF KOREA AND TAIWAN**

AND

**ALUMINIUM ZINC COATED STEEL EXPORTED
FROM PEOPLE'S REPUBLIC OF CHINA AND THE
REPUBLIC OF KOREA**

VISIT REPORT – AUSTRALIAN INDUSTRY

BLUESCOPE STEEL LIMITED

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION

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ABBREVIATIONS

the Act	<i>Customs Act 1901</i>
ADN	Anti-Dumping Notice
ANV	ascertained normal value
BlueScope	BlueScope Steel Limited
China	People's Republic of China
the Commission	the Anti-Dumping Commission
the Commissioner	the Commissioner of the Anti-Dumping Commission
CTMS	cost to make and sell
EPR	electronic public record
Galvanised steel	Zinc coated (galvanised) steel
HRC	hot rolled coil
ICD	Interim countervailing duty
IDD	Interim dumping duty
ISSB	International Steel Statistics Bureau
Korea	the Republic of Korea
NIP	Non-injurious price
PCN	Product control number
Subject countries	Countries subject to the anti-dumping measures
R&D	Research and Development
USP	Unsurpressed selling price

1 BACKGROUND

On 25 August 2017, a notice was published on the Anti-Dumping Commission's (the Commission's) website, in accordance with subsection 269ZHB(1) of the *Customs Act 1901* (the Act),¹ inviting certain persons to apply to the Commissioner of the Anti-Dumping Commission (the Commissioner) for a continuation of anti-dumping measures applying to:

- certain aluminium zinc coated steel exported to Australia from People's Republic of China (China) and the Republic of Korea (Korea);² and
- certain zinc coated (galvanised) steel exported to Australia from China, Korea and Taiwan.³

On 6 October 2017, BlueScope Steel Limited (BlueScope), the sole Australian producer of aluminium zinc coated steel and galvanised steel, lodged an application for the continuation of the measures, which was within the applicable legislative timeframes.⁴

On 2 November 2017, the Assistant Minister for Industry, Innovation and Science and the Parliamentary Secretary to the Minister for Industry, Innovation and Science requested that the Commissioner initiate a review of the anti-dumping measures in relation to galvanised steel exported from China, Korea and Taiwan and aluminium zinc coated steel exported from China and Korea.

Following consideration of the applications and the request to initiate reviews of anti-dumping measures, inquiries were initiated and public notices published on 10 November 2017 in respect of aluminium zinc coated steel⁵ and galvanised steel.⁶ Background to initiation of these inquiries is contained in the respective Anti-Dumping Notices which is available at www.adcommission.gov.au.

1 References to any section or subsection in this report relate to provisions of the Act, unless specifically stated otherwise.

2 Anti-Dumping Notice (ADN) 2017/118 refers.

3 ADN 2017/119 refers.

4 In accordance with subsection 269ZHB(1)(b).

5 ADN 2017/158 refers and ADN 2017/156

6 ADN 2017/159 refers and ADN 2017/157

2 THE AUSTRALIAN INDUSTRY AND LIKE GOODS

2.1 The Australian industry

BlueScope is the sole manufacturer of galvanised steel and aluminium zinc coated steel in Australia.

During the visit BlueScope provided the verification team with a tour of its manufacturing facility at Port Kembla, New South Wales. Details of this production process are contained in the verification work programme at **Confidential Attachment 1**.

2.2 The goods

The goods subject to the anti-dumping measures and, therefore, this inquiry are:

Zinc coated (galvanised) steel:

Flat rolled products of iron and non-alloy steel of a width less than 600mm and equal to or greater than 600mm, plated or coated with zinc; and

Flat rolled products of alloyed steel of a width less than 600mm and equal to or greater than 600mm, plated or coated with zinc exported from:

- *China by Angang Steel Co., Ltd or Benxi Iron and Steel (Group) International Economic & Trading Co.; or*
- *Taiwan by Yieh Phui Enterprise Co., Ltd;*

Aluminium zinc coated steel:

Flat rolled products of iron and non-alloy steel of a width equal to or greater than 600mm, plated or coated with aluminium-zinc alloys, not painted whether or not including resin coating.

Further information in regard to the goods can be found in ADN Nos. 2017/156, 157, 158 and 159.

2.3 Like goods

2.3.1 Galvanised steel

Based on the information currently available including findings from the original investigation and information gathered during the visit, the verification team considers that:

- the primary physical characteristics of the goods and locally produced goods are similar, notwithstanding variations in technical specifications (i.e. grade or thickness);
- the goods and locally produced goods are commercially alike as they are sold to common users, and directly compete in the same market;
- the goods and locally produced goods are functionally alike as they have a similar range of end-uses; and
- the goods and locally produced goods are manufactured in a similar manner

In light of the above, the verification team is satisfied that the galvanised steel produced by the Australian industry are like to the imported goods, as defined in subsection 269T(1) of the Act.

2.3.2 Aluminium zinc coated steel

Based on the information currently available including findings from the original investigation and information gathered during the visit, the verification team considers that:

- the primary physical characteristics of the goods and locally produced goods are similar, notwithstanding variations in technical specifications (i.e. grade or thickness);
- the goods and locally produced goods are commercially alike as they are sold to common users, and directly compete in the same market;
- the goods and locally produced goods are functionally alike as they have a similar range of end-uses; and
- the goods and locally produced goods are manufactured in a similar manner

In light of the above, the verification team is satisfied that the aluminium zinc coated steel produced by the Australian industry are like to the imported goods, as defined in subsection 269T(1) of the Act.

2.3.3 Model matching criteria

As part of their applications, BlueScope provided product control numbers (PCN) and categories within those which impact price. BlueScope recommend that these be considered for model matching.

The verification team observed these PCNs and is satisfied that the suggested categories impact BlueScope's pricing.

2.4 Preliminary assessment

The verification team is satisfied that there are like goods wholly manufactured in Australia and that there is an Australian industry, consisting of BlueScope, that produces like goods in Australia.

3 VERIFICATION OF SALES

In its application, BlueScope provided a detailed spreadsheet listing its Australian sales of galvanised steel and a separate Australian sales listing for aluminium zinc coated steel during the period 1 October 2016 to 30 September 2017.

3.1 Verification of Australian sales to audited financial statements

The verification team verified the completeness and relevance of BlueScope's sales listings by reconciling each of them to audited financial statements in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.2 Verification of Australian sales to source documents

The verification team verified the accuracy of BlueScope's sales spreadsheets by substantiating sales data provided to source documents in accordance with ADN No. 2016/30.

Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

3.3 Related and unrelated customers

BlueScope sells galvanised steel and aluminium zinc coated steel to both related and unrelated customers. Prices are set contemporaneously in reference to known import price offers in the market which can be moderated by the volume and the mix of products purchased.

The Commission has examined the sales data provided in Confidential Appendix A4 for the investigation period, in particular the selling prices of galvanised steel and aluminium zinc coated steel to related and unrelated parties are comparable.

The verification team is satisfied that both the related and unrelated party sales data can be used for assessing the economic condition of the Australian industry.

3.4 Australia sales – preliminary assessment

The verification team is satisfied that the Australian sales listing is complete, relevant and accurate. The domestic sales listings are at **Confidential Appendix 1**.

4 COST TO MAKE AND SELL

BlueScope provided a complete cost to make and sell (CTMS) spreadsheet for galvanised steel and a separate sheet for aluminium zinc coated steel with its application.

The verification team verified the completeness and relevance of BlueScope's CTMS spreadsheets by reconciling each of them to audited financial accounts in accordance with ADN No. 2016/30.

The visit team did not find any discrepancies or issues reconciling the CTMS spreadsheets to audited financial statements. Details of the verification are contained within the verification work program at **Confidential Attachment 1**.

4.1 Verification of costs to audited financial statements

The verification team verified the completeness and relevance of BlueScope's CTMS spreadsheets by reconciling them to the company's audited financial statements in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of this verification process are contained in the verification work program, and its relevant attachments, at **Confidential Attachment 1**.

4.2 Verification of costs to source documents

The verification team verified the accuracy of BlueScope's CTMS spreadsheets by reconciling each of them to source documents in accordance with ADN No. 2016/30.

The verification team did not identify any issues during this process. Details of the verification process are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

4.3 Related party purchases

BlueScope confirmed that the main raw material, being hot rolled coil (HRC), is purchased from another division of the business. The price is set with reference to market and customer benchmarks.

The verification team verified the calculation of the benchmark price and are satisfied that this price is set on an arm's length basis.

Details of the calculation of this price are contained in the verification work program, and relevant attachments, at **Confidential Attachment 1**.

The verification team did not identify any other suppliers that might be related to BlueScope, based on the company's application and documentation supplied for the purpose of the verification.

4.4 Cost to make and sell – summary

Having verified BlueScope's CTMS spreadsheet to its audited financial statements and to source documents, the verification team is satisfied that the CTMS spreadsheet is complete, relevant and accurate. BlueScope's CTMS spreadsheet is at **Confidential Appendix 2**.

5 ECONOMIC CONDITION OF THE INDUSTRY

5.1 Commencement of measures and inquiry period

On 5 August 2013, anti-dumping measures in the form of interim dumping duties (IDD) were imposed on galvanised steel exported from China, Korea (except by Dongkuk Steel Mill Co. Ltd) and Taiwan (except by Ta Fong Steel Co. Ltd and Sheng Yu Steel Co. Ltd). On 5 August 2013, anti-dumping measures in the form of interim countervailing duties (ICD) were also imposed on galvanised steel exported from China, except for exports by Angang Steel Company Ltd, ANSC-TKS Galvanizing Co. Ltd, Yieh Phui Technomaterial Co. Ltd and Jiangyin Zongcheng Steel Co. Ltd.

On 18 March 2016, the description of goods was varied following an anti-circumvention inquiry of the anti-dumping measures (ADN No. 2016/23 refers). On 12 May 2017, IDD and ICD rates were varied following six independent reviews of the anti-dumping measures (ADN No. 2017/49 refers).

On 5 August 2013, anti-dumping measures in the form of IDD were imposed on aluminium zinc coated steel exported from China and Korea (except for exports by Dongkuk Steel Mill Co Ltd).

Anti-dumping measures in the form of ICD have also been imposed on aluminium zinc coated steel exported from China, except for exports by Angang Steel Company Ltd, Jiangyin Zongcheng Steel Co, Union Steel China and Yieh Phui Technomaterial Co Ltd.

On 12 May 2017, IDD rates were varied following three independent reviews of the anti-dumping measures (ADN No. 2017/48 refers).

The verification team has examined the Australian market and the economic condition of the Australian industry from October 2016 to September 2017 for the purposes of its analysis.

5.2 Approach to analysis

The analysis detailed in this chapter is based on verified financial information submitted by BlueScope.

The verification team's preliminary assessment of the Australian market and the economic condition of the Australian industry is outlined in **Confidential Attachment 1**.

The import volumes provided by BlueScope have been used for the purpose of describing the condition of the Australian galvanised steel and aluminium zinc coated steel markets as specified in BlueScope's application. BlueScope advised that this data is from a reputable trade statistics provider. The case team will conduct further analysis and verification of import volumes into the Australian market.

5.3 General market conditions

The Australian market for galvanised steel and aluminium zinc coated steel is supplied by BlueScope, the subject countries and other countries.

The main markets for the goods are the building and construction and the manufacturing industries. The mining, transport and defence industries form a smaller share of the end user market.

Until October 2017, BlueScope also supplied galvanised steel to the automotive industry. Due to the closure of automotive passenger vehicles manufacture in Australia this channel is now minimal, consisting of some aftermarket supply.

BlueScope supplies either directly to its markets or through distributors. Further information concerning BlueScope's end user markets is available at **Confidential Attachment 1**.

5.4 Volume trend

The following analysis is based on data provided by BlueScope in its application.

5.4.1 Sales volume

The following graphs illustrate sales volumes for galvanised steel and for aluminium zinc coated steel in the Australian market.

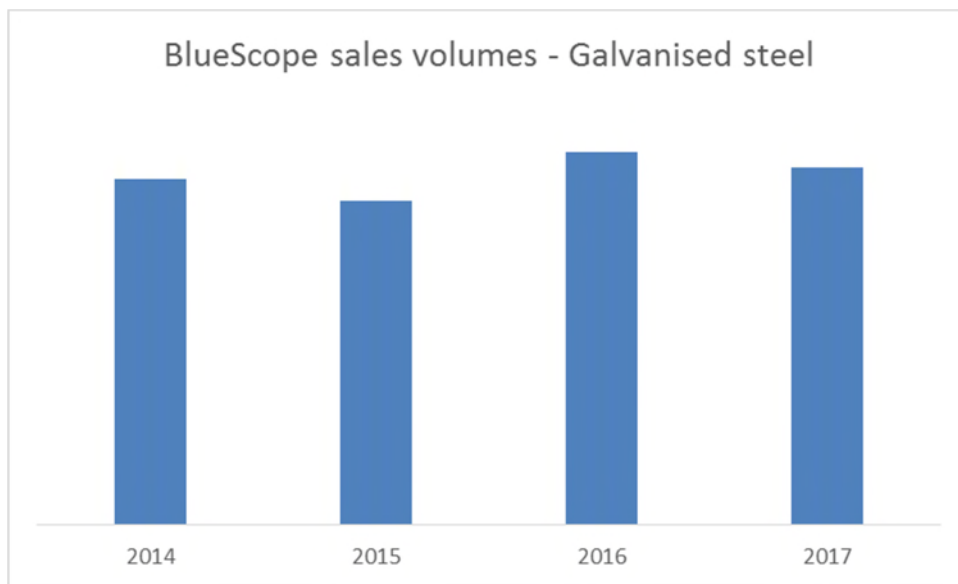


Figure 1 – BlueScope's domestic sales volume of all Galvanised steel

Figure 1 shows that BlueScope's domestic sales volume of galvanised steel has remained stable between 2014 and 2017, despite fluctuations in sales volumes year-on-year.

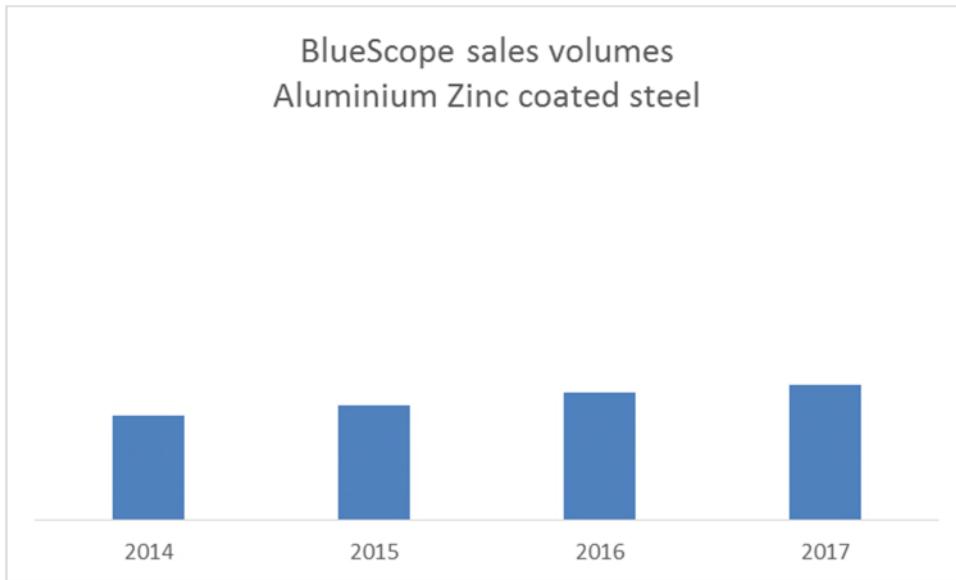


Figure 2 – BlueScope’s domestic sales volume of all Aluminium Zinc coated steel

Figure 2 demonstrates the growth in BlueScope’s domestic sales volumes for aluminium zinc coated steel over the 2014 to 2017 period. There is steady growth in volumes in the inquiry period.

5.4.2 Market share

The following graphs illustrate changes in the domestic market share between BlueScope and exporting countries for galvanised steel and aluminium zinc coated steel. The import volumes are based on data provided by BlueScope.

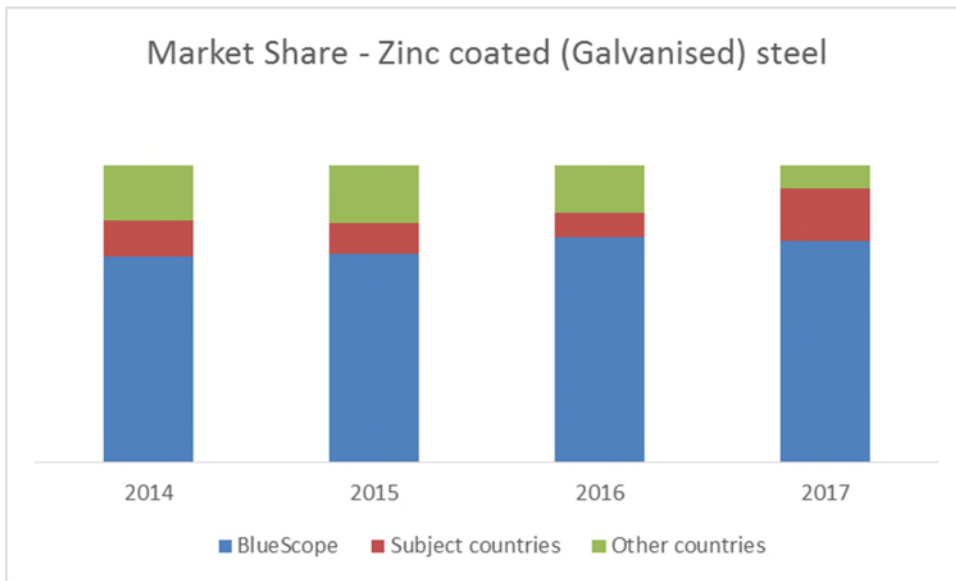


Figure 3 – Australian market share – Galvanised steel

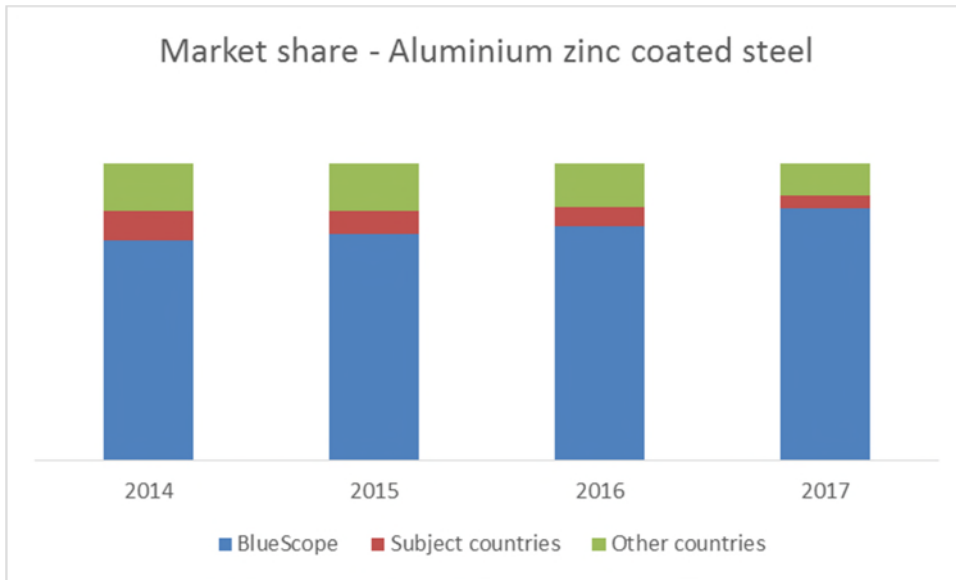


Figure 4 – Australian market share – Aluminium Zinc coated steel

5.5 Price effects

The following graphs show trends in BlueScope’s unit sales revenue and unit CTMS for galvanised steel and aluminium zinc coated steel. The analysis is based on data provided by BlueScope in its application.

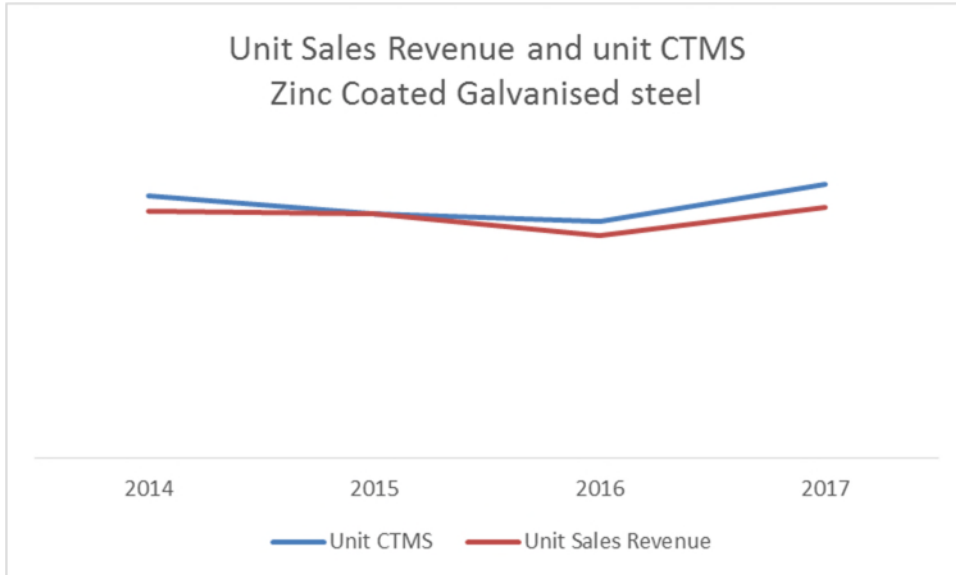


Figure 5 – BlueScope’s unit net revenue and cost for Galvanised steel

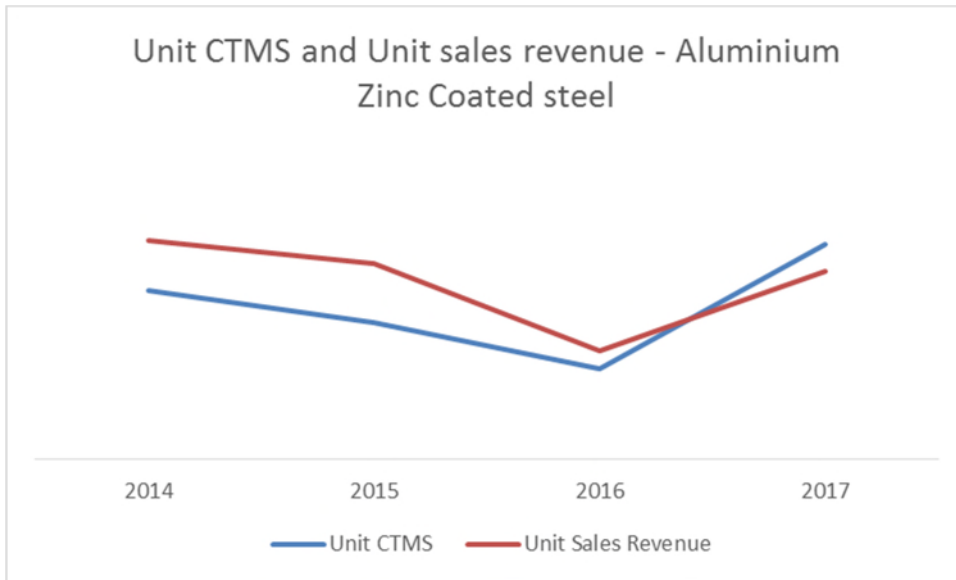


Figure 6 – BlueScope’s unit net revenue and cost for Aluminium Zinc coated steel

5.6 Profit and profitability

The following graphs show the trends in BlueScope’s profit and profitability for galvanised steel and aluminium zinc coated steel.

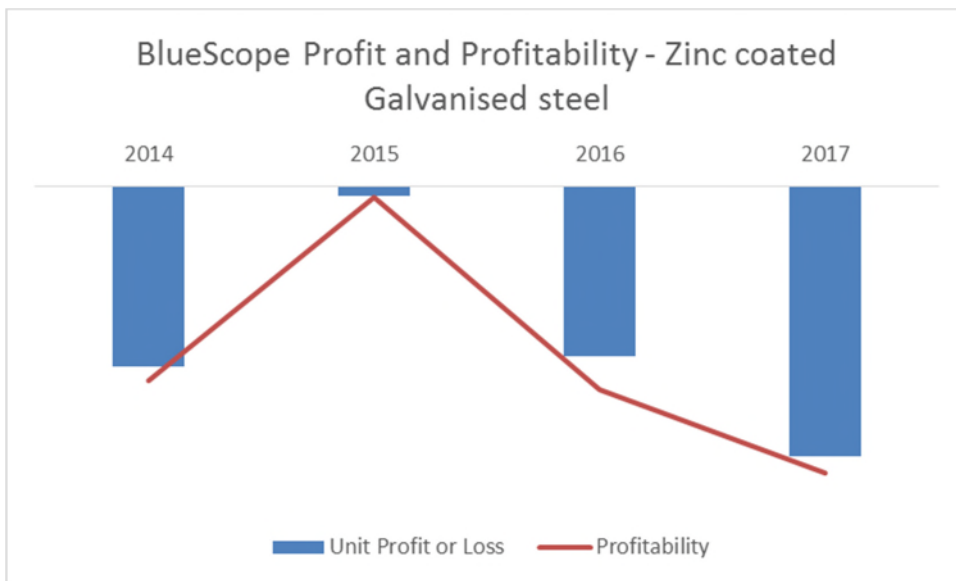


Figure 7 – BlueScope’s profit and profitability for Galvanised steel

Figure 7 demonstrates that BlueScope saw some improvement in its net loss position between 2014 and 2015. Since 2015 there has been a substantial increase in its net loss position as well as a deterioration in profitability.

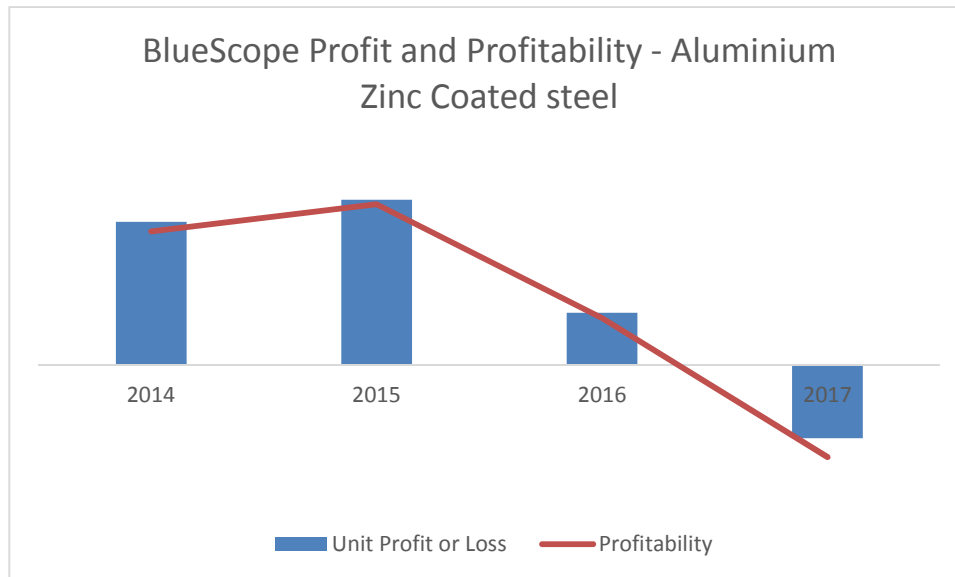


Figure 8 – BlueScope's profit and profitability for Aluminium Zinc Coated steel

Figure 8 demonstrates that BlueScope saw some improvement in its net profit position and profitability from 2014 to 2015. Since 2015 there has been a substantial deterioration of profit and profitability from a unit profit to a unit loss position by 2017.

5.7 Other economic factors

BlueScope provided information in respect of other economic factors over the inquiry period for galvanised steel and aluminium zinc coated steel (**Confidential Appendix 3**).

Below is a summary of other economic factors relating to galvanised steel:

- Asset values have trended down between 2014 and 2017 with a marginal increase between 2015 and 2016.
- Capital investment in this time increased between 2014 and 2016 and declined in 2017.
- Return on investment increased between 2014 and 2015, declined slightly between 2015 and 2016 and sharply between 2016 and 2017.
- Employment levels generally remained stable between 2014 and 2015 then trended down between 2015 and 2017.
- Revenue increased between 2016 and 2017 after a slight decline between 2014 and 2016. During the visit BlueScope claimed that revenues between 2016 and 2017 were buoyed by decade low HRC prices which is the main input into galvanised steel. Input costs and its impacts will be reviewed further as the investigation progresses.
- Capacity utilisation has decreased between 2014 and 2015, but after this time BlueScope has been operating at or near to capacity. BlueScope claimed that steel furnaces need to be run continuously as the reasoning behind running at close to full capacity.
- Capacity and productivity of employees have risen marginally over the period. BlueScope advised that there has been no change to the number of shifts or length of shifts between 2014 and 2017.
- Research and development (R&D) expenses have increased between 2016 and 2017 after a decrease from 2014 to 2016.

A summary of other economic factors relating to aluminium zinc coated steel:

- Assets and capital investment increased between 2016 and 2017 due to an investment in re-commissioning a zinc aluminium coated steel line that was suspended in 2011. In addition, BlueScope invested in further upgrading the other zinc aluminium lines during this time.
- Capacity utilisation, total capacity, total wages and employment also trended upwards between 2016 and 2017. BlueScope advised that this was due to the increased capacity from the re-commissioned coated steel line.
- Average wages declined between 2015 and 2016 and more sharply between 2016 and 2017.
- Return on investment has dipped between 2016 and 2017 – BlueScope claimed as a consequence of the investment (increase in assets) over the period.
- R&D has increased between 2014 and 2015, reduced between 2015 and 2016 and then increased again between 2016 and 2017, however, in whole dollar terms the changes are marginal.

5.8 Conclusion

The verification team is of the view that over the inquiry period, BlueScope has shown a trend towards an increase in the margin between unit revenue and unit CTMS which has led to a decrease in profit and profitability for both products. Sales volumes and market share have remained stable for galvanised steel and increased for aluminium zinc coated steel over the inquiry period. Notwithstanding this improvement, BlueScope achieved per unit losses on its sales of both galvanised steel and aluminium zinc coated steel during the inquiry period.

6 IMPACT OF THE EXPIRY OF ANTI-DUMPING MEASURES

Under the terms of subsection 269ZHF(2) of the Act, in order to recommend that the Parliamentary Secretary to the Minister for Industry, Innovation and Science take steps to secure the continuation of the anti-dumping measures, the Commissioner must be satisfied that the expiration of measures would lead, or would be likely to lead, to a continuation of, or a recurrence of:

- dumping or subsidisation; and
- the material injury that the anti-dumping measure is intended to prevent.

Accordingly, the verification team sought BlueScope's views on these matters. BlueScope was of the view that should the measures expire this would lead to a continuation of, or a recurrence of dumping or subsidisation and material injury to the company. BlueScope outlined a number of factors and provided evidence to support its claims.

6.1 Continuation or recurrence of dumping

6.1.1 Effectiveness of the measures

BlueScope believe that the measures have been effective in addressing injury from dumping and subsidisation, this being despite data provided by BlueScope for the inquiry period showing a declining trend for both unit profits and profitability for both galvanised steel and aluminium zinc coated steel. The overall Australian market remained stable throughout the period. This data will, however, need to be compared to that from the original investigation during the course of the continuation inquiry.

BlueScope argues that as a result of the recent reviews⁷ of anti-dumping measures imposed on a number of exporters, the effectiveness of the measures is evident. These reviews resulted in those exporters having revised variable factors applicable to them. Due to this, a number of these exporters are now subject to a floor price duty calculation. BlueScope allege that this has resulted in recommencements and increases in import volumes.

The verification team has observed the increased import volumes of galvanised steel and aluminium zinc coated steel from the countries subject to the anti-dumping measures (subject countries) following these reviews, however it was also observed that there was a correlated decline in import volumes from other countries not subject to measures.

6.1.2 Volume of imported goods / patterns of imports since measures imposed

The import volumes provided by BlueScope demonstrate that exporters from China, Korea and Taiwan continued to export galvanised steel post the imposition of measures at reduced volumes immediately upon imposition of the measures. Import volumes, however, have increased significantly post the outcome of the reviews.⁸ The import volumes of aluminium zinc coated steel exported from China and Korea reduced

⁷ Reviews 365, 366, 367, 368, 371, 372, 374, 375, 376, 385 and 386

⁸ *ibid*

immediately following the imposition of measures. The overall Australian market remained stable for both products.

6.1.3 Distribution links

BlueScope noted that some exporters subject to measures maintain distribution channels into Australia and this is evidenced by exports from these countries continuing since the imposition of measures. As part of its application for the continuation of measures, BlueScope provided evidence to demonstrate that galvanised steel exported from China, Korea and Taiwan and aluminium zinc coated steel exported from China and Korea continued to be offered for sale in the Australian market over the inquiry period (confidential attachment 4 to BlueScope's applications).

6.2 Continuation or recurrence of material injury

6.2.1 Pricing strategy

BlueScope claimed that, as established in the original investigation, it operates an import benchmark pricing strategy known internally as Import Parity Pricing (IPP). Import offers are used to determine at what level to set its selling prices for both products. BlueScope claimed it places significant importance on maintaining sales volume and will only set a price below IPP on an exception basis to maintain market share and with the express authorisation of BlueScope senior management..

BlueScope was of the view that price remains the main factor which influences customer decisions on where to source galvanised steel and aluminium zinc coated steel.

During the visit BlueScope advised that the IPP is used to set the 'Base' price for the generic product and all variations to the base (known as 'extras') will be priced above.

BlueScope also advised that while it is generally not in competition with exports for short lead times (under 3 months) it sets short lead time pricing using the IPP as well. BlueScope claimed that if short lead times are priced higher, customers will change their buying habits to extend lead times in order to get access to a better price.

BlueScope further claimed that exports from subject countries are "fit for purpose" and customers will not pay a premium for BlueScope products on the basis of quality.

Following the verification visit, BlueScope provided additional information to explain its pricing strategy and provided additional correspondence with customers to support its claim that it is forced to lower prices in response to import offers (**Confidential Attachment 2**). Most of the correspondence reviewed by the verification team does not expressly state which supplier is offering a lower price, however, indicates the country that the offer is from. Most of the correspondence referred to one of the subject countries.

6.2.2 Demand for the goods

Since the original investigation, the automotive manufacturing sector in Australia experienced a significant downturn with the cessation of passenger motor vehicle manufacturing. BlueScope claimed that the automotive sector afforded higher margins for galvanised steel in comparison with the building and construction sectors. From a revenue perspective, BlueScope claimed that the automotive sector made a positive contribution. , Due to substitution for industries with smaller profit margins, however, the impact has been amplified.

6.2.3 Measures in other jurisdictions

BlueScope provided information concerning anti-dumping measures imposed on subject countries in its application. BlueScope submitted that the imposition of measures was due to a determination that the alleged dumping was causing injury to a domestic market. BlueScope claimed that if measures did not continue, there would be an increased incentive for subject countries to dump the goods into Australia.

6.2.4 Cost of raw materials

BlueScope claimed that increases in global zinc prices have impacted its margins. It was further claimed that due to price pressure from exports it is unable to increase prices to allow for this increase. BlueScope alleged that exporters are absorbing the increasing cost of zinc. The pricing of inputs (particularly increases in the price of zinc) will be reviewed further during exporter verification visits.

6.2.5 Overcapacity in subject countries

BlueScope discussed the overcapacity of steel in subject countries during the visit and in its applications. BlueScope claimed that the production capacity of China and Korea far outweighed the demand in the Australian market. It stated that if the measures were removed, some of this over supply will find a market in Australia causing injury to the Australian industry. The capacity of subject countries will be reviewed further during the course of the inquiry.

7 UNSUPPRESSED SELLING PRICE

BlueScope's views on the unsuppressed selling price (USP) and non-injurious price (NIP) were not discussed at the verification visit.

BlueScope provided submissions⁹ to the Commission regarding their views on the USP, NIP and the form of measures.

⁹ Submissions dated 7 December 2017 (EPR 456 and EPR 457, Document 003 refers).

8 APPENDICES AND ATTACHMENTS

Confidential Appendix 1	Domestic sales listing
Confidential Appendix 2	CTMS spreadsheet
Confidential Appendix 3	Other injury factors
Confidential Attachment 1	Verification work program, with attachments
Confidential Attachment 2	Pricing offers to related and non-related parties
Confidential Attachment 3	Pricing strategy