Austube Mills Pty Ltd
ABN 21 123 666 679
(Subject to Deed Of Company Arrangement)

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AustubeMills
SHAPING POSSIBILITIES

28 July 2017

The Director, Operations 5
Anti-Dumping Commission
GPO Box 2013
CANBERRA ACT 2601

Email: operations5@adcommission.gov.au

Dear Director,

PUBLIC RECORD

Anti-Dumping Notice No. 2017/83 – initiation of an accelerated review of anti-dumping measures relating to Melewar Steel Tube SDN BHD.

Introduction

This submission refers to the initiation of Accelerated Review No. 417 of Melewar Steel Tube SDN BHD ("Melewar") concerning Hollow Structural Sections ("HSS") exported to Australia from Malaysia by Melewar and the importance of the Commission's fair comparison analysis of the like goods as produced by the exporter.

Exported goods

Melewar's application states that Melewar did not export during or following the investigation period for Case No 177, nor the continuation inquiry period for Case No 379 although it did export HSS products to Australia in 2007.

As there are no exports of the like goods during the investigation period there is no capacity for the Commission to formulate an Ascertained Export Price (AEP) in order to calculate interim dumping duties via the *ad valorem* form of measure. Austube Mills therefore requests the Commission to conduct a thorough and informed review of the Ascertained Normal Value (ANV) so that interim dumping duties may be calculated in accordance with the floor price method pursuant to subsection 5(4) of the *Customs Tariff (Anti-Dumping) Regulation 2013*.

Austube Mills also notes that Melewar intend to "*set up a warehouse in WA to cut down on lead time for our goods to get our target market*".[1] The cost of the warehousing and other marketing and selling cost in Australia are considerations in determination of the Acertained Normal Value resulting in an uplift to the Ascertained Normal Value. This adjustment to the normal value is supported by the Anti-dumping Commission Dumping and Subsidy Manual ("the Manual") at page 74 which states:

[1] EPR 417/1 p. 3

Warehousing

Adjustment for warehousing is allowed where the costs associated with the warehousing function is evidenced and the connection to the respective sales established. Mere assertion of a difference is insufficient. ***The price may be adjusted upwards if export sales are made from stock but production is made to order on the domestic market.***[2]

Further there will be an inventory carrying cost for the exported warehouse inventory held in Australia by Melewar the value of which is a selling cost equal to:

The unit amount for the opportunity cost of carrying inventory the turnover period divided by 365 and multiplied by the interest rate – the rate is then multiplied by the unit cost.

The ANV must be uplifted for this inventory carrying cost directly attributable to the estimated inventory associated with the proposed export sales. This adjustment to the normal value is supported by the Manual at page 75 which states:

Inventory carrying costs

Inventory carrying costs are the costs incurred when a business holds inventories of goods for sale. They often include the opportunity cost of the investment involved in inventory, and costs incurred in storage, warehousing activities and insurance. Exporters may claim that such costs differ in respect of sales made in the exporter's domestic market and export sales. Such costs usually relate more to the general costs of doing business and might not directly relate to the sales under consideration.

However, should the exporter be able to demonstrate the costs associated with holding goods for sale are different in so far as they relate to relevant domestic sales and relevant export sales, an adjustment may be considered, if satisfied that the differences are reflected in price.

In calculating the opportunity cost of carrying inventory the common approach is to determine the average inventory turnover period, the appropriate short-term interest rate and the average unit cost of inventory.

The Commission will seek to verify these elements in order to support any claim for adjustment in respect of the opportunity cost of carrying inventory. In assessing whether an adjustment is warranted, regard will be had to information in respect of both domestic and export sales. The calculation is:

- *The beginning balance of finished goods inventory and the end balance are averaged; that average divided by the total cost of finished goods for the POI multiplied by 365 equals the average inventory period.*

[2] Anti-Dumping Commission *"Dumping and Subsidy Manual April 2017"* p. 74.

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- *The adjustment is calculated by dividing the annual interest rate by 365 (to give a daily rate) and multiplied by the average inventory period as calculated immediately above – resulting in the adjustment in percentage terms.*

Or, to derive a unit amount for the opportunity cost of carrying inventory the turnover period is divided by 365 and multiplied by the interest rate – the rate is then multiplied by the unit cost.

The unit cost is generally used as the basis for the calculation rather than the market value. This is because inventory is normally valued at the lower of cost or market value. The unit cost used is generally a full absorption cost, i.e. including variable and fixed manufacturing costs.

When considering whether to adjust for an inventory carrying cost, the Commission will also examine the circumstances in relation to level of trade and warehousing adjustments to ensure there is no double counting.[3]

<u>Like good sold on the Domestic Market</u>

In determining the exporter's ANV, Austube Mills notes from Melewar's application that it intends to export "*higher quality goods"* [4] to Australia and other international markets. The determination of the ANV must therefore either:

- be based on models of higher quality goods sold in the Malaysian domestic market, or
- an appropriate upward adjustments made to the domestic sales price to account for the quality differences.

Austube Mills anticipates that the Commission may find sufficient domestic sales of Australian Standard (AS/NZS1163) product upon which to base the normal value determinations as was the case with another domestic producer in the country of export, namely Alpine, in Review 381[5]. If this is the case Austube Mills encourages the Commission to compare the sell price of the AS/NZS1163 product sold in Malaysia by Melewar. If this is not the case then Austube Mills requests that the Commission conduct a transparent model matching process that allows Austube Mills and other Australian producers the opportunity to inform the Commission of any unfair comparison.

If the Commission is only able to find sales of lower quality, non-structural, lighter weight and lower strength product then Austube Mills reminds the Commission that it is always open to it to consider a normal value based on domestic sales by other sellers into the Malaysian domestic market, in this case Alpine. We note that these sales were verified for the period 1 July 2015 to 30 June 2016 (the accelerated review period overlaps for the period 1 April to 30 June 2016). If this is not possible, then it is important for the Commission to account for required adjustments to "Mass tolerance difference" and "specification difference" between International Standards (or non-standard commercial product) and Australian Standard product. The Mass tolerance difference should be the difference between the allowable mass tolerances of the applicable International Standard compared with Australian Standard (AS/NZS1163) – which is typically 6%. For specification adjustments the Commission should perform an analysis based on physical differences such as strength of feed material and chemical composition of feed material and that the amount of the adjustment be based upon the market value of the difference.

FOR AND ON BEHALF OF AUSTRALIAN PRODUCER AUSTUBE MILLS PTY LTD

[3] Anti-Dumping Commission "Dumping and Subsidy Manual April 2017" p. 75-76
[4] EPR 417/1 p.2
[5] EPR 379/52 p.14