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Ms Candy Caballero Director, Operations 3 Anti-Dumping Commission 1010 La Trobe Street DOCKLANDS VIC 3008

Investigation into Steel Reinforcing Bar exported from the Republic of Korea

Dear Ms Caballero,

This submission is made on behalf of Daehan Steel Co., Ltd. (Daehan) and Stemcor Australia Pty Ltd (Stemcor) in response to the recently initiated investigation into the alleged dumping of steel reinforcing bar from the Republic of Korea (Korea). Stemcor is an independent steel trader that sources steel reinforcing bar in coil (DBIC) through an exclusive arrangement with Daehan, a producer and exporter of the goods from Korea.

It is our understanding that Daehan is the sole exporter of steel reinforcing bar to Australia from Korea. As noted by OneSteel in its application, Daehan has only exported DBIC to Australia during the investigation period and has not exported rebar in straight lengths. Accordingly, the issues raised in this submission are relevant only to sales of imported and locally produced DBIC in the Australian market.

The purpose of this submission is to bring to the Anti-Dumping Commission's (the Commission) attention a number of issues that are considered directly relevant to its examination and assessment of the material injury claims raised in the application by OneSteel Manufacturing Pty Ltd (OneSteel).

Price comparisons

The Commission's Dumping and Subsidy Manual¹ states that:

When comparing imported and local prices, the Commission adjusts the prices to account for differences between the imported and locally produced goods, for example differences in the terms and conditions of their sales, or differences in physical characteristics.

¹ Dumping & Subsidy Manual – December 2013, page 16.

It is noted that in its application, OneSteel claims that undercutting by imported DBIC from Korea ranged from 5-9% over the twelve months ending June 2014. It is also noted that the public version of the application does not identify or address a number of significant differences between the DBIC exported by Daehan and OneSteel's locally produced DBIC, which would significantly impact on any price undercutting analysis.

Daehan and Stemcor consider that the issues outlined in **Attachment 1** below identify these key differences. Therefore, Daehan and Stemcor request that the Commission undertake further inquiries and investigation of these issues during its verification visits to OneSteel and other interested parties.

Reasonableness of Australian industry's costs

The application confirms the understanding by Daehan and Stemcor that OneSteel's production of steel reinforcing bar relies on the raw material feed (billet) being sourced from related business divisions within the legal entity OneSteel Manufacturing. These include OneSteel's steelmaking operations at Laverton, Sydney and Whyalla, which effectively makes the applicant an integrated producer.

The Commission's policy for assessing injury where related party transactions are evident within the Australian industry is outlined at section 4.2 of the Dumping and Subsidy Manual². It states:

...transaction values between related parties may be unreliable and inappropriate for assessing injury indicators associated with price effects. (Costs may also be unreliable for example where there are integrated production stages owned by related business divisions).

The reason for such policy is to ensure that the applicant industry has not fabricated injury by shifting profits to upstream or downstream businesses through the sale of like goods to related parties or the purchase of inputs from related parties used to produce like goods. Given that the cost of billet represents approximately 85-90%³ of the cost to manufacture DBIC, Daehan and Stemcor urge the Commission to closely examine the reasonableness of OneSteel's billet costs.

The concern surrounding OneSteel's billet transfer price is further highlighted by the chart below which shows the movement in OneSteel's rebar cost to make and sell as shown on page 23 of its application, and the movement in international billet prices. Given that billet costs account for approximately 85-90% of the cost of rebar, the available data suggests that OneSteel's billet costs have not declined consistent with international market prices. Given the integrated nature of the applicant's steel making and rebar manufacturing operations, it is open to OneSteel to set transfer prices for billet which allow for profits of the steel-making business divisions to be greater than they otherwise would be between unrelated arms-length parties.

² Ibid, page 14.

³ This is confirmed by the statement made by OneSteel in its application, "OneSteel uses its own iron ore to produce billets manufactured at its Whyalla steelworks and produces billets at Laverton and Sydney from purchases of steel scrap. The iron ore and steel scrap are sourced locally and account for the significant proportion of total raw material goods used in the rebar manufacturing process."

PUBLIC VERSION



Source: Metal Bulletin - Steel First

Daehan and Stemcor understand that all of OneSteel's billet requirements are sourced internally and therefore there are no purchases of billet from unrelated parties that would provide a meaningful benchmark and comparison. Accordingly, international prices for comparable steel billet⁴ would be appropriate for benchmarking purposes in these circumstances to ensure that OneSteel's billet costs reflect reasonable market prices.

In examining this issue, should the Commission find that OneSteel's transfer price for billet significantly exceeds the equivalent international benchmark price, Daehan and Stemcor submit that the Commission should either:

- (a) find that there is insufficient reliable information to making findings on injury indictors linked to OneSteel's production costs such as price suppression, profits and profitability; or
- (b) replace OneSteel's billet cost with an international benchmark price for the purposes of isolating the impact of OneSteel's integrated operations on its material injury claims.

Yours Sincerely

John Bracic

⁴ Refer to **Confidential Attachment 2** which includes relevant billet and DBIC sales data sourced from SteelFirst Steel Magazine (industry magazine and price tracker / benchmarker).

Attachment 1

Issue	Relevance to Australian industry	Observed differences with imported goods
Production	In its application on page 14, OneSteel explains that all	DBIC produced and exported by Daehan also uses the efficient
processes	DBIC (10mm, 12mm and 16mm) produced at its Laverton	Tempcore process.
	mill and 10mm DBIC produced at its Newcastle mill "are	
	produced by rolling billets that have had a small	However the process used by OneSteel to produce DBIC at its
	controlled amount of a microalloy (typically	Laverton mill and the 10mm DBIC produced at its Newcastle mill
	ferrovanadium) added."	is considered a more expensive process due to the addition of the
		ferrovanadium alloys. It is estimated that this process is
	Remaining 12 mm and 16mm DBIC produced at the	approximately US\$30/MT more expensive than the Tempcore
	Newcastle mill is produced from billets without	process.
	microalloy additions. This is considered a more efficient	
	process known as "Tempcore", a quench and self-	Given that OneSteel claims that imported DBIC from Korea is
	tempering process.	undercutting its domestic prices for DBIC, Daehan and Stemcor
		requests the Commission to make appropriate adjustments to
		prices to ensure that products are properly compared. Such
		adjustments should take account of the impact on price of the
		additional production costs stemming from OneSteel's alloying
		process.
Green Star	It is noted that the application contains no mention of	Daehan and Stemcor consider that OneSteel's sales of Green Star
certified products	OneSteel's Green Star certified products. Green Star	certified DBIC should be excluded from the Commission's price
_	certified DBIC is only supplied into the Australian market	undercutting analysis as DBIC exported by Daehan does not
	by OneSteel and NatSteel Singapore. DBIC products that	compete with and cannot be substituted for Green Star rated
	are not fully Green Star rated cannot be substituted for	products.
	Green Star certified DBIC. (Refer to supporting evidence at	
	Confidential Attachment 3.)	
	At present, the Australian market attaches a premium for	
	Green Star certified DBIC of approximately A\$40-50/MT.	

Coil weights	DBIC processing customers in Australia have a preference	DBIC exported by Daehan is produced to a coil weight of 2.2mt
C C	for heavier weight coils (3.0mt and 4.5mt) over lighter	and is less preferred by local customers due to the frequent change-
	weight coils (1.5mt and 2.2mt) due to the reduction in	over costs associated with the lighter coil weight. Given that the
	down-time for changeover of coils. Accordingly,	heavier weights attract a price premium in the Australian market,
	customers are prepared to pay a premium for heavier	any comparison of prices on a metric ton basis should ensure that
	weight coils.	light and heavy weighted coils are properly compared. (Refer to
		Confidential Attachment 4 for supporting evidence)
	It is understood that OneSteel's supply range of DBIC	
	includes:	In addition, OneSteel's heavier weighted coils are estimated to
	i) 1.5mt coil ex-Newcastle and Melbourne which	incur approximately A\$75/MT additional production cost due to
	is made from 1.5mt billet, and	the additional stocking, handling, welding and stretching processes
	ii) 3.0mt and 4.5mt Conti-stretch coil ex-Newcastle	required to produce off-line (stand-alone production) the 3mt and
	which is made using the above 1.5mt coil and	4.5mt coil weights. In comparison, Daehan's exported DBIC is
	produced off-line in batches.	2.2mt coil produced from 2.2mt billet and as a result Daehan does
		not incur the additional charges and production costs required as a
	The Conti-stretch coil involves the welding of 2 or 3 of	result of OneSteel's production capabilities.
	1.5mt coils and then drawn to create the heavier coils.	
		Therefore, Daehan and Stemcor consider that is appropriate to
		compare the prices of imported DBIC from Daehan with OneSteel's
		DBIC sales of 1.5mt weighted coil.
Coil diameters	The Australian market for DBIC comprises coil diameters	Exports of DBIC by Daehan were in the diameter size range of
	ranging from 8mm to 24mm. The majority of processing	10mm, 12mm, 16mm and 20mm. As OneSteel does not produce
	customers in Australia have machinery that can process 8-	20mm diameter coils but instead imports its requirements in this
	16mm diameter coil, and only a few of the major	size, Daehan and Stemcor consider that it is reasonable to conclude
	processors have the capability to process 20mm diameter	that exports of 20mm diameter DBIC from Daehan are non-
	coils.	injurious to the Australian industry's <u>production</u> of like goods.
	Onesteer's application confirms its production size range	As a result, imports of 20mm DBIC from Daehan should be
	of DBIC includes 10mm, 12mm and 16mm diameters.	excluded from the Commission's price comparisons.
	DBIC of 20mm diameter is not currently produced locally,	

	 although it is understood that OneSteel did have an exclusive supply arrangement to source imported 20mm diameter product from Spain. Given that exports of DBIC from Spain are the subject of this investigation, it is reasonable to conclude that OneSteel will be importing its 20mm diameter DBIC products from an alternative supplier in a country not covered by the application. 	
Impact of the geographical spread of customers	 Reinforcing steel processors using DBIC are located around the country and in all major capitals and large regional centres. The indicative market share by location is: Sydney with 25% market share Perth with 25% market share Melbourne and Vic with 20% share Brisbane and QLD with 15% share Adelaide with 10% share Darwin and rest of market with 5% share. 	Unlike OneSteel, exports of DBIC by Daehan are able to be shipped directly onto the east coast of Australia, Adelaide and Perth for the same cost, whilst shipping into Darwin and Townsville incurs an additional US\$50/MT. Given the significant differences in the delivery expenses incurred in the locally produced and imported goods, Daehan and Stemcor consider that a proper comparison of selling prices in the Australian market can only be achieved by removing the impact of transportation charges. Therefore, the Commission's undercutting analysis should compare OneSteel's ex-work's prices to Stemcor's
	It is understood that OneSteel's DBIC produced at Newcastle and Melbourne is supplied at a single price in capital cities, plus for a small charge for trucking to Perth / Darwin. Based on the average distances from OneSteel's production facilities in Newcastle and Melbourne to major Australian cities, it is estimated that OneSteel incurs delivery expenses of approximately A\$130/MT.	equivalent price ex-local port.
Inventory and storage	It is understood that OneSteel produces DBIC to stock and supply on a truck load basis. The need to hold stock is also partly related to the use of 1.5mt coil as the feed for	Whilst OneSteel utilises a stock / supply model for its sales into the Australian market, exports of DBIC by Daehan are produced to order and shipped immediately upon completion. In addition, as a

	producing the heavier 3.0mt and 4.5mt coils.	result of the minimum ordering quantity secured for each size of
		DBIC, Daehan is able to supply without any extra cost burden or
	Therefore it is estimated that the cost of holding stock,	stocking arrangement. Therefore, Daehan and Stemcor consider
	handling, storage and inventory management represents	that it is appropriate to adjust for the additional expenses incurred
	approximately 5-6% of OneSteel's price.	by OneSteel in its DBIC operations relating to inventory holdings.
Currency	As OneSteel is the only Australian producer of DBIC and it	The Australian dollar has ranged from a low of US\$0.8859 to a high
fluctuations	competes against imports from numerous countries, it is	of US\$0.9518 (spot rates) during the nominated investigation
	reasonable to expect that it has factored currency	period, or approximately a 7.4% variation. (Reference:
	fluctuations into its actual net selling prices in deriving an	http://www.ozforex.com.au/forex-tools/historical-rate-
	import parity price.	tools/monthly-average-rates).
		Civen that export prices of DBIC between Stemcor and Daeban do
		take account of currency fluctuations, it is important that the
		Commission ensure that its price comparisons properly account for
		movements in currency. If OneSteel's monthly import parity prices
		do not account for movements in the Australian dollar, then it is
		reasonable to conclude that any price undercutting that may be
		evident is a result of importers and exporters properly adjusting
		their prices to address foreign exchange movements.
OneSteel List	It is understood that OneSteel informs the market of its list	OneSteel's list price has remained unchanged for a number of
Price	price, even though customers are offered a monthly net	years, despite fluctuations in commodity prices and production
	price.	costs. OneSteel's list price has little relevance to the final net price
		paid by customers which largely reflects benchmarked global
	In addition, it is understood that OneSteel offers loyalty	indicators.
	and volume rebates as part of the supply relationships	
	agreements that are in place. These rebates are estimated	Instead, as the only Australian producer of DBIC competing
	to represent approximately 10% of the OneSteel price.	against DBIC exported by Daehan, OneSteel's actual net selling
		prices (inclusive of any offered rebates) are more indicative and comparable to international pricing.

	The export price negotiated, invoiced and paid by Stemcor to
	Daehan reflects the final net price. Therefore, Daehan and Stemcor
	consider that the Commission should disregard OneSteel's list
	price for the purposes of assessing material injury claims, and base
	its price undercutting analysis on paid net selling prices.