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17 February 2014

SUBMISSION IN THE INVESTIGATION INTO ALLEGED DUMPING OF QUENCHED AND TEMPERED STEEL PLATE EXPORTED TO AUSTRALIA FROM FINLAND; JAPAN AND SWEDEN

Investigating authority:	The Australian Anti-Dumping Commission
Initiation:	8 January 2014
Investigation period:	1 January to 31 December 2013
Participant:	Ruukki Metals Oy (Business ID 2389445-7) Suolakivenkatu 1, 00810 Helsinki Finland

SUBMISSION

Referring to the notice of investigation dated 8 January 2014 Ruukki Metals Oy (hereinafter "Ruukki") hereby submits a reply to the Consideration Report as well as to the Exporter Questionnaire. Ruukki's response to the investigation contains this Submission document, the Exporter Questionnaire containing answers to the questions, an excel file containing the numerical data as well as appendices.

Due to the fact that Rautaruukki Oyj is a public listed company Ruukki as a group company must comply with the disclosure rules of the stock exchange (NASDAQ OMX Helsinki). Ruukki's annual financial statements for FY2013 are published on 14 February 2014 at approximately 9am EET (www.ruukki.com). Therefore, the part of the reply containing FY2013 financial figures will be delivered to the Commission after the publication of the financial bulletin.

Ruukki's aim is to comply with any reasonable requests and to cooperate with the Commission regarding the investigation. However, due to the limited time to prepare the submission and answers to the questionnaire as well as the highly sensitive and business critical nature of the questions we have been forced to limit the answers to the most relevant issues.

1. General

Ruukki is a Finnish limited liability company that produces and sells steel products globally. Ruukki belongs to Rautaruukki group of companies that provide customers with energy-efficient steel solutions for better living, working and moving. Ruukki has around 9,000 employees and an extensive distribution and dealer network across some 30 countries including the Nordic countries, Russia and elsewhere in Europe and the emerging markets, such as India, China and South America. Sales to Australia represent approximately [**]% from Ruukki's global turnover. Furthermore the goods under investigation (hereinafter "Goods") represent approximately [**]% of Ruukki's global turnover of Goods.

Ruukki aims into long lasting market presence in the Australian market with high-quality niche products focusing on the quality of the products and services; not the low price. This is why Ruukki has recently established a sales office and employed local staff in the country. In that sense dumping would not be logical. The aim to obtain long term business relations is the core of our pricing strategy. Our pricing guidance system in Australia and globally is fundamentally connected to the market prices. This document describes our business structure and the Australian sales situation in the light of the Australian Customs Act 1901 and the Consideration Report for this investigation in order to demonstrate that dumping has not occurred.

Furthermore, the capacity usage in 2013 of Ruukki's Hot Rolled Plate DQ line was [**]% (cf. Questionnaire). [**]

2. Goods under investigation

It should be noted that out of [**] tonnes of Goods exported from Finland to Australia between November 2012 and October 2013 only [**] tonnes fall within the range being investigated (cf. Questionnaire).

Considering the likeness of goods produced locally and the imported goods it must also be noted that Ruukki's production method differs significantly from the method used by the Australian industry (Bisalloy).

In the Chapter 4.3.1 of the Consideration Report the applicant claims that there's a production likeness of the goods under consideration between Bisalloy and the production in the countries under investigation. For Ruukki this is not correct.

Firstly, for producing steel Ruukki uses an integrated blast furnace production route which offers economies of scale over a greenfeed production model used by Bisalloy. Secondly for producing the Goods Ruukki uses a Direct quenching process which leads to a different cost structure.

The Direct quenching can be considered to be a special case of thermo-mechanical processing, i.e. thermo-mechanical rolling integrated with direct quenching. Tempering is also possible, but not always needed, (Fig. 1). By avoiding the need for a reheating process prior to conventional quenching, the application of direct quenching provides an opportunity for cost savings from both a capital investment and production cost point of view. The avoidance of an extra reheating stage also contributes favorably towards the life cycle cost of the steels concerned. Combining rolling and quenching into a single process also has logistical advantages over conventional reheating and quenching enabling shorter and more precise delivery times.

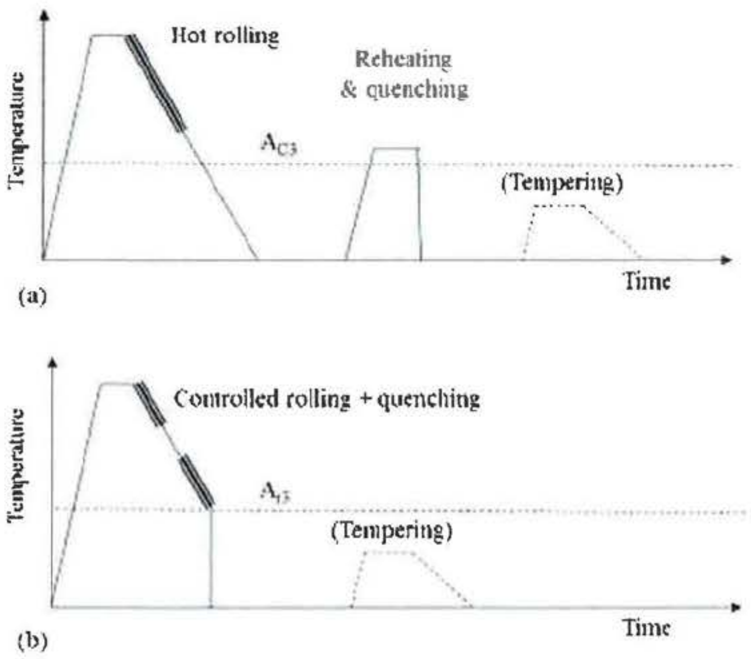


Figure 1. Temperature – time diagrams showing the differences between (a) the conventional production route and (b) direct quenching.

Compared to the greenfeed model direct quenching has the following cost advantages:

- Basic plate rolling equipment to produce greenfeed is adequate to produce DQ materials, no additional investments required (only improvement of cooling equipment): low investment costs
- Reheating of plates for quenching is not required
- No extra buildings required
- No extra personnel for production or testing required
- Simple logistics.

The different production method has two consequences when assessing the normal value for the Goods exported from Finland. Firstly the cost structure presented in the constructed normal value model by Bisalloy on page 25 of the Consideration Report does not describe the production process correctly and has to be adjusted according to the process described above. Secondly, using wrong cost structure may lead to over-estimation of Ruukki's CTMS and normal value. As a part of its response Ruukki is disclosing its actual cost data to present an alternative approach (cf. section on Normal Value).

3. Export price

Ruukki agrees to the note that the export price calculation presented in the Consideration Report corresponds to Ruukki's understanding of export price of Goods from Finland. To be noted that due to the time gap between the shipment of Goods from Finland and import clearance in Australia as well the changes in currency rate there are some deviations which are further explained below.

The annual export price for 2013 has been [**] AUD in FOB Australia basis which is higher than Ruukki's conception of the Normal Value.

Pricing policy and exchange rate effects

In the course of the year 2013 the Australian Dollar (AUD) depreciated strongly. The EUR/AUD rate increased from 1.25 in the beginning of the year (March average) to 1.53 recorded at the end of the year (December average). Recent rates have to be compared against the mid-term average. The average rate for the year 2013 has been 1.37.

Ruukki has a solid long term pricing policy that is fundamentally connected to market prices. Ruukki does not engage into pricing wars as the market of the Goods is considered to be a niche market where profit margins are higher than in the standard steel market. Our strategy aims at offering the customer the best product quality and value added services rather than the cheapest price. The

Australian pricing policy has followed these guidelines. Ruukki has kept its AUD prices in the market price.

If, for the purposes of this investigation, the depreciation of the AUD is compared to the mid-term average, it shows that Ruukki has focused on retaining limited number of key customers by maintaining the AUD prices in the market price levels. It is noteworthy that the Ruukki selling volumes of the goods have reduced significantly from Q3 2013 onwards (see Questionnaire excel sheet). However the shipping of the goods from Finland to Australia takes usually more than eight (8) weeks. Because of the shipping lag this volume reduction is not recorded at the Q3 figures presented in the Consideration Report but only in the Q4 as the goods sold in Q3 are largely declared to Australia only in Q4.

Furthermore the lag affects also the ability of Ruukki's management to react to the rate movements by pricing decisions. Before invoicing there's a lead time of six (6) weeks. This means that the sales and pricing decision has actually been made at least 3 months prior to the declaration of the goods. The AUD depreciation has contributed into reduced volumes and reduced market share for Ruukki. If the alleged dumping had occurred by definition the reduced volumes and market share couldn't be true.

The CTMS of Ruukki are denominated in Euros. Maintaining the AUD prices in Australian market price has had a temporary margin effect on our products in H2 2013. However the 2013 annual profit margin for the goods in Australia stayed - despite of the AUD depreciation - at a higher level than in the APAC area. The goods in Australia generated [**]% profit margin versus [**]% in the rest of APAC area. The Australian profit margin is also in line with the profit margin of the goods in all countries outside Europe [**]%. (cf. Questionnaire excel sheet for detailed information).

As the high EUR/AUD rate seemed more sustained at the end of 2013 Ruukki reacted to the prevailing rate (approximately 1.53 at the year-end 2013) by increasing its AUD denominated Australian prices. This reaction falls into the time limit of 60 days provided in the Article 2.4.1 of the WTO Agreement concerning currency fluctuations.

4. Normal value

According to the Dumping and Subsidy Manual (p. 29): "Section 269TAC(1) of the Customs Act provides that the normal value of any goods exported to Australia is the price paid or payable for like goods sold in the ordinary course of trade for home consumption in the country of export in sales that are arms length transactions by the exporter, or if like goods are not so sold by the exporter, by other sellers of like goods." However the Manual also provides that: "Section 269TAC(2)(a) gives direction on whether sales of like goods sold for home consumption in the country of export are relevant and suitable for the purpose of determining a price under s. 269TAC(1). Specifically, normal value cannot be ascertained under s. 269TAC(1) where:

• there are no sales, or an absence of relevant sales;

• there is a low volume of relevant sales;

• sales are unsuitable because of a situation in the market of the country of export."

For Ruukki the domestic prices of the goods are not comparable with the Australian export prices because of the situation in the domestic market. The main reasons are the structure of the Finnish steel distribution market of the goods and Ruukki's strong position in the market which differ from the situation in Australia. In Finland Ruukki is the only producer of the Goods and runs own Steel Service Centres that provide the local distribution, transport and processing services for the Goods. Due to the internal Steel Service Centre network in Finland the average size of sale is significantly smaller and the delivery time much shorter compared to export sales. Also, the availability of technical customer service and well-known brand create value added and is reflected in the higher domestic price. In Australia the distribution, transportation and processing is done in practice by a single local distributor Bluescope Distribution Pty Ltd. Hence, the value chain for Ruukki is longer in Finland which results in higher margins, costs and prices compared to trade in Australia.

As this is a reason that originates from different degree of vertical downstream integration rather than pricing Ruukki sees that the conditions provided by the Customs Act are fulfilled and a constructed model is deemed applicable. It is not possible to adjust for the difference in the level of the trade because the financial reporting model of Ruukki is aligned for the longer value chain in Finland.

For defining the normal values for the exports of the Goods from Finland to Australia Ruukki proposes that the Commission uses a constructed model as follows:

$$Normal\ value = CTMS + SGAcosts + profit$$

However, the following adjustments must be adopted to the methodology and assumptions compared to the one used in the Consideration Report (page 25)

1. *CTMS*. Production likeness of the goods in Australia and Finland is not true. This has been described in detail above. Ruukki has disclosed the real CTMS for the goods in the excel-sheet of the Questionnaire.

   In addition the sales mix in terms of e.g. plate thickness and steel grade varies from quarter to quarter. Comparing the average price/ton q-o-q may not be appropriate as the real unit cost and price depends on the thickness and other issues so mix effect has to be taken into account for integrated producers. To adjust for this effect an **annual examination** of normal values and export prices must be used because the mix changes are largely eliminated in that case. In addition, Ruukki has used same standard costs for the whole year 2013.

2. *SGA costs:* Ruukki has disclosed the SGA –costs estimated for the goods. For the sales, general and administration costs Ruukki has presented the average figures of Ruukki's steel business because the management reporting model does not allocate these costs in neither in the level of Australia nor the Goods under consideration.

3. *Profit:* Ruukki does agree to the Consideration Report and Bisalloy claims of that the profit for the Goods should be higher than the profit for standard steels because the Goods form a niche product market. However, Ruukki does not agree that the reasonable profit for the normal value calculation should be the highest profit over the cycle. The seasonality of steel and mining businesses and the cyclical changes in the steel demand reflect into profit margins of steel – notwithstanding the steel grade. Hence, the margins should be allowed to fluctuate within reasonable limits. This effect has been emphasized in the year 2013 when the Australian mining sector contracted heavily. Ruukki presents an alternative method for the amount of reasonable profit. For 2013 we use the annual weighted average of the profit of the goods in the countries outside Europe, which has been [**%]. This profit level should be deemed reasonable because it is in line with the Australian profit for the Goods [(**%)] (cf. above Normal Value).

Using the CTMS, SGA-costs and weighted average profit for 2013 as described above we have calculated the constructed normal value for the goods. This value is [****] AUD in FOB-Australia basis. In Ruukki's calculations invoiced values (sales prices) and CTMS of the goods sold (standard product costs + selling and general administration costs) from Ruukki's reporting have been converted from Euros to Australian dollars with two months' delay in the exchange rate up until the end of April 2013. After that each month's average rate is used for the conversions without delay as Ruukki switched to Australian dollar based invoicing in the end of April 2013. By doing so the prices are comparable to Australian customs statistics. Details of the calculation are shown in the excel sheet of the Exporter Questionnaire.

5. Alleged injury to Australian industry

The applicant has listed a nearly exhaustive list of injuries to be accounted for the exporters of Goods but which are clearly result of other factors or altogether unfounded.

As already stated in this reply the decline in demand due to general recession and specifically mining sector's problems is the cause for **lost volumes** and therefore also **reduced revenues** as well as **reduced capacity utilization** and ultimately **increased stock level** of Goods. The circumstances affect equally the Australian industry and the exporters.

Material injury. Material indicates something that is considerable, of real importance, significant or substantial. Bisalloy has experienced drop in its revenue and earnings in 2013 but taking into consideration the long term revenue and profitability level there is in fact no relevant change and therefore cannot be seen as material. Injury, if any, is not greater than what can be expected as normal fluctuation in business.

It can be noted from the below table (Source: Bisalloy Investor Presentations from 2012 and 2013) that Bisalloy revenues and earnings have peaked during FY 2012 and come back to the longer term normal level in 2013. The profitability of Bissaloy has increased notably between FY2011 and FY 2103. Therefore, the allegations of **material injury** due to dumped imports are unfounded when the Australian industry has in fact reached its long term revenue and profitability level during the investigation period.

	FY10	**FY11**	**FY12**	**FY13**
Revenue	87,7	78,3	104,0	80,6
EBIDTA*	5,3	7,7	12,4	8,4

*) the FY10 figure does not include contribution from Chinese JV whereas the others do.

Other injury factors expressed by Bisalloy:

Price depression: It is not a question of price depression when a local producer lowers prices to retain market share and sales volumes when at the same time the market is contracting which is the case here. Ruukki has followed the market price; not setting it.

Price suppression: Ruukki has a long term policy as regards the pricing and the volatility of currency is tolerated to a reasonable extent. During the investigation period Ruukki's EUR cost level has remained constant as has the AUD export price. Ruukki has reacted to the exchange rate fluctuation once the high exchange rate level was considered sustained. This indicates that no price suppression has occurred.

Even though the overall market of Goods in Australia has decreased Bisalloy (Australian industry) has been able to increase its market share which is contradicting the allegation of injury. Actually, it is quite the contrary since it is evident that Bisalloy has been able to improve its position in the market from 2011 to 2013. In fact during the investigation period the volume of Goods exported by Ruukki has decreased dramatically as well as Ruukki's share of the market. Typically in case of dumping prices the market share of the exporter increases notably which is not the case here.

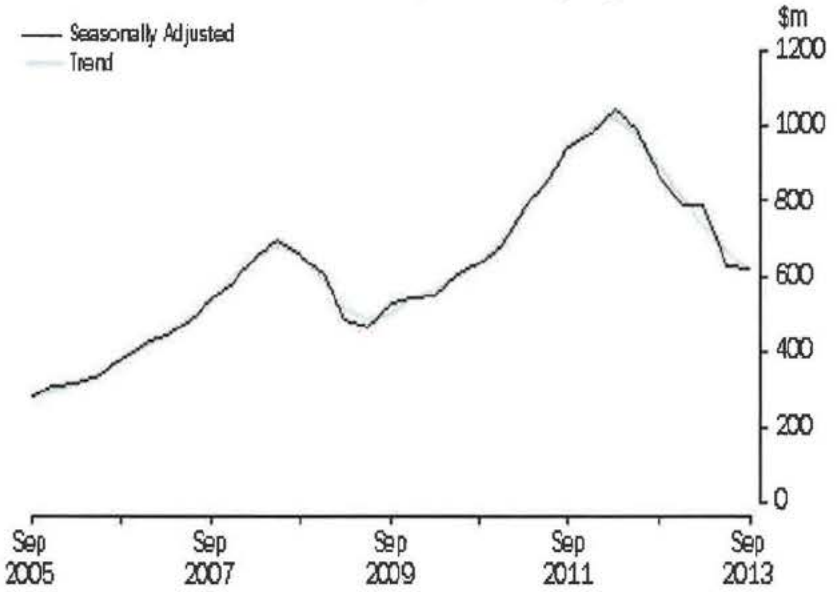
As conclusion, it is evident (from the financial statements) that Bisalloy has suffered from poor financial performance during the investigation period but first of all such poor performance must not be considered as nothing else than result of chosen strategy and normal market economy; and secondly it is by no means material. Additionally, any injury due to other factors must not be attributed to alleged dumping.

6. Causality

Causal link between suffered injury and alleged dumping presented by Bisalloy is based on erroneous market logic. The volume decrease for Bisalloy and overall market is true but there's no causal link between reduced Bisalloy volumes and imports whatsoever. On the contrary, if there had been imports clearly under market price it would have increased demand *ceteris paribus*. But as the Figure 1 on page 19 of the Consideration Report shows the reality has been quite the opposite as the overall market size has contracted because of the significant downturn in the commodity sector which is a major consumer of Q+T steel in Australia.

The below graph shows that the Australian mining sector has experienced a dramatic decline during the investigation period. The decline of total expenditure in mineral exploration was over 200 million AUD between Sep 2012 and Sep 2013.

MINERAL EXPLORATION, Seasonally adjusted and trend



Source: http://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/8412.0

In the short term reduced demand results in reduced prices and volumes before the output is adjusted. In the Consideration Report Bisalloy confirms that it has actually increased its market share during the period of 2011-2013 (Figure2, p. 20) and maintained the market share in 2013. This leads to the conclusion that the injury of lost volumes and lower prices has resulted from the overall market demand contraction, not because of competing imports. The competition on its own has affected the market by lowering the price level of the Goods. Ruukki has followed the market price level in order to keep up important customer relationships in the falling market situation. Ruukki is not and has not been in the position to set the price level in the Australian market for Goods.

Same applies for the reduced margins. If Bisalloy's pricing strategy in 2013 has been - as they confirm it on the page 34 of the Consideration Report– to secure market share and volumes amid slowing demand the downward price correction is just a natural consequence in a competitive market. Bisalloy's business relies heavily on the mining sector of Australia. When business is skewed towards one customer segment and that sector contracts the volume and margin effects are inevitable in a normal competitive market environment.

As stated above, typically in case of dumped imports the increase of volume of dumped goods correlate with the decline of local sales. In this case however, it is not the case since the volume of imports has also declined together with the local sales indicating that the imports from Finland are not dumping imports and cannot be the cause of any injury to local industry.

Bisalloy has put forward that its ability to respond to market contraction was hampered by the competition of allegedly dumped imports. As the state of competition is the normal market condition and drives the market to work in the most effective way, it affects all parties alike and can be seen as the cause for lower prices and profitability. However, the price level itself must not be seen as the cause for injury but a natural result of functioning market economy.

As per Section 269 TAE of the Customs Act, factors **other than dumping must be considered** in determining whether there is causality between alleged dumping and the injury to Australian industry.

The quality of Ruukki's deliveries as a whole must to be considered as another factor to cause injury. Ruukki benefits strongly of its reputation as a top quality steel manufacturer and has won customers based on its reliability and quality of performance.

From Bisalloy source (Chairman's address concerning FY 2013):

- During 2013 the iron ore and coal prices have fallen leading also to fall of demand for Q&T steels. Bisalloy comment show that decline of price level is due to other factors than the dumping of prices.
- According to Bisalloy 70 % of their revenue are reliant on the mining sector. The company being so heavily weighted towards only one sector the decline that occurred in the market naturally go hand in hand with the financial performance. Bisalloy Chairman also mentions the attractive foreign exchange rate in 2012/13 as a factor for import products interfering with their sales efforts, however it was the market condition that led to the over stocked country.
- Many companies are overstocked due to rapid decline in demand which increased the pressure for lower prices as excess inventory is cleared from supply chain. This comment from Bisalloy shows that the company itself sees the actual reason behind the increased stocks the decline in demand and not the dumping of prices.
- Bisalloy stated in their Investor presentation 2013 that the "movement of the A$ impacts both competitors pricing and greenfeed input costs" explaining the company result for FY 2013
- According to Bisalloy they have not distributed dividend during 2008-2012 due to number of challenges that the company has faced already during that period of time. This shows that there have been difficulties already prior to the investigation period and the 2013 Bisalloy performance can be contributed to other factors than the actions of exporters during the year 2013.

Bisalloy's strategy seems to be to sell to multiple distributors (actually to most distributors in Australia) and at the same time to sell direct to end users. This creates a major conflict of interest as well as competition between the distributors. The underserviced customers are likely to seek alternatives from other sources such as foreign exporters.

As per the Dumping Manual and the Ministerial Direction on Material Injury the **evidence must be clear** that dumping has caused the injury. In this case the cause can very well be attributable to **other factors**, such as recession, market contraction, lower demand and availability of competing and similar goods.

Also, due to Ruukki's more advanced production technology and more efficient production method (cf. above description of production method) the cost structure for the Goods sold by Ruukki is not as heavy as compared to the greenfeed production method utilized by Bisalloy.

At least in terms of profitability the cost structure and therefore the price levels used by Bisalloy and Ruukki are not comparable. Bisalloy's poor financial performance may not be accounted for price level used by Ruukki due to above.

To be noted that coincidence in movement of e.g. prices and relevant injury factors **may not, of itself, prove causation**.

In conclusion, it is evident that other factors besides the alleged dumping exist which on its own explain the injury that Australian industry may have suffered. The evidence of causality can by no means be considered clear and therefore the Commission/Minister must not decide upon any dumping duties.

7. Dumping margin and NIP (Non injurious price)

The Dumping and Subsidy Manual provides that: "The Commissioner will terminate an investigation in relation to an individual exporter where the dumping margin of the exporter is negligible (de minimis). Dumping margins are negligible if the margin is **less than 2%** when expressed as a percentage of the export price or weighted average of export prices."

For Ruukki this means that the normal value can't be more than [**] AUD above the export price (2% from the annual export price for 2013 [**] AUD in FOB Australia). In fact Ruukki's actual export price in 2013 has been higher than the constructed normal value disclosed by Ruukki because the average annual profit for the goods exported to Australia was equal for the goods sold in other countries outside Europe. This clearly leads to a conclusion that no dumping has occurred.

If, however, for reasons beyond Ruukki's understanding the Commission/Minister considers that there has been dumping of Goods and that there has been material injury to Australian industry due to such dumping, "the lesser duty rule" must be applied.

Final conclusions

The export price and the domestic Normal Value cannot be compared. The correct comparison, as shown above, shows that export prices have been higher than the Normal Value on the annual level. The dumping allegations are, therefore, unfounded.

Furthermore, the most evident fact is that **no clear evidence of causality** has been established between the injury and alleged dumping. Instead, several other factors, such as recession, competition, quality of services and products, exporters' advanced and more cost efficient production process, movements in currency rate, explain the poor financial performance of Bisalloy representing the Australian industry in this case.

Even if there had been dumping and the causal link between dumping and injury would have been established the material injury would need to be evidenced by the applicant. No such evidence has been provided. Due to the fact that several other factors than alleged dumping are most likely the cause, if not for all the injury suffered by Australian industry, at least for the material part of it, there is consequently **no material injury** to Australian industry.

As there has not been dumping of prices, no material injury and in any case there isn't any causality between the alleged dumping and the injury to Australian industry the Commission/Minister cannot decide upon any dumping duties on the Finnish imports of Goods.

Yours sincerely,

Mr. Vesa Ruokonen
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Ruukki Metals Oy

Appendices

1. Exporter Questionnaire (word document)
    - Appendix A3_5.1 Company chart
    - Appendix A3_9.1 Organisation chart
    - Appendix A-4.3.1 COSE_Chart of Accounts excel
    - Appendix A-4.3.2 HFM Chart of Accounts Instructions COSE.pdf
    - Appendix A-4.6.1 Accounting for Inventories.pdf
    - Appendix A-4.6.2 Intangible and tangible assets reporting instructions.pdf
    - Appendix B-9 Shipment documentation examples
2. Exporter Questionnaire spreadsheet (excel file)
3. Bisalloy Chairman's address concerning FY 2013
4. Bisalloy Investor Presentation 2012
5. Bisalloy Investor Presentation 2013